FAIRFAX AFRICA
HOLDINGS CORPORATION

INTERIM REPORT

For the six months ended
June 30, 2017

Consolidated Balance Sheets
as at June 30, 2017 and December 31, 2016
(unaudited - US$ thousands)

	Notes	June 30, 2017	December 31, 2016
Assets			
Cash and cash equivalents		**242,724**	—
Short term investments		**99,960**	—
Bonds		**49,051**	—
Loans		**25,929**	—
Common stock		**81,222**	—
Total cash and investments	6	**498,886**	—
Interest receivable		**638**	—
Other assets		**300**	786
Total assets		**499,824**	786
Liabilities			
Accounts payable and accrued liabilities		**889**	—
Payable to related parties	11	**824**	860
Income taxes payable	9	**137**	—
Total liabilities		**1,850**	860
Equity			
Common shareholders' equity (deficit)		**497,974**	(74)
Total equity and liabilities		**499,824**	786

See accompanying notes.

Consolidated Statements of Comprehensive Income
for the three and six months ended June 30, 2017 and the period April 28, 2016 (date of incorporation) - June 30, 2016
(unaudited - US$ thousands except per share amounts)

	Notes	Second quarter 2017	April 28 - June 30 2016	First six months 2017
Income				
Interest income	6	**962**	—	**1,189**
Net change in unrealized gains on investments	6	**2,009**	—	**1,675**
Net foreign exchange gains	6	**1,168**	—	**3,776**
		4,139	—	**6,640**
Expenses				
Investment and advisory fees	11	**800**	—	**1,180**
General and administration expenses	13	**387**	—	**601**
		1,187	—	**1,781**
Earnings before income taxes		**2,952**	—	**4,859**
Provision for (recovery of) income taxes	9	**(812)**	—	**545**
Net earnings and comprehensive income		**3,764**	—	**4,314**
Net earnings per share (basic and diluted)	8	**$ 0.07**	—	**$ 0.12**
Shares outstanding (weighted average - basic and diluted)	8	**50,620,189**	—	**35,751,558**

See accompanying notes.

Consolidated Statements of Changes in Equity

for the six months ended June 30, 2017 and the period April 28, 2016 (date of incorporation) - June 30, 2016

(unaudited - US$ thousands)

	Subordinate voting shares	Multiple voting shares	Retained earnings (deficit)	Common shareholders' equity
Balance as of January 1, 2017	—	—	(74)	(74)
Net earnings for the period	—	—	4,314	4,314
Issuance of shares, net of issuance costs (note 7)	193,326	300,000	—	493,326
Tax benefit on share issuance costs	408	—	—	408
Balance as of June 30, 2017	193,734	300,000	4,240	497,974

	Subordinate voting shares	Multiple voting shares	Retained earnings (deficit)	Common shareholders' equity
Balance as of April 28, 2016 (date of incorporation)	—	—	—	—
Net earnings for the period	—	—	—	—
Issuance of shares, net of issuance costs	—	—	—	—
Tax benefit on share issuance costs	—	—	—	—
Balance as of June 30, 2016	—	—	—	—

See accompanying notes.

Consolidated Statements of Cash Flow
for the three and six months ended June 30, 2017 and the period April 28, 2016 (date of incorporation) - June 30, 2016
(unaudited - US$ thousands)

	Notes	Second quarter 2017	April 28 - June 30 2016	First six months 2017
Operating activities				
Net earnings		**3,764**	—	**4,314**
Items not affecting cash and cash equivalents:				
Net change in unrealized gains on investments	6	**(2,009)**	—	**(1,675)**
Net foreign exchange gains	6	**(1,168)**	—	**(3,776)**
Net purchases of short term investments classified as FVTPL		**—**	—	**(99,770)**
Purchases of bonds and issuance of loans classified as FVTPL		**(53,787)**	—	**(75,529)**
Changes in operating assets and liabilities:				
Interest receivable		**(190)**	—	**(638)**
Income taxes payable	9	**(1,012)**	—	**137**
Accounts payable and accrued liabilities		**533**	—	**889**
Payable to related parties	11	**427**	—	**(36)**
Other		**(1,010)**	—	**(174)**
Cash used in operating activities		**(54,452)**	—	**(176,258)**
Financing activities				
Subordinate voting shares:	7			
Issuances		**—**	—	**204,080**
Issuance costs		**(2,148)**	—	**(12,252)**
Multiple voting shares:	7			
Issuances		**—**	—	**227,154**
Cash provided by (used in) financing activities		**(2,148)**	—	**418,982**
Increase (decrease) in cash and cash equivalents		**(56,600)**	—	**242,724**
Cash and cash equivalents - beginning of period		**299,324**	—	**—**
Cash and cash equivalents - end of period		**242,724**	—	**242,724**

See accompanying notes.

Index to Notes to Interim Consolidated Financial Statements

1. Business Operations

Fairfax Africa Holdings Corporation (''Fairfax Africa'' or ''the company'') is an investment holding company. Its investment objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equities and debt instruments in Africa and African businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, Africa (''African Investments''). The company makes all or substantially all of its investments either directly or through one of its wholly-owned subsidiaries, which includes a South African based subsidiary called Fairfax Africa Investments Proprietary Limited (''SA Sub'') and a Mauritius based subsidiary called Fairfax Africa Holdings Investments Limited (''Mauritius Sub'').

On February 17, 2017 Fairfax Africa completed its initial public offering ("IPO") and concurrent with private placements followed by the exercise of an over-allotment option by the underwriters raising gross proceeds of $506,202 (net proceeds of $493,326) through the issuance of subordinate voting shares and multiple voting shares. Gross proceeds included a $74,968 in-kind contribution of an indirect interest in AFGRI Holdings Proprietary Limited ("AFGRI"). The company's subordinate voting shares commenced trading on February 17, 2017 on the Toronto Stock Exchange ("TSX") under the symbol FAH.U. The multiple voting shares are not listed.

Fairfax Financial Holdings Limited ("Fairfax") had taken the initiative in creating the company and is Fairfax Africa's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. Fairfax is a Canadian reporting issuer with securities listed on the TSX and trading in Canadian dollars under the symbol FFH for over 30 years and FFH.U. Fairfax, through its subsidiaries, owns 30,000,000 multiple voting shares and 2,500,000 subordinate voting shares of Fairfax Africa. At June 30, 2017, Fairfax's holdings of multiple and subordinate voting shares represented 98.8% of the voting rights and 64.2% of the equity interest in Fairfax Africa.

Hamblin Watsa Investment Counsel Ltd. (the "Portfolio Advisor"), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its subsidiaries, responsible to source and advise with respect to all investments.

The company was federally incorporated on April 28, 2016 and domiciled in Ontario, Canada. The principal office of the company, Fairfax and the Portfolio Advisor is located at 95 Wellington Street West, Suite 800, Toronto, Ontario M5J 2N7.

2. Basis of Presentation

These interim consolidated financial statements for the three and six months ended June 30, 2017 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34 Interim Financial Reporting. Accordingly, certain information and disclosures normally included in annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with the company's annual consolidated financial statements for the period April 28, 2016 (date of incorporation) to December 31, 2016, which have been prepared in accordance with IFRS and incorporated in the company's IPO prospectus filed on SEDAR on February 8, 2017.

The consolidated balance sheets of the company are presented on a non-classified basis. Assets expected to be realized and liabilities expected to be settled within the company's normal operating cycle of one year would typically be considered as current, including the following balances: cash and cash equivalents, short term investments, loans, interest receivable, income taxes refundable (payable), other assets, accounts payable and accrued liabilities, and payable to related parties. All other balances are generally considered as non-current.

The preparation of the company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported amounts of income and expenses during the reporting periods covered by the consolidated financial statements and the related note disclosures. Critical accounting estimates and judgments are described in note 4.

These interim consolidated financial statements were approved for issue by the company's Board of Directors on August 3, 2017.

3. Summary of Significant Accounting Policies

The principal accounting policies applied to the preparation of these interim consolidated financial statements and the methods of computation have been consistently applied to all periods presented unless otherwise stated, and are set out as follows:

Consolidation
Subsidiaries - A subsidiary is an entity over which the company has control. The company controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The company has determined that it meets the definition of an investment entity (see note 4) and as such, is required to apply the exception to consolidation and instead account for its investments in subsidiaries at fair value through profit or loss ("FVTPL").

The company has determined that SA Sub and Mauritius Sub should be consolidated as these entities provide services relating to the company's investment activities. All intercompany balances, profits and transactions with these subsidiaries are eliminated in full.

Investments in associates - An associate is an entity over which the company has significant influence, but not control, over the financial and operating policies. As discussed above, the company has determined that it meets the definition of an investment entity and as such, investments in associates are accounted for at FVTPL.

Foreign currency translation
Functional and presentation currency - The interim consolidated financial statements are presented in U.S. dollars which is the functional currency of the company and its consolidated subsidiaries.

Although the company will invest in African Investments that may be denominated in various currencies, its primary financial reporting objective is to measure long term capital appreciation in U.S. dollars. Accordingly, the company presents its consolidated financial statements in U.S. dollars.

Foreign currency transactions - Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net foreign exchange gains in the consolidated statements of comprehensive income. Income and expenses are translated at the average rate of exchange for the period.

Consolidated statements of cash flows
The company's consolidated statements of cash flows are prepared in accordance with the indirect method, classifying cash flows by operating, investing and financing activities.

Cash and cash equivalents - Cash and cash equivalents consists of cash on hand, demand deposits with banks and other short term highly liquid investments with maturities of three months or less when purchased, and exclude cash and short term highly liquid investments that are restricted. The carrying value of cash and cash equivalents approximates fair value.

Cash and Investments
Cash and investments include cash and cash equivalents, short term investments, bonds, loans and common stocks. Management determines the appropriate classifications of investments at their acquisition date.

Classification - Short term investments, equity instruments and debt instruments are classified as FVTPL.

Recognition and measurement – The company recognizes cash and investments at fair value upon initial recognition. Purchases and sales are recognized on the trade date, which is the date on which the company commits to purchase or sell the investments.

Investments classified as FVTPL are carried at fair value on the consolidated balance sheets with realized gains and losses and change in unrealized gains and losses recorded in net realized gains (losses) on investments and net unrealized gains (losses) on investments, respectively, in the consolidated statements of comprehensive income and as operating activities in the consolidated statements of cash flows. Interest income earned on investments is included in the consolidated statements of comprehensive income in interest income and as operating activities in the consolidated statements of cash flows.

Transactions pending settlement are reflected on the consolidated balance sheets in other assets or in accounts payable and accrued liabilities. Transaction costs related to investments classified as FVTPL are expensed as incurred. An investment is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the company has transferred substantially all the risks and rewards of ownership.

Short term investments – Short term investments are investments with maturity dates between three months and twelve months when purchased.

Determination of fair value - Fair values for substantially all of the company's investments are measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop estimates of fair value. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these interim consolidated financial statements. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair values. The fair values of investments are based on bid prices for financial assets and ask prices for financial liabilities.

The company categorizes its fair value measurements according to a three level hierarchy described below:

Level 1 - Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets.

Level 2 - Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level 3 - Inputs include unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these instruments or related observable inputs that can be corroborated at the measurement date.

Transfers between fair value hierarchy categories are considered effective from the beginning of the reporting period in which the transfer is identified.

Valuation techniques used by the company's independent pricing service providers and third party broker-dealers include use of prices from similar instruments where observable market prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. The company assesses the reasonableness of pricing received from these third party sources by comparing the fair values received to recent transaction prices for similar assets where available, to industry accepted discounted cash flow models (that incorporate estimates of the amount and timing of future cash flows and market observable inputs such as credit spreads and discount rates) and to option pricing models (that incorporate market observable inputs including the quoted price, volatility and dividend yield of the underlying security and the risk free rate).

All other financial assets and liabilities, primarily comprised of interest receivable, income taxes refundable (payable), other assets, accounts payable and accrued liabilities, and payable to related parties, are measured at amortized cost which approximates fair value. Under the amortized cost method, financial assets and liabilities reflect the amount required to be received or paid and discounted when appropriate, at the contract's effective interest rate.

Net change in unrealized gains on investments
The net change in unrealized gains arising on the re-measurement of investments at fair value is included in net unrealized gains on investments in the consolidated statements of comprehensive income. The net change in unrealized gains on investments is adjusted for prior period re-measurement on investment sold.

Interest income
Interest income is recognized on an accrual basis using the effective interest method and includes bank interest and interest from investments in debt instruments. Interest receivable is shown separately on the consolidated balance sheets based on the debt instrument's stated rates of interest.

Income taxes
The provision for income taxes for the period comprises current and deferred income tax. Income taxes are recognized in the consolidated statements of comprehensive income, except to the extent that they relate to items recognized directly in equity. In those cases, the related taxes are also recognized directly in equity.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries and its associates operate and generate taxable income.

Deferred income tax is calculated under the liability method whereby deferred income tax assets and liabilities are recognized for temporary differences between the financial statements carrying amounts of assets and liabilities and their respective income tax bases at the current substantively enacted tax rates. Changes in deferred income tax are included in the provision for (recovery of) income taxes in the consolidated statements of comprehensive income.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Carry forwards of unused losses or unused tax credits are tax effected and recognized as deferred tax assets when it is probable that future taxable profits will be available against which these losses or tax credits can be utilized.

Deferred income tax is not recognized for withholding tax and other taxes that may be payable on unremitted earnings for those African Investments that would otherwise be considered a subsidiary or an investment in associate if not for the application of investment entity accounting, where the company has determined it is not probable those earnings will be repatriated in the foreseeable future.

Current and deferred income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and there is a legally enforceable right of offset.

Other assets
Other assets is typically comprised of pending settlement of sales of investments and prepaid expenses.

Contingencies and commitments
A provision is recognized for a contingent liability, commitment or financial guarantee when the company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted when the effect of the time value of money is considered significant.

Equity
Common stock issued by the company is classified as equity when there is no contractual obligation to transfer cash or other financial assets to the holder of the shares. Incremental costs directly attributable to the issue or repurchase for cancellation of equity instruments are recognized in equity, net of tax.

Dividends and other distributions to holders of the company's equity instruments are recognized directly in equity.

Net earnings per share
Basic net earnings per share is calculated by dividing the net earnings by the weighted average number of subordinate and multiple voting shares issued and outstanding during the period. Diluted net earnings per share is calculated using the weighted average number of subordinate and multiple voting shares that would have been outstanding during the period had all potential subordinate and multiple voting shares been issued at the beginning of the period, or when other potential dilutive instruments were granted or issued, if later.

New accounting pronouncements adopted in 2017
The company adopted the following amendments, effective January 1, 2017. These changes were adopted in accordance with the applicable transitional provisions of each amendment, and did not have a significant impact on the interim consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
In January 2016 the IASB issued amendments to IAS 12 *Income Taxes* to clarify the requirements on recognition of deferred tax assets for unrealized losses.

Disclosure Initiative (Amendments to IAS 7)
In January 2016 the IASB issued amendments to IAS 7 *Statement of Cash Flows* that require additional disclosures around changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

New accounting pronouncements issued but not yet effective
The following new standards have been issued by the IASB and were not yet effective for the fiscal year beginning January 1, 2017. The company is currently evaluating their impact on its consolidated financial statements and does not expect to adopt any of them in advance of their respective effective dates.

Foreign Currency Transactions and Advance Consideration ("IFRIC 22")
In December 2016 the IASB issued an interpretation by the IFRS Interpretations Committee to clarify the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with a choice of prospective or retrospective application.

IFRS 9 Financial Instruments ("IFRS 9")
In July 2014 the IASB issued the complete version of IFRS 9 which supersedes the 2010 version of IFRS 9 currently applied by the company. This complete version is effective for annual periods beginning on or after January 1, 2018, with retrospective application, and includes: requirements for the classification and measurement of financial assets and liabilities; an expected credit loss model that replaces the existing incurred loss impairment model; and new hedge accounting guidance.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments ("IFRIC 23")
In June 2017 the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 *Income Taxes* should be applied when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, with modified retrospective or retrospective application.

4. Critical Accounting Estimates and Judgments

In the preparation of the company's interim consolidated financial statements, management has made a number of critical accounting estimates and judgments. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Where estimates were made, the reported amounts of assets, liabilities, income and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future earnings were known at the time the consolidated financial statements were prepared.

Determination of investment entity status
An entity that meets the IFRS 10 Consolidated Financial Statements ("IFRS 10") definition of an investment entity is required to measure its investments in subsidiaries at FVTPL rather than consolidate them (other than those subsidiaries that provide services to the company).

An investment entity is an entity that obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The company has concluded that it meets the definition of an investment entity due to its strategic objective of investing in African Investments and providing investment management services to investors for the purpose of generating returns in the form of long term capital appreciation. The company has also determined that SA Sub and Mauritius Sub provide investment related services to the company and should be consolidated.

The company may from time to time seek to realize on any of its African Investments. The circumstances under which the company may sell some or all of its investments include: (i) where the company believes that the African Investments are fully valued or that the original investment thesis has played out; or, (ii) where the company has identified other investment opportunities which it believes present more attractive risk-adjusted return opportunities and additional capital is needed to make such alternative investments.

The company may exit its private investments either through initial public offerings or private sales. For publicly traded investments, exit strategies may include selling the investments through private placements or in public markets.

Valuation of private investments

The valuation of the company's private investments are assessed at the end of each reporting period.

For each private investment completed during the reporting period, the transaction price is generally considered to be representative of fair value, subject to the background of the investment, changes in market conditions and factors specific to the investee. The company monitors various factors impacting the businesses of its investees and believes the transaction price of a private investment may no longer be an appropriate estimate of fair value upon occurrence of certain events such as: significant variances from budgeted earnings; changes to the market sector; changes to the regulatory environment; movements in interest rates, foreign exchange rates and other market variables; and, the passage of time.

Estimates and judgments related to the valuation of private investments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company utilizes Fairfax's valuation personnel to assist with the valuation of its investment portfolio. Detailed valuations are performed for those financial instruments that are priced internally, while external pricing received from independent pricing service providers and third party broker-dealers are evaluated by the company for reasonableness. The company does not use independent valuation experts to determine the fair value of its investments. The company’s Chief Financial Officer oversees the valuation function and regularly reviews valuation processes and results, including at each quarterly reporting period. Significant valuation matters, particularly those requiring extensive judgment, are communicated to the company’s Audit Committee.

Notwithstanding the rigour of the company's valuation processes, the valuation of private investments inherently has estimation uncertainty and different assumptions could lead to significantly different fair values. Refer to note 5 for disclosure on the valuation of company's private investments.

Income taxes

The company is subject to income taxes in Canada, Mauritius and South Africa, and the company’s determination of its tax liability or receivable is subject to review by those applicable tax authorities. Unless stated otherwise, the company has made a critical judgment that it is able to control the timing of the repatriation of certain African Investments' unremitted earnings and has no plans to repatriate these earnings in the foreseeable future; as a consequence no tax has been recorded in these interim consolidated financial statements on unremitted earnings. While the company believes its tax positions to be reasonable, where the company’s interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for (recovery of) income taxes may be adjusted in future periods to reflect actual experience. The company has tax specialist personnel responsible for assessing the income tax consequences of planned transactions and events, and undertaking the appropriate tax planning.

Realization of deferred income tax assets is dependent upon the generation of taxable income in those jurisdictions where the relevant tax losses and temporary differences exist. Tax legislation of each jurisdiction in which the company operates is interpreted to determine the provision for income taxes and expected timing of the reversal of deferred income tax assets and liabilities. The company has made a critical judgment that certain deferred taxes disclosed in note 9 should not be recorded as an asset because it is not presently likely that they will be realized.

5. African Investments

Investment in AFGRI Holdings Proprietary Limited

Agrigroupe Investments LP ("AgriGroupe LP") is a partnership formed to hold an investment in Joseph Investment Holdings (“Joseph Holdings”). Ownership percentages and descriptions of capitalization in this paragraph are prior to the transactions described in the subsequent paragraph. Fairfax as a limited partner, had a 72.6% equity interest in AgriGroupe LP. Joseph Holdings is an investment holding company formed to hold an investment in AFGRI Holdings Proprietary Limited ("AFGRI). Joseph Holdings' capitalization is comprised of ordinary shares and class A shares. Class A shares are non-voting except in matters related to the class A shares, redeemable at the option of Joseph Holdings at a fixed price and have a priority claim on distributions received from AFGRI in the amount of $88,600. Any such distributions will be used to pay down this amount to the class A shareholders through redemptions of all class A shares before holders of ordinary shares of JIH will be eligible to receive any distributions on their ordinary shares. AgriGroupe LP held all of the ordinary shares and class A shares of Joseph Holdings (inclusive of Fairfax's beneficial 65.9% equity interest and 72.6% interest in the class A shares of Joseph Holdings). Joseph Holdings has a 60.0% equity interest in AFGRI. Agrigroupe LP and Joseph Holdings have no other assets, liabilities (contingent or otherwise) or operations, except minimal overhead expenses associated with their administration.

A private company based in South Africa, AFGRI is one of the leading agricultural services and food processing company with a core focus on grain commodities. It provides services across the entire grain production and storage cycle, offering financial support and solutions as well as inputs and hi-tech equipment through the John Deere brand supported by a large retail footprint.

Indirect investment in AFGRI

On February 17, 2017, the company purchased from AgriGroupe LP the beneficial ownership interests held by Fairfax in Joseph Holdings, comprised of 156,055,775 ordinary shares and 49,942,549 class A shares for $25.1 million and $49.9 million respectively in exchange for 7,284,606 multiple voting shares at $10.00 per multiple voting share. The company also purchased additional ownership interests in Joseph Holdings from certain limited partners of AgriGroupe LP in exchange for 212,189 subordinate voting shares at $9.50 per subordinate voting share (being $10.00 less a private placement fee of $0.50 per subordinate voting share). Subsequent to these transactions, the company had a 70.3% equity interest and 73.3% interest in the class A shares of Joseph Holdings through which it is the largest beneficial shareholder of AFGRI with a 42.2% indirect equity interest. Through its ownership of Joseph Holdings, Fairfax Africa controls 60% of the voting shares of AFGRI.

The consideration paid by the company to acquire the indirect interest in AFGRI was negotiated between the company and the general partner of AgriGroupe LP. The process for determining the price included a discounted cash flow analysis of Joseph Holdings' underlying investment in AFGRI based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.3% to 18.2%, and a long term growth rate of 3.0%. Free cash flow projections were based on EBITDA and working capital projections for AFGRI's principal business units that had been prepared by AFGRI management.

At June 30, 2017 the company estimated the fair value of its indirect investment in AFGRI using a discounted cash flow analysis of multi-year, free cash flow projections of AFGRI's business units with assumed after-tax discount rates ranging from 11.6% to 18.4% and a long term growth rate of 3.0%. Free cash flow projections were based on EBITDA projections derived from financial information for AFGRI's business units prepared in the second quarter of 2017 by AFGRI's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which AFGRI operates. At June 30, 2017, the company's internal valuation model indicated that the fair value of its indirect investment in AFGRI is $81,222. The change in the fair value of the company's indirect investment in AFGRI resulted in a net change in unrealized gain on investments of $1,899 on both the three and six months ended June 30, 2017, and a net foreign exchange gains of $1,765 and $4,355 respectively, for the three and six months ended June 30, 2017. Each of these amounts was recorded in the consolidated statements of comprehensive income.

AFGRI Facility

On June 21, 2017 Fairfax Africa, through a wholly owned subsidiary, entered into a secured lending arrangement with AFGRI, pursuant to which Fairfax Africa provided approximately $23,255 (300 million South African rand) (the "AFGRI Facility"). AFGRI sought out the financing ahead of an expected future equity capital raise by AFGRI for growth initiatives. The AFGRI Facility matures on December 24, 2017 with an option for AFGRI to repay in shares, subject to certain conditions. The AFGRI Facility bears interest at a rate of South African Prime plus 2% per annum. Fairfax Africa is entitled to receive a fee equal to 2% of the loan proceeds. This fee will be paid on maturity or on repayment of the AFGRI Facility. The company earns interest on the fee at the same rate as the AFGRI Facility. At June 30, 2017, based on the market interest rate and on the creditworthiness of AFGRI, the company determined that the transaction price in South African rand is the most relevant representation of fair value. For the three and six months ended June 30, 2017, the company recorded a net foreign exchange loss of $326 and interest income of $42 in the consolidated statements of comprehensive income.

Investment in Nova Pioneer Education Group

On June 8, 2017, Fairfax Africa, through a wholly owned subsidiary, entered into a secured lending arrangement with Ascendant Learning Limited ("Ascendant"), the Mauritius based parent entity of Nova Pioneer Education Group ("Nova Pioneer"), pursuant to which Ascendant is permitted to borrow up to $4,000 for the benefit of Nova Pioneer ("Nova Pioneer Facility"). The Nova Pioneer Facility matures on June 8, 2018 with initial interest at a rate of 5% per annum, which increased to 18% per annum on June 30, 2017. The Nova Pioneer Facility is secured against certain assets of Ascendant and its subsidiaries.

At June 30, 2017, Ascendant borrowed $3,000 under the Nova Pioneer Facility. At June 30, 2017, based on the market interest rate and the creditworthiness of Ascendant, the company determined that the U.S. dollar transaction price is the most relevant representation of fair value. For the three and six months ended June 30, 2017, the company recorded an interest income of $10 in the consolidated statements of comprehensive income.

On June 30, 2017, Fairfax Africa announced that it had agreed to invest $20,000 in Nova Pioneer (the "Nova Pioneer Investment"). The Nova Pioneer Investment will consist of $20,000 of secured debentures (maturity date of December 31, 2024) (the "Nova Debentures") and 2,000,000 warrants (the "Nova Warrants"). The Nova Debentures will bear interest at a rate of 20% per annum and will be redeemable by Ascendant at par at any time after June 30, 2021, except in the event of the satisfaction of certain conditions after a change of control or value realization event. Each Nova Warrant will be exercisable to acquire one ordinary share of Ascendant (an "Ascendant Share"). Assuming the exercise of all of the Nova Warrants, Fairfax Africa will beneficially own 2,000,000 of the issued and outstanding Ascendant Shares, representing approximately 9.2% of all issued and outstanding Ascendant Shares at June 30, 2017. Except in certain circumstances relating to a change of control or value realization event, the Nova Warrants may only be exercised after June 30, 2021. The Nova Pioneer Investment is expected to close in the third quarter of 2017, and the Nova Pioneer Facility will be repaid in full upon the closing of the Nova Pioneer Investment.

Nova Pioneer is an independent school network with campuses in South Africa and Kenya, which offers preschool through secondary education for students from ages 3 through 19.

Atlas Mara Limited

On June 21, 2017 the company entered into a placing agreement to invest a minimum of $130,000 in Atlas Mara Limited ("Atlas Mara"). This investment will be comprised of: (i) a $100 million equity offering of new ordinary shares of Atlas Mara at a price of $2.25 per share (the "Issue Price") to Fairfax Africa and existing Atlas Mara shareholders (the "Atlas Mara Equity Offering"), and (ii) a $100 million mandatory convertible bond ("Atlas Mara Convertible Bond") issued to Fairfax Africa, which will convert into new ordinary shares at the Issue Price upon closing of the Atlas Mara Equity Offering. Fairfax Africa will serve as the committed underwriter of the Atlas Mara Equity Offering, with the right to secure a minimum of 30% of the offering and the obligation for Fairfax Africa or its affiliates to acquire any shares not taken up by qualifying Atlas Mara shareholders. The closing of the Atlas Mara Convertible Bond and Atlas Mara Equity Offering are subject to shareholder approval. In addition, the Atlas Mara Equity Offering is subject to regulatory approval.

To the extent that the company's total commitment to Atlas Mara would be greater than the company's Investment Concentration Restriction (as defined in the Concentration Risk section in note 10), the company's intention is that it would transfer its obligation to invest in such excess portion to Fairfax (or one of its affiliates).

On July 17, 2017, upon approval of the Atlas Mara shareholders, the company through a wholly-owned subsidiary completed its initial investment in Atlas Mara by way of the Atlas Mara Convertible Bond. The Atlas Mara Convertible Bond matures on July 17, 2018 with initial interest at a rate of 5% per annum increasing to 10% per annum on August 31, 2017. The company expects the Atlas Mara Equity Offering to close in the third quarter of 2017, and upon closing of the Atlas Mara Equity Offering, the company will receive a placing fee in the amount of $2.8 million.

Atlas Mara is a Sub-Saharan African financial services group founded in 2013 and it is listed on the London Stock Exchange under the symbol ATMA.

6. Cash and Investments

Fair Value Disclosures

The company's use of quoted market prices (Level 1), valuation models using observable market information as inputs (Level 2) and valuation models without observable market information as inputs (Level 3) in the valuation of securities by type of issuer was as follows:

	June 30, 2017			
	Quoted prices (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total fair value of assets**
Cash and cash equivalents[1]	**242,724**	—	—	**242,724**
Short term investments - U.S. treasury bills[2]	**99,960**	—	—	**99,960**
Bonds - government of South Africa[3]	—	**49,051**	—	**49,051**
Loans:				
AFGRI Facility	—	—	**22,929**	**22,929**
Nova Pioneer Facility	—	—	**3,000**	**3,000**
	—	—	**25,929**	**25,929**
Common stock - indirect investment in AFGRI	—	—	**81,222**	**81,222**
Total cash and investments	**342,684**	**49,051**	**107,151**	**498,886**

(1) Includes U.S. treasury bills of $209,902 with maturity dates of less than three months as at investment date.

(2) Short term U.S. treasury bills have a maturity date of July 20, 2017.

(3) Government of South Africa bonds are denominated in U.S. dollars. The bonds are priced based on information provided by independent pricing service providers.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the three and six months ended June 30, 2017 there were no transfers of financial instruments between Level 1 and Level 2 and there were no transfers of financial instruments in or out of Level 3 as a result of changes in the observability of valuation inputs.

A summary of changes in the fair value of the Level 3 investment for the six months ended June 30, 2017 was as follows:

	Common stock[(1)]	AFGRI Facility	Nova Pioneer Facility	Total
Balance as of January 1, 2017	—	—	—	—
Purchases	**74,968**	**23,255**	**3,000**	**101,223**
Net change in unrealized gain included in the consolidated statement of comprehensive income	**1,899**	—	—	**1,899**
Net foreign exchange gains (losses) included in the consolidated statements of comprehensive income	**4,355**	**(326)**	—	**4,029**
Balance as of June 30, 2017	**81,222**	**22,929**	**3,000**	**107,151**

(1) Indirect investment in AFGRI.

At June 30, 2017, the company has determined that there are no significant unobservable inputs suited for sensitivity analysis for AFGRI Facility and Nova Pioneer Facility. Accordingly, the company performed a sensitivity analysis on its indirect investment in AFGRI.

The table that follows illustrates the potential impact on net earnings of various combinations of changes in unobservable inputs in the company's internal valuation model for the indirect investment in AFGRI at June 30, 2017. The analysis assumes variations within a reasonably possible range determined by the company based on analysis of the return on various equity indexes, management's knowledge of the applicable equity markets and the potential impact of changes in interest rates.

African Investment	Fair value	Valuation Technique	Significant unobservable Inputs	Significant unobservable inputs used in the internal valuation models	Hypothetical $ change effect on fair value measurement[(1)]	Hypothetical $ change effect on net earnings [(1)]
Indirect investment in AFGRI	81,222	Discounted Cash Flow	After-tax discount rate	11.6% to 18.4%	12,568/ (11,464)	9,237 / (8,426)
			Long term growth rate	3%	4,433 / (4,323)	3,258 / (3,177)

(1) The impact on the internal valuation models from changes in significant unobservable inputs deemed to be subject to the most judgment and estimates disclosed in the above table shows the hypothetical increase (decrease) in net earnings. Changes in the after-tax discount rates (50 basis points) and long term growth rates (25 basis points), each in isolation, would hypothetically change the fair value of the company's investments as noted in the table above. Generally, an increase (decrease) in long term growth rates or a decrease (increase) in after-tax discount rates, would result in a higher (lower) fair value of the company's indirect investment in AFGRI.

Fixed Income Maturity Profile

Bonds and loans are summarized by their earliest contractual maturity date in the table that follows.

	June 30, 2017	
	Amortized cost	Fair value
Due in 1 year or less	**25,953**	**25,929**
Due after 1 year through 5 years	**49,275**	**49,051**
	75,228	**74,980**

Investment Income

An analysis of interest income for the three and six months ended June 30, 2017 is summarized in the table that follows:

	Second quarter	First six months
Interest income:		
Cash and cash equivalents	**386**	**595**
Short term investments - US treasury bills	**190**	**207**
Bonds - government of South Africa	**334**	**335**
Loans:		
AFGRI Facility	**42**	**42**
Nova Pioneer Facility	**10**	**10**
Total interest income	**962**	**1,189**

An analysis of net gains (losses) on investments and net foreign currency gains (losses) for the three and six months ended June 30, 2017 is summarized in the tables that follow:

	Second quarter		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments
Net gains (losses) on investments:			
Bonds - government of South Africa	—	110	110
Common stock - indirect investment in AFGRI	—	1,899	1,899
	—	2,009	2,009
Net foreign currency gains (losses) on:			
Cash and cash equivalents	(70)	—	(70)
Loans	—	(326)	(326)
Common stock - indirect investment in AFGRI	—	1,765	1,765
Other	(201)	—	(201)
	(271)	1,439	1,168

	First six months		
	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses) on investments
Net gains (losses) on investments:			
Bonds - government of South Africa	—	(224)	(224)
Common stock - indirect investment in AFGRI	—	1,899	1,899
	—	1,675	1,675
Net foreign currency gains (losses) on:			
Cash and cash equivalents	(71)	—	(71)
Loans	—	(326)	(326)
Common stock - indirect investment in AFGRI	—	4,355	4,355
Other	(182)	—	(182)
	(253)	4,029	3,776

7. Total Equity

Common shareholders' equity

Authorized Capital

The company's authorized share capital consists of (i) an unlimited number of multiple voting shares that may only be issued to Fairfax or its affiliates; (ii) an unlimited number of subordinate voting shares; and, (iii) an unlimited number of preference shares, issuable in series. Except as provided in any special rights or restrictions attaching to any series of preference shares issued from time to time, the preference shares will not be entitled to vote at any meeting of the shareholders of the company.

Common stock

The number of shares outstanding was as follows:

	2017
Subordinate voting shares - January 1	—
Issuances of shares	20,620,189
Subordinate voting shares - June 30	20,620,189
Multiple voting shares - January 1	1
Issuances of shares	29,999,999
Multiple voting shares - June 30	30,000,000
Common shares effectively outstanding - June 30	50,620,189

Capital transactions

On February 17, 2017 the company completed its IPO of 5,622,000 subordinate voting shares at a price of $10.00 per share for gross proceeds of $56,220 and issued 22,715,394 multiple voting shares to Fairfax and its affiliates on a private placement basis, for gross proceeds of $227,154.

The company's subordinate voting shares began trading on the TSX under the symbol "FAH.U" on February 17, 2017. Concurrent with these transactions, certain Cornerstone Investors purchased 14,378,000 subordinate voting shares, on a private placement basis, for gross proceeds of $143,780. Concurrent with the closing of the IPO and private placements, the company completed the acquisition for $74,968 of a 42.2% indirect interest in AFGRI (through the acquisition of Joseph Holdings ordinary and class A shares as described in note 5) in exchange for 7,284,606 multiple voting shares issued to certain affiliates of Fairfax and 212,189 subordinate voting shares issued to certain other Joseph Holdings shareholders (the "AFGRI Transaction"). The combined gross proceeds of the IPO, private placements and AFGRI Transaction were $502,122.

On March 2, 2017 a syndicate of underwriters exercised the over-allotment option and the company issued an additional 408,000 subordinate voting shares at a price of $10.00 per share for total gross proceeds of $4,080. The exercise of the over-allotment option increased the combined gross proceeds from the IPO, private placements and AFGRI Transaction (collectively "the Offerings") to $506,202 (net proceeds of $493,326 after commissions and expenses of $12,876).

8. Earnings per Share

Net earnings per share for the three and six months ended June 30, 2017 is calculated in the following table based on the weighted average shares outstanding:

	Second quarter	First six months
Net earnings – basic and diluted	**3,764**	**4,314**
Weighted average shares outstanding – basic and diluted	**50,620,189**	**35,751,558**
Net earnings per share - basic and diluted	**$ 0.07**	**$ 0.12**

At June 30, 2017 there were no instruments outstanding that could potentially dilute earnings per share.

9. Income Taxes

The company's provision for (recovery of) income taxes for the three and six months ended June 30, 2017 are summarized in the following table:

	Second quarter	First six months
Current income tax:		
Current year expense (recovery)	**(1,012)**	**137**
Deferred income tax:		
Origination and reversal of temporary differences	**200**	**408**
Provision for (recovery of) income taxes	**(812)**	**545**

A significant portion of the company's earnings (loss) before income taxes may be earned or incurred outside of Canada. The statutory income tax rates for jurisdictions outside of Canada generally differ from the Canadian statutory income tax rate (and may be significantly higher or lower).

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for (recovery of) income taxes for the three and six months ended June 30, 2017 are summarized in the following tables:

	Second quarter			
	Canada	Mauritius	South Africa	Total
Earnings (loss) before income taxes	**(406)**	**3,646**	**(288)**	**2,952**
Provision for (recovery of) income taxes	**(949)**	**—**	**137**	**(812)**
Net earnings (loss)	**543**	**3,646**	**(425)**	**3,764**

	First six months			
	Canada	Mauritius	South Africa	Total
Earnings (loss) before income taxes	**(1,146)**	**6,293**	**(288)**	**4,859**
Provision for (recovery of) income taxes	**408**	**—**	**137**	**545**
Net earnings (loss)	**(1,554)**	**6,293**	**(425)**	**4,314**

The pre-tax losses in Canada during the second quarter and first six months of 2017 primarily related to investment and advisory fees and unrealized losses on government of South Africa bonds. The pre-tax profitability in Mauritius during the second quarter and first six months of 2017 principally related to net foreign exchange gains and net change in unrealized gains on the indirect investment in AFGRI. The pre-tax losses in South Africa during the second quarter and first six months of 2017 primarily related to net foreign exchange losses on the AFGRI Facility.

A reconciliation of the provision for (recovery of) income taxes calculated at the Canadian statutory income tax rate to the provision of income taxes at the effective tax rate in the consolidated financial statements for the three and six months ended June 30, 2017 are summarized in the following table:

	Second quarter	First six months
Canadian statutory income tax rate	**26.5%**	**26.5%**
Provision for income taxes at the Canadian statutory income tax rate	**783**	**1,288**
Tax rate differential on income incurred outside of Canada	**(808)**	**(1,509)**
Change in unrecorded tax benefit of losses and temporary differences	**1,981**	**1,982**
Foreign exchange effect	**(2,773)**	**(1,221)**
Other including permanent differences	**5**	**5**
Provision for (recovery of) income taxes	**(812)**	**545**

The tax rate differential on income incurred outside of Canada of $808 and $1,509 in the second quarter and first six months of 2017, respectively, principally reflected the unrealized gain on investments of a foreign affiliate that is not subject to tax in Mauritius or Canada.

The change in unrecorded tax benefit of losses and temporary differences of $1,981 and $1,982 in the second quarter and first six months of 2017, respectively, principally reflected net operating loss carryforwards incurred by the company and foreign accrual property losses incurred by Mauritius Sub. The deferred tax assets related to these losses were not recorded by the company because the related pre-tax losses did not meet the applicable recognition criteria under IFRS.

Foreign exchange effect of $2,773 and $1,221 in the second quarter and first six months of 2017, respectively, principally reflected the impact of fluctuations in the value of the Canadian dollar relative to the U.S. dollar as the company computes its corporate tax liability in Canadian dollars pursuant to the requirements of Canadian tax authorities whereas the functional currency of the company and its subsidiaries are the U.S. dollars.

The company reviews the recoverability of the deferred income tax asset on an ongoing basis and adjusts, as necessary, to reflect its anticipated realization. Deferred income tax balances at June 30, 2017 were nil as the company has not recorded deferred tax assets related to commissions and expenses of the Offerings of $3,000 and net operating losses of $2,000.

10. Financial Risk Management

Overview

The company's activities expose it to certain financial risks during or at the end of the reporting period. These risks, and the company's management thereof, are described below.

Market Risk

Market risk (comprised of foreign currency risk, interest rate risk and other price risk) is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The company is exposed to market risk principally in its investing activities and to the extent that those activities expose the company to foreign currency risk. The valuation of the company's investment portfolio is largely dependent on the underlying performance of the companies within the portfolio, but may also be affected, along with other financial statement items, by fluctuations in interest rates, foreign currency exchange rates and market prices.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or another asset or liability will fluctuate because of changes in exchange rates and as a result, could produce an adverse effect on net earnings and equity when measured in U.S. dollar, the company's functional currency. At June 30, 2017, the majority of assets are denominated in the company's U.S. dollar that is the functional and presentation currency. As such, the company's equity and net earnings may not be significantly affected by foreign currency movement except for items denoted in the table below. The company has not hedged its foreign currency risk.

The company's total foreign currency exposure on balances denominated in currencies other than U.S. dollar are comprised as follows:

	June 30, 2017		
	Cash and cash equivalents	Investments	Total exposure
Canadian dollars	**274**	**—**	**274**
South African rand[(1)]	**365**	**104,151**	**104,516**
Mauritius rupees	**25**	**—**	**25**
Total	**664**	**104,151**	**104,815**

(1) The company is exposed to the South African rand through its indirect investment in AFGRI and the AFGRI Facility.

The approximate effect of a 5% depreciation of the U.S. dollar (with all other variables held constant) against the South African rand, the currency to which the company has significant exposure, would result in net earnings impact of $2,553. The hypothetical impact relates principally to the company's indirect investment in AFGRI and AFGRI Facility.

Interest Rate Risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate movements in African countries may affect the company's equity and net earnings. The Portfolio Advisor and Fairfax actively monitor interest rates in African countries and the potential impact changes in interest rates may have on the company's investment portfolio.

The table that follows displays the potential impact of changes in interest rates on the company's fixed income portfolio based on parallel 200 basis point shifts up and down, in 100 basis point increments. This analysis was performed on each individual security, with the hypothetical effect on net earnings calculated on an after-tax basis. The impact of the hypothetical change effect on net earnings relating to the AFGRI Facility has not been included in the below sensitivity analysis given its short duration to maturity.

	June 30, 2017		
	Fair value of fixed income portfolio	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**
Change in interest rates			
200 basis point rise	**49,809**	**(1,648)**	**(4.3)%**
100 basis point rise	**50,904**	**(843)**	**(2.2)%**
No change	**52,051**	**—**	**—**
100 basis point decline	**53,189**	**836**	**2.2 %**
200 basis point decline	**54,382**	**1,713**	**4.5 %**

Certain shortcomings are inherent in the method of analysis presented above. Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions, including the maintenance of the level and composition of fixed income securities at the indicated date, and should not be relied on as indicative of future results. Actual values may differ from the projections presented should market conditions vary from assumptions used in the calculation of the fair value of individual securities; such variations include non-parallel shifts in the term structure of interest rates and a change in individual issuer credit spreads.

South African Credit Rating Downgrade

On April 3, 2017, S&P lowered the foreign currency credit rating of government of South Africa bonds from BBB- to BB+ and assigned a negative outlook, citing fiscal policy risk following the dismissal of the country's finance minister. The foreign currency credit rating applies to U.S. dollar currency debt, which accounts for about 10% of the government South Africa's debt. The local currency credit rating applies to debt raised in South African rand through the domestic market. S&P retained an investment-grade rating for South Africa's local currency credit rating, but put this rating on a negative outlook. On April 7, 2017, FitchRatings downgraded South Africa's foreign and local currency credit ratings from BBB- to BB+, expressing concerns that the replacement of the country's finance minister and the deputy finance minister may result in a change in the direction of the country's economic policy and in a reversal of improvements in state-owned entity governance. On June 9, 2017, Moody's downgraded the long-term issuer and senior unsecured bond rating to Baa3.

Market Price Fluctuations

Market price fluctuation is the risk that the fair value or future cash flows of an equity investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market.

Refer to note 6 for the potential impact on net earnings of various combinations of changes in significant unobservable inputs in the company's internal valuation models for the company's indirect investment in AFGRI.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company and arises predominantly with respect to cash and cash equivalents, short term investments and investments in debt instruments. At June 30, 2017, the company's cash and cash equivalents, and short term investments are primarily held in major Canadian financial institutions and U.S. treasury bills.

At June 30, 2017 the company's aggregate gross credit risk exposure was comprised as follows:

	June 30, 2017
Cash and cash equivalents	**242,724**
Short term investments - U.S. treasury bills	**99,960**
Bonds - government of South Africa	**49,051**
Loans:	
AFGRI Facility	**22,929**
Nova Pioneer Facility	**4,000**
Interest receivable[(1)]	**638**
Total gross credit risk exposure	**419,302**

(1) The company is exposed to credit risk on interest receivable from government of South Africa bonds.

The company's short term investments in U.S. treasury bills are rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AA+ by Standard & Poor's Financial Services LLC ("S&P"). The company's investment in government of South Africa bonds are rated Baa3 by Moody's and BB+ by S&P. The company's investments in the AFGRI Facility and the Nova Pioneer Facility are not rated.

Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The company manages liquidity risk by maintaining sufficient cash and cash equivalents to enable settlement of financial commitments on their respective due dates. All accounts payable and accrued liabilities are due within three months, and income taxes payable must be remitted to the respective tax jurisdictions within six months.

The company believes that cash and cash equivalents at June 30, 2017 provides adequate liquidity to meet the company's remaining known significant commitments in 2017, which are principally comprised of investment and advisory fees, an additional investment in Nova Pioneer (see note 5), Atlas Mara Convertible Bond and Atlas Mara Equity Offering investments (see note 5), corporate income taxes and general and administration expenses. The company expects to continue to receive investment income on its holdings of fixed income securities to supplement its cash and cash equivalents. Accordingly, the company has adequate working capital to support its operations. The company is actively seeking investment opportunities in Africa and will continue to re-direct capital from its fixed income portfolio into African Investments as and when those opportunities are identified.

Concentration Risk

The company's cash and investments will be primarily concentrated in Africa and in African businesses or businesses with customers, suppliers or business primarily conducted in, or dependent on, Africa. The market value of the company's investments, the income generated by the company and the company's performance will be particularly sensitive to changes in the economic condition, interest rates, and regulatory environment of African countries in which company has investments. Adverse changes to the economic condition, interest rates or regulatory environment in those African countries may have a material adverse effect on the company's business, cash flows, financial condition and net earnings.

The company's cash and investments composition by the issuer's region of domicile was as follows:

	June 30, 2017		
	Africa	North America	Total
Cash and cash equivalents	**2,038**	**240,686**	**242,724**
Short term investments - U.S. treasury bills	**—**	**99,960**	**99,960**
Bonds - government of South Africa	**49,051**	**—**	**49,051**
Loans:			
AFGRI Facility	**22,929**	**—**	**22,929**
Nova Pioneer Facility	**3,000**	**—**	**3,000**
Common stock - indirect investment in AFGRI	**81,222**	**—**	**81,222**
Total cash and investments	**158,240**	**340,646**	**498,886**

The company will not make an African Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20% of the company's total assets at the time of the investment; provided, however, that the company is permitted to complete up to two African Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25% of the company's total assets (the "Investment Concentration Restriction").

African Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders.

Capital Management

The company’s objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for common shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital at June 30, 2017, comprised of common shareholders’ equity, was $497,974 compared to a deficit of $74 at December 31, 2016. The significant increase in total capital principally reflected the impact of proceeds from the Offerings (as discussed in note 7) and net earnings for the the six months ended June 30, 2017.

11. Related Party Transactions

Payable to Related Parties

The company's payable to related parties was comprised as follows:

	June 30, 2017
Investment and advisory fees	**800**
Other	**24**
	824

At December 31, 2016, the payable to related party of $860 related to Offering expenses that were paid by Fairfax on behalf of the company. Subsequent to closing of the Offerings on February 17, 2017 the amount was paid to Fairfax in cash.

Investment Advisory Agreement

The company and its subsidiaries have entered into an agreement with Fairfax and the Portfolio Advisor to provide administration and investment advisory services to the company (the “Investment Advisory Agreement”). As compensation for the provision of these services, the company pays an investment and advisory fee, and if applicable, a performance fee. Such fees are determined with reference to the company's common shareholders' equity.

Investment and Advisory Fee

The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. For the first six months of 2017 the company determined that the majority of its assets were invested in permitted investments, considered to be undeployed capital. The investment and advisory fee for the three and six months ended June 30, 2017 recorded in the consolidated statements of comprehensive income was $800 and $1,180, respectively.

Performance Fee

The performance fee is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20% of any increase in common shareholders' equity per share (including distributions) above a 5% per annum increase. The amount of common shareholders' equity per share at any time which must be achieved before any performance fee would be payable is sometimes referred to as the "hurdle per share". The company determined that the performance fee was not applicable for the three and six months ended June 30, 2017.

Management Compensation

Pursuant to the Investment Advisory Agreement, Fairfax is required to provide a Chief Executive Officer, a Chief Financial Officer and a Corporate Secretary to the company. For so long as the Investment Advisory Agreement remains in effect, all compensation payable to the Chief Executive Officer, the Chief Financial Officer and Corporate Secretary of the company will be borne by Fairfax.

Other

On June 21, 2017 Fairfax Africa, through a wholly owned subsidiary, entered into a secured lending arrangement with AFGRI, pursuant to which Fairfax Africa provided approximately $23,255 (300 million South African rand). AFGRI sought out the financing ahead of an expected future equity capital raise by AFGRI for growth initiatives (see note 5).

12. Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns, that are different from those of segments operating in other economic environments.

The company has concluded that Fairfax Africa is engaged in a single geographic and business segment, that of investing in Africa and African investments.

13. General and Administration Expenses

General and administration expenses for the three and six months ended June 30, 2017 was comprised as follows:

	Second quarter	First six months
Audit, legal and tax professional fees	**229**	**381**
Administrative expenses	**141**	**203**
Other	**17**	**17**
	387	**601**

Index to Management's Discussion and Analysis of Financial Condition and Results of Operations

Notes to Management's Discussion and Analysis of Financial Condition and Results of Operations

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the notes to the interim consolidated financial statements for the three and six months ended June 30, 2017 and the company's audited financial statements and accompanying notes for the year ended December 31, 2016, which were incorporated in the company's IPO prospectus filed on SEDAR on February 8, 2017.

(2) The MD&A contains references to book value per share. On any date, book value per share is calculated as common shareholders' equity divided by the total number of common shares of the company outstanding on that date. Book value per share is a key performance measure of the company and is closely monitored as it is used to calculate the performance fee payable, if any, to Fairfax Financial Holdings Limited ("Fairfax"). The performance fee is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20% of any increase in common shareholders' equity per share (including distributions) above a 5% per annum increase.

(3) Unless otherwise noted, consolidated financial information of the company within this MD&A is derived from the consolidated financial statements of the company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and is presented in U.S. dollars which is also the functional currency of the company and its consolidated subsidiaries.

Business Developments

Fairfax had taken the initiative in creating the company and is Fairfax Africa's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. Fairfax is a Canadian reporting issuer with securities listed on the Toronto Stock Exchange ("TSX") under the symbol FFH (Canadian dollars) FFH.U (U.S. dollars).

Hamblin Watsa Investment Counsel Ltd. (the "Portfolio Advisor"), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its subsidiaries, responsible to source and advise with respect to all investments.

On February 17, 2017 the company completed its IPO of 5,622,000 subordinate voting shares at a price of $10.00 per share for gross proceeds of $56,220 and issued 22,715,394 multiple voting shares to Fairfax and its affiliates on a private placement basis, for gross proceeds of $227,154. The company's subordinate voting shares began trading on the TSX under the symbol "FAH.U" on February 17, 2017. Concurrent with these transactions, certain Cornerstone Investors purchased 14,378,000 subordinate voting shares, on a private placement basis, for gross proceeds of $143,780. Concurrent with the closing of the IPO and private placements, the company completed the acquisition of 42.2% indirect interest in AFGRI Holdings Proprietary Limited ("AFGRI") in exchange for 7,284,606 multiple voting shares issued to certain affiliates of Fairfax and 212,189 subordinate voting shares issued to certain other Joseph Holdings shareholders for $74,968 (the "AFGRI Transaction"). The combined gross proceeds of the IPO, private placements and AFGRI Transaction were approximately $502,122.

On March 2, 2017 a syndicate of underwriters exercised the over-allotment option and the company issued an additional 408,000 subordinate voting shares at a price of $10.00 per share for total gross proceeds of approximately $4,080. The exercise of the over-allotment option increased the combined total gross proceeds from the IPO, private placements and AFGRI Transaction (collectively "the Offerings") to approximately $506,202 (net proceeds of $493,326 after issuance costs and expenses).

Full descriptions of the African Investments for the three and six months ended June 30, 2017 are provided in the African Investments section of this MD&A.

South African Credit Rating Downgrade

On April 3, 2017, S&P lowered the foreign currency credit rating of government of South Africa bonds from BBB- to BB+ and assigned a negative outlook, citing fiscal policy risk following the dismissal of the country's finance minister. The foreign currency credit rating applies to U.S. dollar currency debt, which accounts for about 10% of the government South Africa's debt. The local currency credit rating applies to debt raised in South African rand through the domestic market. S&P retained an investment-grade rating for South Africa's local currency credit rating, but put this rating on a negative outlook. On April 7, 2017, FitchRatings downgraded South Africa's foreign and local currency credit ratings from BBB- to BB+, expressing concerns that the replacement of the country's finance minister and the deputy finance minister may result in a change in the direction of the country's economic policy and in a reversal of improvements in state-owned entity governance. On June 9, 2017, Moody's downgraded the long-term issuer and senior unsecured bond rating to Baa3.

Business Objectives

Investment Objective

Fairfax Africa is an investment holding company. Its investment objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equities and debt instruments in Africa and African businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, Africa (‘‘African Investments’’).

Investment Strategy

The company invests in businesses that are expected to benefit from Africa’s pro-business political environment, its growing middle class and its demographic trends that are expected to underpin strong growth for several years. Sectors of the African economy that the company believes will benefit most from such trends include infrastructure, financial institutions, consumer services, retail and exports. The company is not limited to investing solely in these sectors and intends to invest in other sectors as and when opportunities arise.

The company utilizes, and expects to benefit significantly, from the experience and expertise of Fairfax and the Portfolio Advisor.

The company employs a conservative, fundamental value-based approach to identifying and investing in high quality public and private African businesses. This approach is designed to compound book value per share over the long term. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital.

Investment Restrictions

The company will not make an African Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20% of the company’s total assets at the time of the investment; provided, however, that the company is permitted to complete up to two African Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25% of the company’s total assets (the “Investment Concentration Restriction”). African Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders.

The company intends to make multiple different investments as part of its prudent investment strategy in a manner that complies with Investment Concentration Restriction. At June 30, 2017 the company determined that it was in compliance with these investment restrictions.

African Investments

Cautionary Statement Regarding Financial Information of African Investments

Fairfax Africa has agreed to voluntarily provide within its MD&A, unaudited summarized financial information prepared in accordance with IFRS for all of its African Investments for which a business acquisition report in accordance with section 8.2 of *National Instrument 51-102 Continuous Disclosure Obligations ("NI 51-102"*) is required to be filed.

Fairfax Africa is limited in respect to the amount of independent verification it is able to perform with respect to its African Investments financial statements. The unaudited summarized financial information contained in this MD&A was prepared exclusively for Fairfax Africa. Such financial information is the responsibility of the respective managements and has been prepared by them using recognition, measurement and presentation principles consistent with IFRS, and provided to the company.

At June 30, 2017, AFGRI is the only African Investment requiring inclusion of unaudited summarized financial information in this MD&A. The unaudited summarized financial information for AFGRI included in this MD&A is the latest information available to Fairfax Africa's management and should be read in conjunction with Fairfax Africa’s historical interim and annual consolidated financial statements (which were incorporated in the company's IPO prospectus filed on SEDAR on February 8, 2017) including the notes thereto and the related MD&A as well as Fairfax Africa’s other public filings, including the company IPO prospectus filed on February 8, 2017. Fairfax Africa has no knowledge that would indicate that AFGRI's unaudited summarized financial information contained herein requires material modifications. However, readers are cautioned that the AFGRI unaudited summarized financial information contained in the MD&A may not be appropriate for their purposes.

Cautionary Statement Regarding the Valuation of Private African Investments

In the absence of an active market for its Private African Investments, fair values of these investments are determined by management using industry acceptable valuation methodologies after considering the history and nature of the business, operating results and financial conditions, outlook and prospects, general economic, industry and market conditions, contractual rights relating to the investment, public market comparables (if available) and, where applicable, other pertinent considerations. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed. The amounts at which the company's private African Investments could be disposed of may differ from the fair values assigned and those differences may be material.

The table below provides a summary of the company's African Investments completed at June 30, 2017:

	Date Acquired	Ownership %	Initial transaction price	Fair value at June 30, 2017	Net change
Indirect Investment in AFGRI [(1)]	February 17, 2017	42.2%	74,968	81,222	6,254
AFGRI Facility	June 21, 2017	—	23,255	22,929	(326)
Nova Pioneer Facility [(2)]	June 8, 2017	—	3,000	3,000	—
Total African Investments completed at June 30, 2017 [(3)]			101,223	107,151	5,928

(1) Through the ownership in Joseph Holdings, the company is the largest beneficial shareholder of AFGRI with 42.2% indirect equity interest and controls 60% of AFGRI's voting shares.

(2) On June 30, 2017 Fairfax Africa announced that it had agreed to invest $20,000 in Nova Pioneer Eduction Group (see details under Nova Pioneer Eduction Group section in this MD&A).

(3) On June 21, 2017 the company entered into a placing agreement to invest a minimum of $130,000 in Atlas Mara Limited (see details under Atlas Mara Limited section in this MD&A).

AFGRI Holdings Proprietary Limited

Business Overview

A private company based in South Africa, AFGRI is a leading agricultural services and food processing company with a core focus on grain commodities. It provides services across the entire grain production and storage cycle, offering financial support and solutions as well as inputs and hi-tech equipment through the John Deere brand supported by a large retail footprint. AFGRI is involved in the manufacture of animal feeds, the processing of yellow maize and wheat and the extraction of oil and other raw materials into edible oils, fats and proteins for human consumption (primarily for the food processing and quick-service restaurant industries).

AFGRI manages critical components of the food value chain to enable food production and agricultural sector growth in Africa. It is a market leader in grain management solutions, with leading market share in South Africa, and is one of Africa's largest grain storage companies with 69 silos and 15 bunkers across South Africa, which have more than 5 million tonnes of storage capacity. AFGRI is also one of South Africa's largest non-bank lenders to the agricultural sector with an average loan book value for fiscal year 2017 of approximately ZAR 13 billion (approximately $1 billion) and is one of the largest John Deere distributors outside of the United States, with a presence in several markets in Africa and Western Australia.

AFGRI's long-term growth strategy is based on a vision to drive food security across Africa. AFGRI currently has operational activities aimed at supporting agriculture in Zambia, Zimbabwe, Mozambique, Nigeria, Ghana, Congo-Brazzaville, Botswana and Uganda and has plans to expand into additional African countries. AFGRI also has a John Deere operation in Australia, an animal feeds research and development venture in the United Kingdom and an investment in animal feeds in the United States of America. Additionally, AFGRI provides collateral management solutions, such as monitoring status, quality and quantity of collateral of various parties, in 13 African countries on behalf of banks, insurers and customers. One of AFGRI's current strategic initiatives is growing its existing financial services business, which is currently centered on providing credit, trade and commodity finance, insurance, payments and related products and services to the agricultural sector.

Additional information can also be accessed from AFGRI's website www.afgri.co.za.

Transaction Description

On February 17, 2017, the company purchased from AgriGroupe LP the beneficial ownership interests held by Fairfax in Joseph Holdings, comprised of 156,055,775 ordinary shares and 49,942,549 class A shares for $25.1 million and $49.9 million respectively in exchange for 7,284,606 multiple voting shares at $10.00 per multiple voting share. The company also purchased additional ownership interests in Joseph Holdings from certain limited partners of AgriGroupe LP in exchange for 212,189 subordinate voting shares at $9.50 per subordinate voting share (being $10.00 less a private placement fee of $0.50 per subordinate voting share). Subsequent to these transactions, the company had a 70.3% equity interest and 73.3% interest in the class A shares of Joseph Holdings through which it is the largest beneficial shareholder of AFGRI with a 42.2% indirect equity interest. Through its ownership of Joseph Holdings, Fairfax Africa controls 60% of the voting shares of AFGRI.

On June 21, 2017, Fairfax Africa, through a wholly owned subsidiary, entered into a secured lending arrangement with AFGRI, pursuant to which Fairfax Africa provided approximately $23,255 (300 million South African rand) (the "AFGRI Facility"). AFGRI sought out the financing ahead of an expected future equity capital raise by AFGRI for growth initiatives. The AFGRI Facility matures on December 24, 2017 with an option for AFGRI to repay in shares, subject to certain conditions. The AFGRI Facility bears interest at a rate of South African Prime plus 2% per annum. Fairfax Africa is entitled to receive a fee equal to 2% of the loan proceeds. This fee will be paid on maturity or on repayment of the AFGRI Facility. The company earns interest on the fee at the same rate as the AFGRI Facility. Fairfax Africa anticipates that it will participate in the equity capital raise proportionate to its ownership, and that the proceeds of the equity capital raise would be used to repay the AFGRI Facility. The AFGRI Facility is not rated.

At June 30, 2017, through Joseph Holdings, the company had appointed five of the ten members of AFGRI's board of directors.

Key Business Drivers, Events, and Risks

Drought conditions in Southern Africa have eased in recent months, with rainfall substantially above historical averages in many countries in which AFGRI operates. As a result, AFGRI's management expects trading conditions to improve to normalized levels during the 2018 financial year. According to the South Africa Crop Estimates Committee, South Africa's national maize forecast is 15.6 million tonnes for calendar year 2017, more than doubling from 2016's total, and representing one of South Africa's most productive grain outputs since 1981. AFGRI is already seeing the benefit of this turnaround in increased receipts in its grain silos and an uptick in equipment sales. The exceptional harvest is expected to positively impact AFGRI's profitability not only in grain management, but also in the mechanization businesses in fiscal year 2018, as farmers use their higher income to catch up on equipment purchases delayed during the prior two-year drought.

AFGRI undertook during the fiscal year 2017 a corporate restructuring to create a holding company structure with independent invested companies, primarily comprising Agricultural Services (grain management, equipment, agricultural finance and insurance, retail and farmer development), Philafrica Foods (Nedan, Animal Feeds, and Milling), Investment Services, and non-South African Operations. The primary purpose of the restructuring is to create portfolios of similar businesses that are well-positioned to capture opportunities in the market and lead the next phase of AFGRI's growth, align management incentives and to better facilitate capital deployment at each company as required. This restructuring is expected to be completed before the end of the year.

AFGRI recruited and hired during the financial year a seasoned international food company executive as Chief Executive Officer of Philafrica Foods to lead the turnaround of AFGRI's existing Foods platform and to focus on growth opportunities that leverage AFGRI's core competencies in grain management and agri-processing. Philafrica's new management team has achieved a variety of technical and efficiency improvements, and made new complimentary investments in rendering and pet foods. Further investments are anticipated reflecting the growth potential of this segment.

As part of a strategy to expand its financial services businesses, AFGRI announced in early 2017 that it had agreed to acquire National Bank of Greece Group's ("NBG's") 99.8% stake in the South African Bank of Athens ("SABA"). The sale by NGB, Greece's second largest bank by total assets, was part of the bank's restructuring plan agreed with banking regulators to boost its capital position. Established in 1947, SABA provides banking services to medium-sized local businesses. It offers comprehensive traditional business banking such as lending, transaction banking, treasury and foreign exchange. The acquisition of SABA provides AFGRI with a retail and alliance banking platform for current and prospective AFGRI customers that allows AFGRI to continue with its focus of innovation and an enabler to food security. The acquisition is expected to close by the end of 2017, subject to various conditions including regulatory approvals from each of the South African Reserve Bank, Ministry of Finance, and Competition Commission.

On June 9, 2017, South Africa was downgraded by Moody's to Baa3 with a negative watch. South Africa's economy contracted by 0.7% in Q1, 2017 and sits in a technical recession.

Valuation and Interim Consolidated Financial Statement Impact

Indirect investment in AFGRI

At June 30, 2017, the company estimated the fair value of its indirect investment in AFGRI using a discounted cash flow analysis of multi-year, free cash flow projections of AFGRI's business units with assumed after-tax discount rates ranging from 11.6% to 18.4% and a long term growth rate of 3.0%. Free cash flow projections were based on EBITDA projections derived from financial information for AFGRI's business units prepared in the second quarter of 2017 by AFGRI's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which AFGRI operates. At June 30, 2017, the company's internal valuation model indicated that the fair value of its indirect investment in AFGRI is $81,222. The change in the fair value of the company's indirect investment in AFGRI resulted in a net change in unrealized gain on investments of $1,899 on both the three and six months ended June 30, 2017, and a net foreign exchange gains of $1,765 and $4,355, for the three and six months ended June 30, 2017. Each of these amounts was recorded in the consolidated statements of comprehensive income.

AFGRI Facility

At June 30, 2017, based on the market interest rate and on the creditworthiness of AFGRI, the company determined that the transaction price in South African rand is the most relevant representation of fair value. For the three and six months ended June 30, 2017 the company recorded a net foreign exchange loss of $326 and interest income of $42 in the consolidated statements of comprehensive income.

AFGRI's Summarized Financial Information

The company's fiscal year ends on December 31 and AFGRI's fiscal year ends on March 31. Summarized below are AFGRI's balance sheets at March 31, 2017 and March 31, 2016.

Balance Sheets
unaudited - US$ thousands

	March 31, 2017	March 31, 2016
Current assets	**400,236**	351,238
Non-current assets	**334,342**	297,568
Current liabilities	**339,121**	388,827
Non-current liabilities	**253,071**	220,688
Shareholders' equity	**142,386**	39,291

Current assets increased at March 31, 2017 from March 31, 2016 (excluding the impact of acquisitions of $27 million) primarily driven by a buildup of stock at Grain Management in Zambia of approximately $22 million. The Zambia borders remained closed to exports in an effort by Zambia's government to secure national food stock levels.

Non-current assets increased at March 31, 2017 from March 31, 2016 (excluding the impact of acquisitions of $8 million) primarily related to capital expenditures incurred on property, plant and equipment for approximately $17 million and loans granted to joint ventures and associates for approximately $6 million. Some of the notable capital expenditures included approximately $4 million incurred in Animal Feeds at the Dryden plant and approximately $3 million incurred by Grain Management to increase storage capacity in Uganda.

Current liabilities decreased at March 31, 2017 from March 31, 2016 primarily related to the conversion of shareholders' loans on April 6, 2016 (as described below) partially offset by increase due to purchase of John Deer equipment on a floor plan basis.

Non-current liabilities increased at March 31, 2017 from March 31, 2016 primarily related to long-term borrowings from Land Bank for the Afgrico acquisition and additional loans to expand production capacity at Animal Feeds at the Dryden plant.

Shareholders' equity increased at March 31, 2017 from March 31, 2016 primarily related to conversion of shareholders' loans into Ordinary Shares on April 6, 2016. The capital portions of the shareholders loans were converted into Ordinary A Shares, a new class of Ordinary Share, which were issued at a face value equal to $106,000. These loans were included under current liabilities in the previous financial year.

Summarized below are AFGRI's statements of earnings for the year-ends ended March 31, 2017 and 2016.

Statements of Earnings
unaudited - US$ thousands

	Year ended March 31, 2017	Year ended March 31, 2016
Revenue	**801,076**	741,656
Earnings (loss) before taxes	**(7,683)**	1,821
Net loss	**(9,440)**	(2,980)

AFGRI's earnings before taxes decreased for the year ended March 31, 2017 compared to earnings before taxes in the year ended March 31, 2016 principally as a result of severe drought conditions in southern Africa, the depreciation of the South African rand and high volatility of agricultural commodity prices, along with operational under performance in Philafrica Foods business. The drought, one of the worst on record for the region, also impacted AFGRI's John Deere equipment and retail businesses as farmers deferred purchases.

Nova Pioneer Education Group

Business Overview

Nova Pioneer Education Group ("Nova Pioneer") is a Pan-African independent school network offering preschool through secondary education for students from ages 3 through 19. Nova Pioneer was started in 2014, and launched its first campus in 2015 in South Africa, and now operates 5 campuses with a combined approximately 1,300 students: approximately 390 in Kenya across 2 campuses (through Nova Academies) and approximately 900 in South Africa across 3 campuses (through Pioneer Academies). Average tuition is approximately $3,000 (whole U.S. dollars) per year and is priced to target middle to upper-middle income families.

Additional information can also be accessed from Nova Pioneer's website: http://novapioneer.com.

Transaction Description

On June 8, 2017, Fairfax Africa, through a wholly owned subsidiary, entered into a secured lending arrangement with Ascendant Learning Limited ("Ascendant"), the Mauritius based parent entity of Nova Pioneer ("Nova Pioneer"), pursuant to which Ascendant is permitted to borrow up to $4,000 ("Nova Pioneer Facility"). The Nova Pioneer Facility matures on June 8, 2018 with initial interest at a rate of 5% per annum, which increased to 18% per annum on June 30, 2017. The Nova Pioneer Facility is secured against certain assets of Ascendant and its subsidiaries. The Nova Pioneer Facility is not rated.

On June 30, 2017, Fairfax Africa announced that it had agreed to invest $20,000 in Nova Pioneer (the "Nova Pioneer Investment"). The Nova Pioneer Investment will consist of $20,000 of secured debentures (maturity date of December 31, 2024) (the "Nova Debentures") and 2,000,000 warrants (the "Nova Warrants").

The Nova Debentures will bear interest at a rate of 20% per annum and will be redeemable by Ascendant at par at any time after June 30, 2021, except in the event of the satisfaction of certain conditions after a change of control or value realization event. Each Nova Warrant will be exercisable to acquire one ordinary share of Ascendant (an "Ascendant Share"). Assuming the exercise of all of the Nova Warrants, Fairfax Africa will beneficially own 2,000,000 of the issued and outstanding Ascendant Shares, representing approximately 9.2% of all issued and outstanding Ascendant Shares at June 30, 2017. Except in certain circumstances relating to a change of control or value realization event, the Nova Warrants may only be exercised after June 30, 2021. The Nova Pioneer Investment is expected to close in the third quarter of 2017, and the Nova Pioneer Facility will be repaid in full upon the closing of the Nova Pioneer Investment.

The proceeds of the Nova Pioneer Investment will be used to support Nova Pioneer's growth initiatives, as well as for working capital requirements and for general corporate purposes.

Key Business Drivers, Events, and Risks

The middle class has rapidly expanded across key regions in Africa. As a result, the demand for affordable, quality private education has grown in excess of available supply. Nova Pioneer is well-positioned to become a leading brand in the African education sector. Nova Pioneer's Management is targeting a rollout of 20+ new campuses across East, South, and West Africa over the next 5 years. The enrollment is expected to increase by approximately 11,000 students, with an enrollment capacity of approximately 25,000 students. Each African market will be approached with a specific entry plan tailored to local market, target community, and related political framework.

Companies in Africa must consider the local market conditions for success before transplanting an existing model that has worked elsewhere within the continent. Given this, the Nova Pioneer team intends to secure the right local partnerships before entering a market.

Nova Pioneer is committed to putting excellence above short term growth. Rigorous leadership and teacher training takes precedence over filling schools. Nova Pioneer schools typically enroll one grade at a time in order to infuse the right culture in the organization.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2017, Ascendant borrowed $3,000 under the Nova Pioneer Facility. At June 30, 2017, based on the market interest rate and the creditworthiness of Ascendant, the company determined that the U.S. dollar transaction price is the most relevant representation of fair value.

For the three and six months ended June 30, 2017, the company recorded an interest income of $10 in the consolidated statements of comprehensive income.

Atlas Mara Limited

Business Overview

Atlas Mara is a Sub-Saharan African financial services group founded in 2013 and it is listed on the London Stock Exchange under the symbol ATMA. Atlas Mara's vision is to establish itself as a premier financial institution across key markets in Sub-Saharan Africa by way of five acquisition transactions. Since its inception, Atlas Mara has acquired control or a significant stake in banking operations spread across seven key Sub-Saharan African countries: Botswana, Mozambique, Nigeria, Rwanda, Tanzania, Zambia and Zimbabwe.

Additional information can also be accessed from Atlas Mara’s website: http://atlasmara.com.

Transaction Description

On June 21, 2017 the company entered into a placing agreement to invest a minimum of $130,000 in Atlas Mara Limited ("Atlas Mara"). This investment will be comprised of: (i) a $100 million equity offering of new ordinary shares of Atlas Mara at a price of $2.25 per share (the "Issue Price") to Fairfax Africa and existing Atlas Mara shareholders (the "Atlas Mara Equity Offering"), and (ii) a $100 million mandatory convertible bond ("Atlas Mara Convertible Bond") issued to Fairfax Africa, which will convert into new ordinary shares at the Issue Price upon closing of the Atlas Mara Equity Offering. Fairfax Africa will serve as the committed underwriter of the Atlas Mara Equity Offering, with the right to secure a minimum of 30% of the offering and the obligation for Fairfax Africa or its affiliates to acquire any shares not taken up by qualifying Atlas Mara shareholders. The closing of the Atlas Mara Convertible Bond and Atlas Mara Equity Offering are subject to shareholder approval. In addition, the Atlas Mara Equity Offering is subject to regulatory approval.

To the extent that the company’s total commitment to Atlas Mara would be greater than the company’s Investment Concentration Restriction (as defined in the Concentration Risk section in note 10), the company’s intention is that it would transfer its obligation to invest in such excess portion to Fairfax (or one of its affiliates).

On July 17, 2017, upon approval of the Atlas Mara shareholders, the company through a wholly-owned subsidiary completed its initial investment in Atlas Mara by way of the Atlas Mara Convertible Bond. The Atlas Mara Convertible Bond matures on July 17, 2018 with initial interest at a rate of 5% per annum increasing to 10% per annum on August 31, 2017. The company expects the Atlas Mara Equity Offering to close in the third quarter of 2017, and upon closing of the Atlas Mara Equity Offering, the company will receive a placing fee in the amount of $2.8 million.

Results of Operations

Fairfax Africa's consolidated statement of comprehensive income for the three and six months ended June 30, 2017 is shown in the following table:

	Second quarter	First six months
Income		
Interest income	962	1,189
Net change in unrealized gains on investments	2,009	1,675
Net foreign exchange gains	1,168	3,776
	4,139	6,640
Expenses		
Investment and advisory fees	800	1,180
General and administration expenses	387	601
	1,187	1,781
Earnings before income taxes	2,952	4,859
Provision for (recovery of) income taxes	(812)	545
Net earnings and comprehensive income	3,764	4,314
Net earnings per share (basic and diluted)	$ 0.07	$ 0.12

Total Income of $4,139 and $6,640 in the second quarter and first six months of 2017 related principally to net foreign exchange gains of $1,765 and $4,355 for the second quarter and first six months of 2017, respectively and net change in unrealized gains on investments of $1,899 for the second quarter and first six months of 2017 relating to its indirect investment in AFGRI, partially offset by a net foreign exchange loss on the AFGRI Facility and government of South Africa bonds. In addition, the total income increased as a result of interest income on cash and cash equivalent and on government of South Africa bonds.

The investment and advisory fees relate to fees for administration and investment advisory services provided by Fairfax and the Portfolio Advisor. The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. For the second quarter and first six months of 2017, the company determined that the majority of its assets were invested in permitted investments, considered to be undeployed capital.

The recovery of income taxes of $812 in the second quarter of 2017 and the provision for income taxes of $545 in the first six months of 2017 differed from the provision for income taxes that would be determined by applying the company’s Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily due to foreign exchange fluctuations, unrecorded benefit of Canadian deferred tax assets, and income earned outside the local jurisdiction.

The company reported net earnings of $3,764 (net earnings of $0.07 per basic and diluted share) and $4,314 (net earnings $0.12 per basic and diluted share) in the second quarter and first six months of 2017 respectively primarily related to net foreign exchange gains, net change in unrealized gains on investments and interest income, partially offset by investment and advisory fees.

Consolidated Balance Sheet Summary

Total Assets

Total assets at June 30, 2017 of $499,824 were principally comprised of total cash and investments as follows:

	June 30, 2017		
	Africa	North America	Total
Cash and cash equivalents	2,038	240,686 (1)	242,724
Short term investments - U.S. treasury bills	—	99,960 (2)	99,960
Bonds - government of South Africa	49,051	—	49,051
Loans:			
AFGRI Facility	22,929	—	22,929
Nova Pioneer Facility	3,000	—	3,000
Common stock - indirect investment in AFGRI	81,222	—	81,222
Total cash and investments	158,240	340,646	498,886

(1) Includes U.S. treasury bills of $209,902 with maturity dates of less than three months as at investment date.

(2) Short term U.S. treasury bills have a maturity date of July 20, 2017.

Cash and cash equivalents and short term investments - U.S. treasury bills of $342,684 at June 30, 2017 primarily reflected the net proceeds received from the Offerings completed in the first quarter of 2017 that had not yet been invested into African Investments.

Bonds of $49,051 at June 30, 2017 primarily reflected the investment in U.S. dollar denominated government of South Africa bonds.

Loans of $25,929 at June 30, 2017 primarily related to AFGRI Facility of $22,929 and Nova Pioneer Facility of $3,000.

Common stock of $81,222 at June 30, 2017 reflected the acquisition of a 42.2% indirect interest in AFGRI (through the acquisition of Joseph Holdings ordinary and class A shares as described in the Business Developments of this MD&A) in exchange for 7,284,606 multiple voting shares issued to certain affiliates of Fairfax and 212,189 subordinate voting shares issued to certain other Joseph Holdings shareholders for $74,978. The increase primarily reflected the net foreign exchange gain of $4,355 and the net change in unrealized gains on the indirect investment in AFGRI of $1,899.

Total Liabilities

Total liabilities at June 30, 2017 of $1,850 were comprised as follows:

Accounts payable and accrued liabilities of $889 at June 30, 2017 primarily related to unpaid IPO cost.

Payable to related parties of $824 primarily reflected the investment and advisory fees accrued for the second quarter of 2017.

Income tax payable of $137 reflected the income tax liability for the company's South African subsidiary.

Financial Condition

The primary goals of the company's financial risk management program are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheets from events that have the potential to materially impair its financial strength. There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at June 30, 2017 compared to those identified and disclosed in the company's annual information form filed on March 31, 2017, other than as outlined in note 10 (Financial Risk Management) to the interim consolidated financial statements for the three and six months ended June 30, 2017.

Capital Resources and Management

The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for common shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital at June 30, 2017, comprised of common shareholders' equity was $497,974 compared to a deficit of $74 at December 31, 2016. The significant increase in total capital in the second quarter of 2017, primarily reflected the impact of the net proceeds of Offerings and net earnings for the the six months ended June 30, 2017.

The company will use its capital resources to acquire African Investments pending such investments, the company will invest exclusively in permitted investments, and the remainder will be used for general corporate and working capital purposes.

Book Value per Share

Common shareholders' equity and the book value per share at June 30, 2017 was as follows:

	June 30, 2017
Common shareholders' equity	**497,974**
Number of common shares outstanding	**50,620,189**
Book value per share	**$9.84**

Liquidity

The company believes that cash and cash equivalents at June 30, 2017 provides adequate liquidity to meet the company's remaining known significant commitments in 2017, which are principally comprised of investment and advisory fees, an additional investment in Nova Pioneer (see note 5), Atlas Mara Convertible Bond and Atlas Mara Equity Offering investments (see note 5), corporate income taxes and general and administration expenses. The company expects to continue to receive investment income on its holdings of fixed income securities to supplement its cash and cash equivalents. The company has adequate working capital to support its operations.

Highlights in the first six months of 2017 of major components of cash flow are presented in the following table:

	First six months
Operating activities	
Cash used in operating activities before the undernoted	**(959)**
Net purchases of short term investments classified as FVTPL	**(99,770)**
Purchases of bonds and issuance of loans classified as FVTPL	**(75,529)**
Financing activities	
Issuance of subordinate voting shares, net of issuance costs	**191,828**
Issuance of multiple voting shares	**227,154**
Increase in cash and cash equivalents during the period	**242,724**

Cash provided by operating activities before the undernoted is comprised of net earnings adjusted for items not affecting cash and cash equivalents and changes in operating assets and liabilities. Cash used by operating activities before the undernoted of $959 in the first six months principally reflecting Offering expenses partially offset by interest income received on cash and cash equivalents.

Net purchases of short term investments classified as FVTPL of $99,770 in the first six months of 2017 primarily related to net purchases of U.S. treasury bills.

Purchases of bonds and issuance of loans classified as FVTPL of $75,529 in the first six months of 2017 primarily related to purchases of South African government bonds, the AFGRI Facility and the Nova Pioneer Facility.

Issuance of subordinate voting shares, net of issuance costs of $191,828 and issuance of multiple voting shares of $227,154 in the first six months reflected net proceeds received from the Offerings. Issuance costs were primarily comprised of fees paid to underwriters of the subordinate voting shares. At June 30, 2017 unpaid expenses relating to the Offerings were recorded in accounts payable and accrued liabilities on the consolidated balance sheets. Refer to note 7 (Total Equity) to the interim consolidated financial statements for the three and six months ended June 30, 2017 for details.

Contractual Obligations

Under the terms of the Investment Advisory Agreement, the company and its subsidiaries are contractually obligated to pay Fairfax investment an advisory fee and, if applicable, a performance fee. These fees will vary based on the book value per share of the company.

In the three and six months ended June 30, 2017 the investment and advisory fee recorded in the consolidated statement of comprehensive income were $800 and $1,180, respectively.

The performance fee is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20% of any increase in common shareholders' equity per share (including distributions) above a 5% per annum increase. The amount of common shareholders' equity at any time which must be achieved before any performance fee would be payable is sometimes referred to as the "hurdle per share". The company determined that the performance fee was not applicable for the quarter ended ended June 30, 2017.

At June 30, 2017 under the terms of Nova Pioneer Facility, Nova Pioneer Investment, Atlas Mara Convertible Bond, and Atlas Mara Equity Offering, the company and its subsidiaries have certain contractual obligations (see the details provided in the African Investments section of this MD&A).

Related Party Transactions

The company's related party transactions are disclosed in note 11 (Related Party Transactions) to the interim consolidated financial statements for the three and six months ended June 30, 2017.

Other

Quarterly Data (unaudited)

	June 30, 2017	March 31, 2017
Income	**4,139**	2,501
Expenses	**1,187**	594
Provision for (recovery of) income taxes	**(812)**	1,357
Net earnings	**3,764**	550
Net earnings per share	**$ 0.07**	$ 0.02

Income was primarily comprised of net foreign exchange gains and net change in unrealized gains on investments (principally the company's indirect investment in AFGRI) in the second quarter and first six months of 2017, the timing of which are not predictable. Individual quarterly results have been (and may in the future be) affected by increased expenses impacted by the growth in the company's African Investments which result in higher performance fees and investment and advisory fees.

Forward-Looking Statements

This interim report may contain forward-looking information within the meaning of applicable securities legislation. Forward-looking statements may relate to the company's or an African Investment's future outlook and anticipated events or results and may include statements regarding the financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividends, plans and objectives of the company. Particularly, statements regarding future results, performance, achievements, prospects or opportunities of the company, an African Investment, or the African market are forward-looking statements. In some cases, forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might", "will" or "will be taken", "occur" or "be achieved".

Forward-looking statements are based on the opinions and estimates of the company as of the date of this interim report, and they are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, including but not limited to the following factors: taxation of the company and its subsidiaries; substantial loss of capital; long-term nature of investment; limited number of investments; geographic concentration of investments; potential lack of diversification; financial market fluctuations; pace of completing investments; control or significant influence position risk; minority investments; ranking of company investments and structural subordination; follow-on investments; prepayments of debt investments; risks upon dispositions of investments; bridge financings; reliance on key personnel; effect of fees; performance fee could induce Fairfax to make speculative investments; operating and financial risks of investments; allocation of personnel; potential conflicts of interest; employee misconduct at the portfolio advisor could harm the company; valuation methodologies involve subjective judgments; lawsuits; foreign currency fluctuation; derivative risks; unknown merits and risks of future investments; resources could be wasted in researching investment opportunities that are not ultimately completed; investments may be made in foreign private businesses where information is unreliable or unavailable; illiquidity of investments; competitive market for investment opportunities; use of leverage; investing in leveraged businesses; regulation; investment and repatriation restrictions; aggregation restrictions; restrictions relating to debt securities; pricing guidelines; emerging markets; corporate disclosure, governance and regulatory requirements; legal and regulatory risks; volatility of the African securities markets; political, economic, social and other factors; governance issues risk; African tax law; changes in law; exposure to permanent establishment; enforcement of rights; smaller company risk; due diligence and conduct of potential investment entities; African economic risk; reliance on trading partners risk; natural disaster risks; government debt risk; and economic risk. Additional risks and uncertainties are described in the company's annual information form which is available on SEDAR at www.sedar.com and on the company's website at www.fairfaxafrica.ca. These factors and assumptions are not intended to represent a complete list of the factors and assumptions that could affect the company. These factors and assumptions, however, should be considered carefully.

Although the company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The company does not undertake to update any forward-looking statements contained herein, except as required by applicable securities laws.

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