Africa Opportunity Fund Ltd 30 September 2017

Investment Objective: To earn capital growth and income through value, arbitrage, and special situation investments in the continent of Africa. Portfolio investments will include equity, debt, and other interests in both listed and unlisted assets.

Listing: Specialist Fund Segment of the London Stock Exchange's Main Market

Dividend Policy: An amount equal to the annual comprehensive income of the Company (excluding net capital gains/losses).

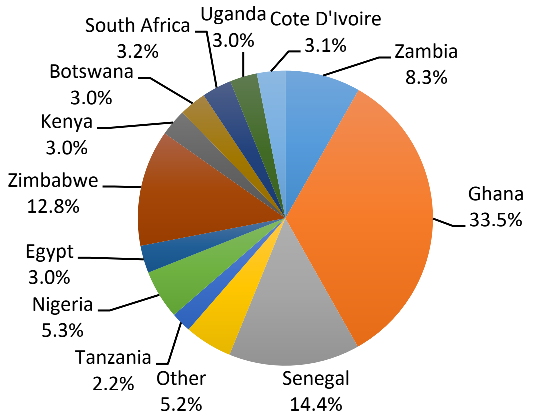
Fund Performance (as at 30 September 2017) – Ordinary Shares

NAV per share:	$0.930
Share price as at 30 Sept 17:	$0.705
Premium/Discount to NAV:	-24%

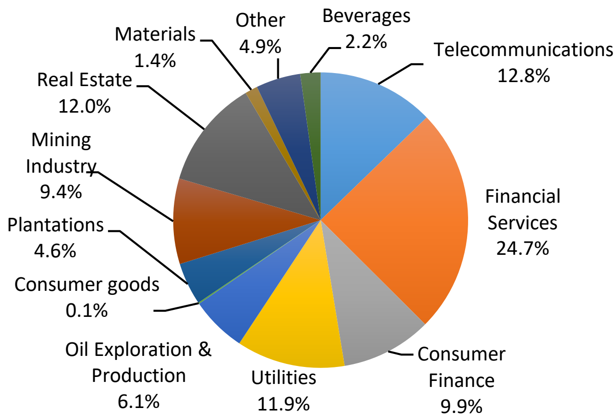
Total Net Assets:	$69.6 mm
Market Capitalization:	$52.7 mm
Shares outstanding:	74.8 mm

US$ NAV Return %	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2017	-0.5%	-0.2%	2.7%	2.7%	1.6%	-0.4%	3.5%	14.6%	-2.6%				22.3%
2016	-3.2%	2.5%	1.9%	4.0%	-2.0%	-0.3%	-1.2%	0.4%	0.7%	-0.3%	-2.1%	-9.6%	-9.5%
2015	-5.2%	-1.8%	-2.4%	2.3%	1.0%	-2.5%	4.2%	-4.5%	-3.3%	0.5%	2.8%	-2.3%	-11.4%
2014	2.3%	3.1%	-4.0%	-3.2%	-8.0%	0.8%	0.6%	-2.2%	-2.6%	-4.0%	-2.1%	0.9%	-17.3%
2013	4.9%	-0.8%	7.8%	5.6%	-1.6%	0.4%	3.2%	1.7%	2.8%	-0.3%	1.5%	-0.1%	27.7%
2012	1.8%	0.4%	-0.3%	0.8%	-6.1%	0.8%	-0.4%	-1.9%	1.1%	-2.4%	4.6%	6.4%	4.4%
2011	-1.4%	-1.1%	2.9%	5.5%	1.5%	-0.9%	4.2%	-2.5%	-9.0%	3.6%	-2.8%	2.6%	1.6%
2010	5.6%	1.2%	3.1%	4.7%	-8.4%	-6.7%	10.9%	0.3%	8.2%	7.5%	-3.5%	3.6%	27.1%
2009	-2.1%	-10.4%	16.7%	6.2%	3.7%	10.0%	5.0%	2.4%	8.0%	1.5%	1.6%	0.1%	48.2%
2008	-0.7%	1.9%	1.4%	1.0%	0.1%	-0.6%	-3.8%	-8.2%	-9.8%	-23.8%	-10.2%	-4.1%	-42.5%

AOF Geographic Exposure*



AOF Sectoral Exposure*



*Geographic and Sectoral exposure as a percentage of gross invested assets.
Holdings as a % of NAV: 82% Equity, 8% Debt, 10% Unencumbered Cash

Top Ten Holdings - AOF	Description	% of NAV
Enterprise Group Ltd	Ghanaian property & casualty insurance and life assurance company	20.0%
Sonatel	Senegalese and regional integrated telecommunication operator	10.0%
Copperbelt Energy Corporation	Leading electricity distributor in the Zambian Copperbelt	7.0%
Mashonaland Holdings	Zimbabwean real estate company	5.6%
First Mutual Properties	Zimbabwean real estate company	5.1%
Anglogold Ashanti	Gold mining company operating in 11 countries	3.9%
Continental Reinsurance	Nigeria listed Pan-African reinsurer offering non-life and life reinsurance products	3.6%
Standard Chartered Bank	Leading commercial bank in Ghana	3.0%
Tizir 9.0% 28 Sep 2017	1st priority bond backed by Grande Cote mineral sands project in Senegal	2.9%
Tullow Oil 6.25% 04/15/2022	Oil & gas exploration and production company with pan-African portfolio	2.9%
Total		**64.0%**

Manager's Commentary

Market Conditions

The Africa Opportunity Fund ("AOF" or the "Company" or the "Fund") ordinary share NAV rose 15.5% in Q3. As a reference, during the quarter in USD the S&P rose 4%, Brazil rose 21%, Russia rose 14%, India was flat, and China rose 8%. In Africa, South Africa rose 11%, Egypt rose 8%, Kenya rose 9%, and Nigeria fell 6%. Three Africa-focused exchange traded funds – the Lyxor ETF (PAF FP), the DBX MSCI Africa Top 50 (XMAF LN), and Van Eck Africa Index (AFK US), rose, respectively, 8%, 4%, and 8%.

Conversion of C shares into Ordinary Shares

The conversion of C shares into Ordinary shares, coupled with the distribution of contingent value rights, took place on August 23 2017. We provide a report on the consolidated shares in this newsletter.

Ordinary Shares Portfolio Highlights

The Fund enjoyed a strong quarter. In the African currency realm, Nigeria's 16% devaluation of its official exchange rate, on August 2, to its NAFEX rate of 366 Naira/$, was the most noteworthy event. This convergence of an overvalued official exchange rate with a market-determined exchange rate opens Nigeria to more foreign portfolio inflows. The calm reaction of the Kenya stock market and the Kenyan shilling to the historic judgment of the Kenya Supreme Court to annul Kenya's August 2017 presidential elections was also noteworthy. Both the Kenyan shilling and the Kenyan stock markets were flat, signalling the market's judgment that, headlines notwithstanding, normal life flows through the ravines of a divided Kenyan electorate. The Supreme Court judgment itself was a ringing affirmation of the independence of Kenya's judiciary. A trend evident in the interim results of some of our investee companies is that of employment costs rising significantly above local inflation rates. Both profitability and gross fixed capital formation stand to suffer from that trend, crimping GDP growth rates. Nevertheless, deeply undervalued companies like Kenya Power and Enterprise Group enjoyed strong share price appreciation in the quarter. Changes made in the AOF portfolio during the quarter included selling Seedco and Tullow bonds, and increasing First Mutual Properties (formerly Pearl Properties), and Kenya Power investments.

The most notable portfolio development was Enterprise Group's 70% USD share price rise, which contributed nearly 8 cents to AOF's NAV per share. Its market capitalization of $123 million continued to be the highest among the listed insurance companies on West African exchanges and a fraction of the largest insurance companies listed in other African regions. Nevertheless, it remains materially lower than its $180 million private market value, based on the pending $130 million to be received by Sanlam Emerging Markets, minority partner of Enterprise Group's policy writing subsidiaries. After initially reaching a high of $169 million following news of the Sanlam's sale, Enterprise's market capitalization then slid back to $115 million (still 70% above its June 30th level). We await the official launch of its rights offering. Since the end of the quarter, Enterprise has released its third quarter results. Overall, despite a 16% increase in its investment yield to 22%, a 29% increase in operating expenses was disappointing. Inflation in Ghana has dropped to 13%, therefore the operating expenses growth rate should have fallen in tandem with inflation instead of accelerating**.** Enterprise's Q3 net profits attributable to shareholders, year-on-year, fell 57% to a minuscule $522,000 while net profits for non-controlling interests, year-on-year, declined 15% to $1.86 million. Annualized return on average equity for the 9 month 2017 period was 6% versus 25% for non-controlling interests. It seems that Enterprise's wholly-owned property subsidiary and its property and casualty insurance subsidiary are dragging down its shareholders returns. Swapping some of Enterprise's stake in its wholly-owned property subsidiary for a larger stake in Enterprise Life and other profitable subsidiaries, as intended through the rights offering, should be very beneficial for its shareholders.

Kenya Power's shares had a solid quarter, despite the historic electoral turmoil engulfing Kenya, contributing 0.5 cents to the AOF NAV per share. Its share price rose 26% in Dollars at the end of Q3 to endow Kenya Power with a market capitalization of $188 million and an enterprise value of $1.4 billion. It traded on a P/B ratio of 0.28x, a P/E ratio of 2.7x, a dividend yield of 5%, an EV/EBITDA of 5.2x, and an EV/CFO of 5.2x. Kenya Power is highly leveraged, but, with a 5.4% weighted average cost of capital lower than even Kenya's Eurobond yields and deferred taxes aplenty, it has ample capacity to repay its debts over the next decade from internal resources. Its 2016-17 electricity sales increased by 4.5% to 8,272 gigawatt hours, at an average tariff of $0.15/KWh. Its customer accounts grew by 26% to 6.2 million. Furthermore, at least 70% of Kenya's electricity is clean and green: hydro-electricity and geothermal energy. However, there are challenges. Return on capital employed, as measured by net cash from operations, has declined from 14% in the 2014 financial year to 11% in 2015, and 11% in the just ended 2016/17 financial year. Its current ratio tell a similar tale over the same period: 1.5%, 1.0%, and 0.9%. Employee costs climbed higher in remorseless fashion. A 2% increase in head count was accompanied by an 18% rise in labour costs to 12.1 billion Kenyan shillings ($118 million), constituting 55% of Kenya Power's ex-depreciation transmission and distribution costs. Had employee costs met the 44% 2016-17 target set forth in Kenya Power's 5 year strategic plan, operating profits would have increased by 14% to $162 million, permitting a significant increase in dividends. Of course, reducing labour costs is a delicate time-consuming exercise. Kenya's government rejected again Kenya Power's request for a tariff increase in early September. It is imperative for Kenya Power to bring its aggregate technical and collection losses down to the permitted levels (15% in the last year) because that would increase operating profit by one-third. Thus, although the cloud of a possible rights offering hangs over Kenya Power, it has some clear paths to higher profitability. In sum: Kenya Power is cheap.

Copperbelt's share price declined 1% in Zambian kwacha, and 7% in Dollar, terms. It ended Q3 with a market capitalization of $243 million and an estimated enterprise value of $263 million. It traded on a P/B ratio of 0.83x, a trailing P/E ratio of 7x, a dividend yield of 9%, and an EV/CFO of 2.4x. Contrary to our expectations, its H1 2017 net profits declined by 18% in Kwachas and 8% in Dollars to $22 million. By contrast, cash from operations rose 6% in Kwachas and 19% in Dollars to $48 million while capex dropped 77% from $19 million to $5 million. The principal cause of its lower earnings, apart from the appreciation of the Kwacha in H1, was the 7% increase in operating expenses matching local inflation. Zambian power sales declined 5% to 1,672 Gigawatt hours while power trading with the Democratic Republic of Congo continued to grow. On a positive note, after paying its largest dividend since 2003 of $21 million, Copperbelt's June 2017 cash balances increased 72%, to $63 million, from $37 million in June 2016 and $29 million in June 2015. ROE was 15% and ROA was 6%. Copperbelt took one of its customers - Mopani Copper Mines, a subsidiary of Glencore - to court in August about its refusal to pay higher electricity tariffs and suspended electricity to its operations. Mopani elected to accept the higher electricity tariff, joining all Copperbelt's other customers. In the case of Copperbelt, part of its appeal to us is that its revenues are denominated in Dollars. This phenomenon will lead, from time to time, to tighter operating margins. However, ineluctably, those operating margins revert to normal. Indeed, with a recovering copper price and the end of southern Africa's drought, Copperbelt's 2018 and 2019 prospects are strong. While it remains a bargain, Copperbelt's loss did subtract 0.5 cents per ordinary share from the NAV in Q3.

Zimbabwe is in the grip of a panic as its so-called "bond notes" drive out Dollars from daily circulation. The importation of fruit and vegetables has been banned to conserve foreign exchange. Talk of a possible hyperinflation is becoming more commonplace. Simultaneously, election fever is spreading as different parties prepare for the 2018 elections. AOF sold Seedco, one of its smaller but liquid investments. This sale contributed 0.2 cents per ordinary share to the NAV in Q3 and 0.4 cents per share in 2017. The proceeds were applied to increase our investment in First Mutual Properties (formerly Pearl Properties). Mashonaland Holdings and First Mutual Properties appreciated by 65% and 35% in Q3. By adding to our First Mutual Properties, at a price which constituted an 18% discount to our appraisal value, albeit at the cost of extreme illiquidity in Zimbabwe, we invested in commercial buildings and land banks at less than their market value and/or replacement value.

The short book and currency hedges losses decreased from 2.1 cents per share in the first half of 2017 to 1.8 cents per share in the nine months of 2017.

Portfolio Appraisal Value

As of September 30, the Manager's appraisal of the intrinsic economic value of the Ordinary Share portfolio was $1.105 per share. The market price of $0.705 per share at quarter end represented a 36% discount. Note the Appraisal Values are intended to provide a measure of the Manager's long-term view of the attractiveness of AOF's portfolio. It is a subjective estimate, and does not tell when that value will be realized, nor does it guarantee that any security will reach its Appraisal Value.

Attribution Analysis

We have set forth an attribution analysis for Q3 2017 and 9M 2017 at the end of this quarterly newsletter to give readers more data about the underlying sources of the performance of the AOF portfolio.

Strategy

The long-term investment appeal of Africa remains intact. We remain focused on investing in companies that sell goods and services in short supply. We also invest in commodity related companies, on a selective basis, when we can implicitly purchase the underlying resources at a material discount to spot market values. As at 30 September 2017, AOF's ordinary share portfolio possessed undervalued companies. Excluding Copperbelt's 2016 non-Zambian operations, AOF's ordinary share portfolio's top 8 equity holdings had a weighted average dividend yield of 3%, a P/E ratio of 15x, a return on assets of 7%, and a return on equity of 17%. As African markets adjust to the down draft of weak commodity prices and volatility, we are finding excellent long opportunities. As always, caution is necessary. It is a privilege to have investible funds. We intend to exercise that privilege with prudent confidence.

Analysis of Portfolio returns by Sector and by Geography

Africa Opportunity Fund
Return by Sector
For Q3 2017

Return by Sector, % of Securities	AOF
Telecommunications	0.0%
Financial Services	11.1%
Consumer Finance	0.3%
Utilities	0.2%
Oil Exploration & Production	1.1%
Consumer Products & Services	0.2%
Plantations	0.0%
Mining Industry	0.8%
Real Estate	4.0%
Materials	0.1%
Beverages	0.0%
Other	-0.1%
	17.6%
Net Working Capital	-2.1%
Return on N.A.V	**15.5%**

Africa Opportunity Fund
Return by Geography
For Q3 2017

Returns by Geography, % of Securities	AOF
Zambia	-0.6%
Ghana	11.2%
Senegal	0.4%
Other	0.1%
Nigeria	1.4%
Cote D'Ivoire	0.0%
Morocco	0.0%
Zimbabwe	4.1%
Egypt	0.3%
Kenya	0.6%
Botswana	-0.2%
Tanzania	0.0%
South Africa	0.2%
Uganda	0.1%
	17.6%
Net Working Capital	-2.1%
Return on N.A.V	**15.5%**

Africa Opportunity Fund
Return by Sector
For 9M 2017

Return by Sector, % of Securities	AOF
Telecommunications	1.4%
Financial Services	10.2%
Consumer Finance	2.4%
Utilities	4.9%
Oil Exploration & Production	1.1%
Consumer Products & Services	0.0%
Plantations	0.6%
Mining Industry	1.6%
Real Estate	4.1%
Materials	0.2%
Beverages	0.2%
Other	0.5%
	27.1%
Net Working Capital	-4.8%
Return on N.A.V	**22.3%**

Africa Opportunity Fund
Return by Geography
For 9M 2017

Returns by Geography, % of Securities	AOF
Zambia	4.1%
Ghana	11.5%
Senegal	2.4%
Other	1.1%
Nigeria	1.5%
Cote D'Ivoire	0.5%
Morocco	0.0%
Zimbabwe	4.6%
Egypt	0.4%
Kenya	0.5%
Botswana	-0.1%
Tanzania	0.2%
South Africa	-0.1%
Uganda	0.5%
	27.1%
Net Working Capital	-4.8%
Return on N.A.V	**22.3%**

Attribution of Portfolio Returns by Asset Class

AOF Portfolio: Q3 Return

Asset Class Exposure	Invested Capital	Attribution PnL	Q3 Return on Invested Capital	Return Contribution on NAV
Long Equities	48,455,286	9,991,018	20.6 %	16.3%
Short Equities/Options	-2,688,601	9,298	0.3%	0.0%
Bonds	12,626,860	682,450	5.4%	1.1%
Arbitrage	79,335	118,543	149.4%	0.2%
Special Situations	2,887,803	0	0.0%	0.0%
	61,360,684	**10,801,309**		**17.6%**

*For this Q3 return, invested capital is as of 01/07/2017 and comprises the market value of securities in AOF portfolio as of 01/07/2017, plus net changes in that securities portfolio during Q3.

AOF Portfolio: 9 months Return

Asset Class Exposure	Invested Capital	Attribution PnL	9 months Return on Invested Capital	Return Contribution on NAV
Long Equities	45,987,251	15,095,859	32.8%	24.5%
Short Equities/Options	-4,836,490	-423,235	-8.8%	-0.6%
Bonds	17,594,153	1,939,152	11.0%	3.1%
Arbitrage	71,596	127,265	177.8%	0.2%
Special Situations	2,887,803	0	0.0%	0.0%
	61,704,313	**16,739,042**		**27.1%**

*For this 9M return, invested capital is as of 01/01/2017 and comprises the market value of securities in the ordinary shares portfolio as of 01/01/2017, plus net changes in that securities portfolio during the first 9 months of 2017.

Company Details (Ordinary Shares)

Bloomberg:	AOF LN
Reuters:	AOF.L
Website:	www.africaopportunityfund.com
Listing:	SFS / London Stock Exchange
Structure:	Closed-end
ISIN:	KYG012921048 Euroclear/Clearstream
Inception:	26 July 2007
Domicile:	Cayman Islands

Company Details (C-Shares) – cancelled on 23 August 2017

Bloomberg:	AOFC LN
Reuters:	AOFc.L
Website:	www.africaopportunityfund.com
Listing:	SFS / London Stock Exchange
Structure:	Closed-end
ISIN:	KYG012921121 Euroclear/Clearstream
Inception:	17 April 2014
Cancellation:	23 August 2017
Domicile:	Cayman Islands

Portfolio Managers:	Francis Daniels Robert Knapp
Investment Manager:	Africa Opportunity Partners Ltd.
Broker:	Liberum Capital Ltd
Auditor:	Ernst & Young

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