FAIRFAX AFRICA
HOLDINGS CORPORATION

2018 Annual Report

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FAIRFAX AFRICA
HOLDINGS CORPORATION

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Fairfax Africa Corporate Performance

(in US$ thousands, except as otherwise indicated)[1]

As at and for the years ended December 31	Book value per share	Closing share price	Income	Net earnings	Total assets	Investments	Common shareholders' equity	Shares outstanding[1]	Earnings per share
Initial public offering	10.00	10.00[2]							
2017	10.21	14.16	31,851	23,484	669,111	339,052	516,736	50.6	0.54
2018	9.60	8.11	(42,108)	(60,580)	643,830	409,475	603,127	62.8	(1.06)
Compound annual growth (decline)	(2.2)%[3]	(10.6)%							

(1) All share references are to common shares; Closing share price and per share amounts are in U.S. dollars; Shares outstanding are in millions.

(2) On February 17, 2017, upon completion of the company's initial public offering price of $10.00 per share, Fairfax Africa Holdings Corporation's subordinate voting shares began trading on the Toronto Stock Exchange under the symbol FAH.U.

(3) The company's book value per share of $9.60 at December 31, 2018 represented a compound annual decline from the initial public offering price of $10.00 per share at February 17, 2017 of 2.2%.

Corporate Profile

Fairfax Africa Holdings Corporation ("Fairfax Africa") is an investment holding company whose investment objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equity securities and debt instruments in Africa and African businesses ("African Investments").

African Investments

Fairfax Africa's *Public African Investments*, whose shares are listed on stock exchanges noted below, are comprised as follows:

Atlas Mara Limited ("Atlas Mara") is a publicly traded, Sub-Saharan African financial services group listed on the London Stock Exchange under the symbol ATMA. Atlas Mara's vision to establish itself as a premier financial institution across key markets in Sub-Saharan Africa. Since its inception in 2013, Atlas Mara has acquired control or significant influence in banks across seven Sub-Saharan African countries: Nigeria, Botswana, Zimbabwe, Mozambique, Rwanda, Tanzania and Zambia. Atlas Mara's revenues for the twelve months ended September 30, 2018 were $248 million. At September 30, 2018, Atlas Mara had shareholders' equity of $760 million and there were approximately 5,900 employees. Additional information can be accessed from Atlas Mara's website www.atlasmara.com.

Consolidated Infrastructure Group Limited ("CIG") is a publicly traded Pan-African engineering infrastructure company listed on the Johannesburg Stock Exchange under the stock symbol CIL. CIG has a diversified portfolio of operations including services and materials in power and electrical, oil and gas, building materials and the railway sector, with a footprint that spans over 20 African countries and the Middle East. Historically, over 71% of CIG's net earnings has been derived outside of South Africa. CIG's revenues for the twelve months ended August 31, 2018 were $210 million. At August 31, 2018, CIG had shareholders' equity of $126 million and there were approximately 2,100 employees. Additional information can be accessed from CIG's website www.ciglimited.co.za.

Fairfax Africa's *Private African Investments*, whose fair values cannot be derived from an active market and accordingly are determined using industry accepted valuation techniques and models, are comprised as follows:

AFGRI Holdings Proprietary Limited is a private holding company based in South Africa and owns 100.0% of AFGRI Group Holdings Proprietary Limited ("AGH", formerly known as AFGRI), an investment holding company with interests in a number of agricultural and food-related companies providing products and services to ensure sustainable agriculture. AGH's investment philosophy is to create long term sustainable value by targeting investments in agriculture, food processing and financial services, by building or acquiring equity interests in companies which provide the company with control or significant influence. AGH's long term growth strategy is based on a vision to ensure sustainable agriculture and enable food security across Africa. AGH's core focus is grain commodities and it provides services across the entire grain production and storage cycle, offering financial support and solutions as well as high-tech equipment through the John Deere brand supported by a large retail footprint. In addition to South Africa, AGH currently has operational activities aimed at supporting agriculture in Zambia, Zimbabwe, Mozambique, Congo-Brazzaville, Botswana, Côte d'Ivoire and Uganda. AGH 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. AGH's revenues for the twelve months ended December 31, 2018 were $971 million. At December 31, 2018, AGH had shareholders' equity of $178 million and there were 4,218 employees. Additional information can be accessed from AGH's website www.agh.co.za.

Philafrica Foods Proprietary Ltd. ("Philafrica"), formed to hold AGH's legacy food processing business, is headquartered in South Africa, where it owns and operates maize mills, wheat mills, animal feed factories, snacking facilities, soya crushing and extraction plants, which process oil and other raw materials into edible oils, fats and proteins for human consumption (primarily for the food processing and quick-service restaurant industries), and a mussels farm and factory. Philafrica also has food-related businesses outside South Africa, consisting mainly of a cassava processing business in Côte d'Ivoire and Mozambique and a poultry joint venture in Mozambique. Philafrica's vision is to transform the lives of millions of Africans through food processing in Africa. Philafrica's management believes that the most effective way to transform African agriculture is to create market pull through large-scale food processing, which requires vertical integration throughout the entire food value chain straight back to the farms and ensures consistent quality supply of raw materials into the company's food production sites. Philafrica's revenues for the twelve months ended December 31, 2018 were $410 million. At year end, Philafrica had

shareholders' equity of $104 million and there were 2,096 employees. Additional information can be accessed from Philafrica's website www.philafricafoods.com.

GroCapital Holdings Proprietary Limited ("GroCapital Holdings") is a bank holding company that owns 99.9% of the South African Bank of Athens Limited ("SABA"). SABA was established in 1947 in South Africa and is focused on delivering world-class banking services to the medium-sized business market in the country. SABA offers comprehensive traditional business banking such as lending, transaction banking, treasury and foreign exchange as well as alliance banking services, which provide niche transactional banking offerings in partnership with non-banking entities who would like to offer financial services into their customer base. SABA's revenues for the twelve months ended September 30, 2018 were $9 million. At September 30, 2018, SABA had shareholders' equity of $19 million and there were 178 employees. Additional information can be accessed from SABA's website www.bankofathens.co.za.

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 2013 with its first school opening in South Africa in 2014. Since then, the company has expanded across South Africa and launched its first campus in Kenya in 2015. Nova Pioneer currently operates ten schools with a combined enrollment of approximately 3,850 students. Additional information can be accessed from Nova Pioneer's website www.novapioneer.com.

Other – Fairfax Africa also has investments in common shares of a public African company in the infrastructure sector and a secured loan with PGR2 Investments Proprietary Limited, a significant shareholder of CIG.

To Our Shareholders,

We finished 2018 with book value per share (BVPS) of $9.60*, down 6.0% from the previous year and 2.2% on a compounded annual basis from our IPO in February 2017. We reported a net loss in 2018 of $60.6 million ($1.06 net loss per diluted share), primarily derived from unrealized losses on our public company investments and foreign currency, which was only partially offset by interest income on our investment portfolio, and realized and unrealized gains on our private company investments. This was a disappointing result which did not reflect our view of the positive trajectory of the Company or the inherent value of our underlying investments. The primary drivers of this accounting result were the decline in the fourth quarter in the Atlas Mara share price and the South African rand, both of which factors we discuss in some detail below.

Since our IPO in 2017, we have made a total of six significant investments, and by year-end 2018 had deployed (or committed to deploy) $469 million (approximately 95%) of our net IPO proceeds. We completed in June 2018 a follow-on offering in which Fairfax Africa raised $148.3 million in net proceeds to provide the Company with additional resources to take advantage of the investment opportunities we see potentially available in the market. In the months after the follow-on offering, our conviction in the African opportunity only increased as global emerging market sentiment deteriorated and valuation levels turned more favorable for investments.

During the course of the year, we made three new investments (Consolidated Infrastructure Group (CIG), Philafrica Foods (Philafrica) and GroCapital Holdings (GroCapital)) and three ''top-up'' investments in existing investee companies (AFGRI Group Holdings (AGH, formerly AFGRI), Atlas Mara Limited (Atlas Mara) and Nova Pioneer Education Group (Nova Pioneer)). These investments can be summarized as follows:

- AGH: $18.5 million (220 million South African rand) capital contribution funded during the year, and an additional $13.1 million (180 million South African rand) committed to a bridge facility to support growth initiatives, including acquisitions and capital expenditure in its agri-services, food processing and financial services businesses;
- Atlas Mara: $33.8 million in secured debt and warrants, the proceeds of which were used to support operational improvements and working capital;
- CIG: $97.0 million (1,312 million South African rand) through a convertible note and participation in a rights offering to recapitalize CIG's business, reduce debt and provide resources for growth, which resulted in Fairfax Africa acquiring a 49.1% stake in CIG, a platform investment in energy infrastructure;
- GroCapital: $12.1 million (171.6 million South African rand) to acquire a 35.0% equity interest (which proceeds GroCapital used to acquire and recapitalize the South African Bank of Athens (SABA));
- Nova Pioneer: $14.0 million in total commitments for debt and warrants, of which $4.8 million was funded in 2018 and $3.5 million in January 2019, the proceeds of which will be used to fund the expansion of Nova Pioneer's schools and student enrollment; and
- Philafrica: $23.3 million (325 million South African rand) to acquire a 26.0% equity interest, and an additional $18.7 million (172 million South African rand) in bridge funding, which was repaid in cash in December 2018.

AFGRI Group Holdings (AGH)

We are pleased to report that under Chris Venter's leadership, AGH had a strong year with improved financial and operating performance, including a successful turnaround and partial separation of its legacy foods business. The group's vision of ''Driving Food Security across Africa'' was advanced through several initiatives as described below.

AGH completed in July 2018 the previously announced restructuring of the group into an investment holding company with three primary business units:

- AFGRI (agri-services, including grain management and *John Deere* branded equipment);
- newly-formed Philafrica Foods (the legacy processed foods business of AFGRI); and
- GroCapital (bank controlling company and financial services provider).

* *Amounts in this letter are in U.S. dollars unless otherwise noted.*

This reorganization marked the successful conclusion of Chris Venter's efforts over the years of his leadership and our involvement to simplify the company from what was a very complex conglomerate with multiple non-core and unrelated business lines (e.g. golf carts, ATMs, and poultry to name but a few) into a decentralized investment holding company that now has a clear focus on the agricultural vertical.

AGH completed in October 2018 the acquisition of SABA through its investment in GroCapital. Access to a banking license in South Africa adds a significant competitive edge for AGH in its strategy to deliver a full suite of banking products and financial services to its customers. As part of the transaction, Fairfax Africa simultaneously acquired a 35.0% interest in GroCapital (see GroCapital below).

Subsequently, AGH completed in November 2018 the partial spin out of Philafrica through the sale of a 40.0% interest to Fairfax Africa (26.0%) and the Public Investment Corporation of South Africa (PIC) (14.0%) (see Philafrica below). The successful transaction enabled AGH to strengthen and expand its food operations through the conversion of its shareholder loans with Philafrica and by raising additional capital from its own shareholder base.

AGH's AFGRI division (agri-services including grain management and *John Deere* equipment) performed well in 2018, with strong profitability in the grain management business and stable performance elsewhere. AFGRI has over five million tonnes of grain silo capacity in South Africa, and handles about a third of South Africa's grain commodities. AFGRI remains the main contributor to AGH's performance. Despite an over 20% drop in year-over-year grain production in South Africa, as a result of AFGRI's leading market position, AFGRI is on track to meet its budget and maintain its previous year's operating performance. AFGRI was awarded a 15-year concession from Transnet, the South African port and rail authority, to operate and manage the country's import/export facilities in two major South African ports. Through AFGRI, AGH successfully enhanced the positioning of its digital platform which will enable farmers to order inputs, perform online transactional banking, obtain credit lines and sell their harvested goods from remote locations, all on one proprietary digital interface.

The South African government announced in January 2018 a process to potentially change the constitution of the country to allow expropriation of land without compensation under certain specific circumstances in an attempt to speed up the process of land reform. The ongoing and highly politicized process of land reform in South Africa has led to substantial uncertainty in both the investing and farming communities. This uncertainty and speculation around potential outcomes have hindered investment in the agricultural sector, including capital spending by AFGRI's core commercial farming customers, impacting AGH's equipment and financial services businesses in particular. We discuss the South African environment in greater detail below.

Results from operations outside of South Africa were mixed. During 2018, AGH took a strategic decision to reduce risk exposure in parts of Africa where it does not have the scale or expertise to compete effectively. As a result, AGH took steps over the course of 2018 to close businesses and reduce exposure in Nigeria, Ghana, Uganda and Zambia. At the same time, the Australian John Deere equipment business continued to show positive results and growth following consolidating acquisitions undertaken by AFGRI in 2017. AGH also reached an agreement with John Deere & Co. to act as the exclusive agent for the John Deere construction and forestry equipment business in Western Australia, complementing AFGRI's existing equipment business in the region.

For 2019, Chris and his team will be focused on fully incorporating the bank into the group's financial services offering to AGH's farming base, which will include a re-branding and re-positioning of the bank (formerly known as SABA) to focus on serving the needs of the agricultural and food processing sectors. AGH will continue to develop and expand its digital platform and product and services offering, which is expected to create a strong foundation for revenue growth within financial services. Within AFGRI (agri-services), creation of a new storage platform is expected to allow for the expansion of the storage footprint and diversification of storage services into a broader commodity pool. Outside of South Africa, AGH will continue to streamline its agricultural operations in Africa to ensure more efficient capital deployment.

Fairfax Africa held a 44.7% interest in AGH at December 31, 2018.

Atlas Mara Limited (Atlas Mara)

Atlas Mara is a sub-Saharan African financial services group which controls and operates banks in six countries (Botswana, Mozambique, Rwanda, Tanzania, Zambia and Zimbabwe) and holds a significant position in a bank that operates in Nigeria (Africa's largest economy and financial services market outside of South Africa). Atlas Mara, along with our investment in GroCapital in South Africa, provides a foundation on which to build our financial services offerings across the continent.

Atlas Mara's shares closed 2018 at $1.66, down 26% from Fairfax Africa's initial investment at $2.25 per share, and down 29% from $2.34 at year-end 2017 and $2.33 at quarter-end September 2018. This decline resulted in a $49.6 million unrealized loss, or a $0.77 decrease in our BVPS, from the third quarter of 2018. The year-end 2018 share price of $1.66 represented a price to book value of 0.37x for Atlas Mara's BVPS for the third quarter of 2018. All of the decline in the Atlas Mara share price occurred in the fourth quarter of 2018, which we believe primarily resulted from substantial selling pressure from one shareholder with liquidity issues that resulted in dislocation in the market. Other than Fairfax Africa, the majority of other shareholders have been invested in Atlas Mara since its IPO in December 2013, and, having lost over 85% of the value of their investment over the past five years, now appear to be extremely fatigued and to have capitulated in the absence of value creation. The general underperformance of and negative sentiment towards emerging markets in the second half of 2018 likely exacerbated this result. Taking into account the market value of Atlas Mara's stakes in publicly-listed Union Bank of Nigeria Plc (UBN) (which value represented 78% of Atlas Mara's market cap) and BancABC Botswana, the share price for Atlas Mara at year-end 2018 implied negative value for the remainder of Atlas Mara's assets (including banking operations in five other countries)! Needless to say, we do not believe this share price reflects the intrinsic value of Atlas Mara.

Fairfax Africa acquired a 42.4% interest in Atlas Mara in August 2017 for net cash consideration of $155.8 million and other existing shareholders of Atlas Mara concurrently invested $41.4 million. We acquired additional shares in December 2017, bringing our net cash investment to $158.2 million. At December 31, 2018, Fairfax Africa's ownership in Atlas Mara was 42.4%. Our initial investment was made at an attractive valuation representing 0.33x book value and a 77.5% discount to Atlas Mara's IPO price. During the course of 2018, Fairfax Africa invested an additional $33.8 million of cash in the form of secured debt plus warrants, which proceeds were used to support operational improvements and working capital, and to increase Atlas Mara's stake in UBN to 49% by year-end 2018.

Bob Diamond, along with co-founder Ashish Thakkar, founded and listed Atlas Mara on the London Stock Exchange in 2013 with an IPO price of $10 per share. Bob and his team approached us on the Atlas Mara investment opportunity in early 2017. Fairfax Africa appointed representatives to the Atlas Mara Board in October 2017 and assumed the chairmanship of the Board in February 2019. This transition reflects our role as the largest shareholder in the company and facilitates our objective to closely oversee this investment while we work to generate value creation for Atlas Mara shareholders.

Atlas Mara's net earnings attributed to ordinary shareholders for the nine months ended September 30, 2018 was $30.6 million compared to $15.8 million for the previous year comparable period. The Markets and Treasury business continued its growth with total revenue of $39 million for the same nine months period, compared to $32 million in the previous year. On a constant currency basis, expenses increased 8.3% year-over-year, primarily due to the impact of local inflation in countries of operation, as well as increased expenditure on key IT solutions. At September 30, 2018 Atlas Mara's BVPS was $4.39 and tangible book value per share was $3.53. Both income and asset growth have been muted through much of 2018, a trend we expect to continue through the fourth quarter. As a result, net earnings for the full year are expected to be more or less flat with the nine months results outlined above.

Nigeria remains a flagship market for Atlas Mara and is central to the group's overall strategy. UBN, 49% owned by Atlas Mara at year-end 2018, is a leading Nigerian bank with a rich 100-year history, and strong brand awareness. Today, UBN has over $4.4 billion (1.6 trillion Nigerian naira) in assets and 4.3 million customers which it serves across 300 sales and service centers. UBN's operating results are showing positive trends across several core metrics including growth in customers, growth in deposits and loans, lower non-performing loans (NPLs), and improving returns on assets and equity. Cost to income still has room for improvement and will be a focus in 2019 for UBN. UBN performed very well through the first nine months of 2018. Atlas Mara equity accounts for its investment in UBN and as a result Atlas Mara recorded share of profit of associates from UBN of $22.1 million over that period (excluding a one-time gain) based on its 49% ownership, up 92% from the previous year's nine months comparable period ($11.5 million). UBN reported the following key results for the nine months ended September 30, 2018:

- Earnings before income tax up 14%;
- Gross earnings up 12%, driven by higher earning assets and a 46% growth in non-interest income;
- Interest income up 3%;
- Net operating income up 17%;
- Gross loans up 5%; and

- Customer deposits up 10%, with a 37% increase in foreign currency deposits (excluding the impact of devaluation) alongside a growing low-cost deposit book.

Fairfax Africa's initial investment enabled Atlas Mara to increase its shareholding in UBN from 31% to 49% by year-end 2018 through public and private market acquisitions, and through participation in the rights offering undertaken by UBN in late 2017. This was an attractively valued investment opportunity for Atlas Mara; the rights issue pricing represented a 32% discount to UBN's closing share price on August 30, 2017 and a 73% discount to book value at June 30, 2017.

In December 2018 a wholly-owned subsidiary of Atlas Mara successfully completed the IPO of BancABC Botswana on the Botswana Stock Exchange, selling 20.5% to institutional and retail investors for $28 million in gross proceeds at a price to book value of 1.5x based on BVPS at June 30, 2018. The transaction was intended to strengthen BancABC Botswana's local market connectivity by providing a broad base of more than 450 domestic shareholders, and serves to illustrate the value of the group's underlying banking operations not currently reflected in the share price of Atlas Mara.

Atlas Mara announced on February 6, 2019 a review of strategic options to determine the key strategic priorities and actions for 2019 and beyond to drive shareholder value. Atlas Mara has hired an investment bank to assist in this process, which will include a review of each banking operation to ensure that top five market leadership is practicably achievable in the near term, or to explore transactions that will reduce risk exposure where such leadership is unlikely on a stand-alone basis. Co-founder Bob Diamond has transitioned from his role of Chairman and Michael Wilkerson has been appointed to the role to oversee this strategic review.

Fairfax Africa will assist the company in achieving these objectives through its representatives on the Board and involvement in the strategic review, all with a view towards creating value for shareholders.

Also on February 6, 2019 Atlas Mara announced it had entered into a non-binding Memorandum of Understanding with Fairfax Africa whereby Atlas Mara would explore the acquisition, in a proposed share exchange transaction on terms to be agreed, of Fairfax Africa's 35.0% stake in GroCapital, a South African financial services provider with a core focus on the agricultural and food processing sectors. We discuss GroCapital, and this potential transaction, further below.

Consolidated Infrastructure Group (CIG)

We are pleased to have completed our latest investment, CIG, just days after year-end on January 4, 2019. We look forward to welcoming Raoul Gamsu, CIG's CEO, to the Fairfax Africa family when he joins us for the AGM in April.

CIG is a pan-African infrastructure-focused group founded and listed on the Johannesburg Stock Exchange in 2007. CIG has a diversified portfolio of operations including services and materials in power and electrical, oil and gas, building materials and the railway sector. CIG's footprint spans over 20 countries in Africa and the Middle East, with over 70% of net earnings derived outside of South Africa. CIG operates in four divisions:

- *Power:* wholly-owned Conco is Africa's leading supplier of high voltage turnkey electrical substations, overhead power lines, renewable energy (wind and solar) and related products and services; wholly-owned Conlog is a leading smart metering business; and wholly-owned renewable power project developer CIGenCo was recently launched to capitalize on the substantial opportunity in renewable energy project development;

- *Building Materials:* wholly-owned Drift Supersand provides crushed stone for the construction industry for application in roads, ready-mix, concrete and aggregates for stabilization, while wholly-owned West End Claybrick manufactures housing materials;

- *Oil & Gas:* Angola Environmental Serviços (AES, 30.5% owned by CIG) provides full integrated waste management services to the offshore oil and gas industry in Angola; and

- *Rail:* wholly-owned Tractionel is the leading railway electrification company in South Africa.

CIG got itself in a bit of financial trouble in 2017 as a result of a drive to aggressively grow its Conco footprint across multiple geographies while simultaneously increasing its exposure to development of new renewable technologies, which strained its balance sheet and liquidity. The focus on top-line growth at the expense of margin and cash flow, and the additional complexity created by this expansion, resulted in a number of missteps by CIG, including allowing growth to outstrip systems and processes, combined with sub-optimal pricing and contracts management, and over-leverage. The situation was exacerbated by exceptionally weak conditions in CIG's home market of South

Africa. CIG announced a financial and operational restructuring to address the situation, while in the meantime its share price fell by over 85% from its peak through the announcement of Fairfax Africa's investment. This temporary but potentially debilitating liquidity issue created a fantastic opportunity for Fairfax Africa to make a stabilizing investment in CIG on attractive financial terms.

The decentralized structure of CIG prevented contagion of the issues at Conco, and while other group companies and personnel were distracted by the issues, there was no significant impact on the daily running of their businesses.

The recapitalization of CIG through the $23.3 million (300 million South African rand) secured convertible loan provided by Fairfax Africa and the $57.2 million (800 million South African rand) rights offering (underwritten by Fairfax Africa and further discussed below) were essential steps to ensure that CIG could not only survive, but be strongly positioned as a well-capitalized leader in the market going forward. Since the recapitalization and restructuring, substantial progress has been made.

Conlog delivered a strong set of financial results for its fiscal year ended August 31, 2018, significantly exceeding the original earnings forecasts (from the date of acquisition in November 2017) by 31% through the introduction of new products and expanding its footprint in several new markets.

The restructuring of the Conco business and the critical steps needed to transform this business have been largely implemented and are expected to yield benefits in future reporting periods. These key steps included combining the international and South African operations into a single organizational structure, and segregating the go-to-market functions from operations, moves which are expected to result in an improved focus on project execution and margins. The Conco executive team was strengthened with the appointment of Johnny Dladla as CEO in November 2018. Johnny is a highly experienced power industry executive and the former acting group chief executive for Eskom and CEO of Rotek Industries, who has already rolled up his sleeves and gone to work on strengthening this business.

CIGenCo marked its first results milestone with a maiden profit contribution to the group when its Namibian Ejuva Solar Energy Project reached commercial operation in 2018.

Activity for power and rail projects in South Africa has been at exceptionally low levels, and CIG's order backlog in the traditional substation business in South Africa is at an all-time cyclical low. Activity is expected to pick up following national elections in May 2019. The African market has significant opportunity, but the completion of financial closure of proposed projects is slower than desired.

Raoul's objectives for 2019 include 1) returning Conco to profitability; 2) getting the right people in the right roles; 3) continuing to transition the group away from the vagaries of engineering, procurement and construction contracting into a sustainable platform supplying power needs across Africa; and 4) capitalizing on the increasing renewable energy and off-grid industrial scale opportunities in Africa. CIG's established regional presence and market experience can be leveraged to geographically expand other group companies' products and services.

Since this is our first time describing the CIG opportunity, we should provide a little background on the investment itself. On January 4, 2019 we acquired 178,995,353 ordinary shares of CIG at a price of 4.00 South African rand per share for net consideration of $49.7 million (696 million South African rand) as part of an underwritten rights offering for CIG ordinary shares. This equity investment is in addition to Fairfax Africa's previously announced $23.3 million (300 million South African rand) secured convertible loan to CIG, a loan to PGR2 of $20.0 million (260 million South African rand), and an existing equity investment of $4.0 million (56 million South African rand) which brings our total project related commitment to $97.0 million (1,312 million South African rand). Following completion of the investment in January 2019, Fairfax Africa now owns 49.1% of CIG's ordinary shares.

We were strongly supportive of the rights offering, which we believe has materially strengthened CIG's balance sheet and provided the required headroom for CIG to deliver on its corporate strategy and to manage the business optimally in an efficient and effective manner. We believe that the strong financial base created by Fairfax Africa's investment will position CIG well to capitalize on dislocation amongst its competitors and extend its leadership position in its markets.

Our investment rationale can be summarized as follows:

Deep Value Investment: Fairfax Africa's investment in CIG was made at a significant 21.9% discount to tangible book value per share as at CIG's fiscal year-end August 2018.

Pent-up Demand: Infrastructure and energy represent multi-billion dollar supply-demand gaps in Africa, and CIG is well-positioned as a leader in the African energy infrastructure sector.

Growth & Earnings Potential: Fairfax Africa has identified a large pipeline of attractive investment opportunities across CIG's portfolio with potential for stable long-term returns, to be pursued with appropriate timing as the current portfolio reorients towards profitability, and as operational and capital allocation strategies improve.

Investment Timing: The timing of Fairfax Africa's investment is expected to capitalize on macro tailwinds supporting strong earnings potential in CIG's existing portfolio:

- *Conco:* South Africa's REIPPP (the Renewable Energy Independent Power Producer Procurement) program has now re-commenced, enabling progression of existing Conco projects;
- *AES:* After a two-year performance lag at AES from low offshore rig counts due to historically low WTI pricing, Fairfax Africa expects an uptick in Angolan rigs in 2019 on the back of global oil price recovery; and
- *Conlog:* A country-wide shift in South African municipalities towards installing pre-paid meters is expected to significantly increase demand. Conlog is expected to be a substantial contributor to CIG's profits in 2019.

Finally, we are honoured to welcome John Beck to the Board of CIG. John is the Founder and Executive Chairman of Aecon Group, Canada's premier construction and infrastructure development company. With over 50 years' experience in the construction industry, we expect John will make a substantial contribution to CIG over the coming months. It's hard to imagine someone better suited to understand and help address the challenges and opportunities facing CIG from an industry perspective.

We believe that CIG has substantial potential over the long-term.

GroCapital Holdings (GroCapital)

GroCapital, a bank holding company, acquired 99.8% of SABA from the National Bank of Greece in October 2018 pursuant to an agreement entered into in March 2017. As part of the transaction, Fairfax Africa acquired a 35.0% interest in GroCapital for $12.1 million (171.6 million South African rand). In addition to Fairfax Africa, GroCapital's shareholders include the PIC (35.0%) and AGH (30.0%).

SABA was established and has been operational in South Africa since 1947, and offers comprehensive traditional business banking such as lending, transactional banking and treasury functions, as well as alliance, business and international banking. SABA is known for its focus on the development of market-leading, niche alliance transactional banking offerings in partnership with businesses. GroCapital's go-forward strategy for the bank is to focus on serving companies in agriculture and food production, offering debt origination, forex and commodity trading, specialised finance and broking services, and providing an array of financial and insurance products and services to the agricultural sector. As part of AGH, GroCapital has an established track record in financial services, offering bespoke financial products and services to the agribusiness and food sectors. AGH maintains approximately $1 billion (14 billion South African rand) in farmer and corporate loan portfolios, with a history of negligible bad debts through multiple agricultural cycles.

On February 6, 2019, Atlas Mara and Fairfax Africa entered into a non-binding Memorandum of Understanding whereby Atlas Mara will explore the acquisition of Fairfax Africa's 35.0% stake in GroCapital in a proposed share exchange transaction with Atlas Mara. This transaction will be subject to the approval of the South African Reserve Bank, the Minister of Finance, and the Competition Commission, and other customary conditions precedent. Assuming completion of the transaction, we expect that GroCapital will serve as a center of excellence for Atlas Mara's financial product and service offerings to the agricultural sector throughout Africa.

The proposed transaction will position Atlas Mara with access to the South African banking market, enabling Atlas Mara to participate in financing of trade flows, foreign exchange, commodity finance and retail banking, and allow for operational integration into the core bank and technology environment of Atlas Mara, including with regard to digital banking and cross-border payments.

Nova Pioneer Education Group (Nova Pioneer)

Nova Pioneer was founded as Ascendant Learning Limited and is run by CEO Chinezi Chijioke (who previously led McKinsey's educational practice in Africa). Nova Pioneer is a pan-African independent school network offering preschool through secondary education for students from ages three through 19. Nova Pioneer launched its first campus in 2015 in South Africa, and now operates ten schools with a combined enrollment of 3,830 students, comprised of 1,895 students in Kenya across four campuses and 1,935 students in South Africa across six campuses. These ten campuses represent a future total capacity of over 10,000 students.

Nova Pioneer had very solid operating performance in 2018, highlighted by the opening of two new campuses (bringing the total number of campuses to ten), strong growth in enrollment in both South Africa (increase of 47% year-over-year) and Kenya (increase 135% year-over-year), and 70% revenue growth group wide, representing a very strong result for Chinezi and his management team. All ten schools are now tracking to meet or exceed enrollment targets and are on plan towards cash flow breakeven in line with projections, while operating costs have remained in line with budgeted expectations. Nova Pioneer's success is gaining recognition; the group was featured in *The Economist* as a leading innovative African school network.

The Nova Pioneer team faced some challenges in 2018, including a delay in securing property finance in the local market in Kenya, which had the knock-on effect of delaying a campus opening, and rising bad debts in South Africa as the economy struggled. However, the Nova Pioneer team has managed through these and other difficulties typical of a young and growing company and remains on track towards its long-term plan.

Average tuition per student is about $3,250 per year and is priced to target middle to upper-middle income families whose alternatives are either (1) strained government schools; (2) ''affordable'' private schools that are often of poor quality; or (3) very expensive private schools. Nova Pioneer management is targeting a rollout of 20 new campuses across key African markets over the next five years, reaching an enrollment of over 11,000 students, with an enrollment capacity of around 30,000 students. Nova Pioneer's long-term goal is to offer world-class and affordable education to students on over 100 campuses across Africa. Single school economics are very attractive. Once a campus reaches full enrollment, returns on invested capital tend to be very high and provide investment capital for further expansion. Schools are also non-cyclical with reliable long-term cash flows as individual students are enrolled for up to 15 years, and multi-sibling families even longer.

We invested an additional $4.8 million in 2018 to support Nova Pioneer's continued growth, and ended the year with an additional commitment of $9.2 million, of which $3.5 was funded in January, with the remainder expected to be funded in the first half of 2019.

We are pleased to report that Nova Pioneer will produce its first graduating class in 2019 in both Kenya and South Africa. Alongside this important milestone, Chinezi and his team are focused in 2019 on system profitability, including further strengthening school unit economics (through management of capital and operating expenses and revenue diversification), sourcing more efficient property financing in Kenya and capital for accelerated growth for Nova Pioneer, and further improving strong educational results (specifically targeting enhanced student performance outcomes across all schools and ages on internationally benchmarked assessments). Nova Pioneer is also focused on aggressively building its talent pool (both teachers and administrators) and will implement a new Emerging Leader Programme for its top performers and enhanced teacher training resources in both markets. Nova Pioneer is highly selective in its hiring, with less than 3% of applicants receiving offers.

Over the next three years, Nova Pioneer expects to grow from 10 to 20 schools, including expansion to West Africa in 2020 or 2021, and is already working on the detailed development plans for these campuses. As previously noted, the demographic opportunity of for-profit education in Africa is vast, with very high growth rates and the potential for attractive long-term returns on investment. We are very proud of the management team's accomplishments to date and remain supportive of the team's strategy to serve this fast-growing market's potential in the coming years.

Philafrica Foods (Philafrica)

Philafrica was formed in April 2017 to hold AFGRI's legacy foods processing business, and to serve as a platform for development and acquisition of additional food processing businesses in attractive categories and markets on the continent. Philafrica was partially (40%) spun-out of AGH in November 2018 through a direct investment by Fairfax Africa (26%) and the PIC (14%).

All of the legacy businesses of AFGRI Foods, including Animal Feeds, Nedan (soy-based oils and protein), and Milling, performed well in 2018, ahead of budget and significantly ahead of the prior year's performance. A new management team led by Roland Decorvet set a clear strategy for the business, implemented operational improvements and more disciplined procurement practices, which resulted in improved operational efficiencies at the plant and group level. Roland is a seasoned international food company executive, having spent over 20 years with Nestlé, most recently in the role of Chairman and CEO of Nestlé China. During his three years in this role, Nestlé China's revenues tripled to become Nestlé's second largest market. Roland was also CEO of Nestlé Switzerland and CEO of Nestlé Pakistan. Roland brought Eduardo Ngo (from Barry Callebaut Group) on board as CFO and Joel Bryce as head of Strategy and Investments. Thanks to Roland and his team, the legacy South Africa business showed a 34% year-over-year improvement at the EBITDA level for the nine months ended September 30, 2018.

Philafrica also invested in new categories, diversifying its product mix away from low-margin, commoditized categories towards higher value-added product lines. Specifically, Philafrica acquired the snacking company Pakworks, PepsiCo's largest co-manufacturer in Africa, which produces the popular *Nik Naks* brand of maize snacks. Philafrica also built the largest mussels farm and processing plant in Africa (under the *Southern Atlantic* brand, to be targeted for the export market) and developed at Dutch Agricultural Development Trading Company (DADTCO) a unique cassava processing technology with mobile factories in Mozambique and Ivory Coast (the latter inaugurated in early 2019). Cassava is a key part of diets in many parts of Africa and is an important input for the brewing and bakery industries locally. However, it is highly perishable in unprocessed form and spoils quickly. The DADTCO technology allows for on-site processing of the commodity into flour paste, which can then be safely transported to brewery or bakery in a stable form.

While Philafrica produced a strong result in its legacy businesses, it faced timing and other challenges in new business lines including at *Southern Atlantic*, where unforeseen weather and challenges with international trading permits slowed the launch of commercial operations; *Novos Horizontes*, Philafrica's 50% owned poultry business in Mozambique, where an outbreak of Newcastle disease impacted revenue and profits; and at DADTCO, where equipment manufacturing and importation delays slowed the implementation of the cassava mobile processing business. Nonetheless, Philafrica's management has no significant concerns about the long-term future of these operations as each of their fundamental business cases remains positive.

Philafrica achieved significant structural and managerial changes during the year, including substantial operational and financial restructuring and the partial separation from AGH, the successful installation of a new operational management team with experienced and dedicated leaders expert in their respective fields, and the raising of $35.8 million (500 million South African rand) in new equity capital, which reduced the debt-to-equity ratio of the company and provided funding for additional growth.

The African Environment

According to a January 2019 report by the African Development Bank (AfDB), over 40% of African countries are expected to grow at over five percent in 2019. Overall, African GDP is projected to expand by more than 4% in each of 2019 and 2020, and the AfDB points out several policy initiatives that could see this growth rate expand to above 4.5%. During this time East Africa, an attractive target region for Fairfax Africa, is expected to grow at 6% per year. South Africa and Nigeria, Africa's two largest economies, have been in either recession or faced slow growth in recent years, and have pulled down the average growth for the continent. While somewhat lower than China or India, the continent's growth substantially outpaces both of most other emerging markets and the developed world.

In our instant media and short attention span world, sensational, recent and often bad news is much easier to notice and remember than is the quiet, slow but persistent daily march of economic progress and wealth creation. And yet that is the real underlying story of Africa. Infrastructure is being developed, economies are growing and diversifying, children are being educated and living standards are improving in most nations in Africa. Because we are focused on the long-term, we expect to see over the years the transformation of lives, communities and nations, while we work to generate substantial shareholder value along the way.

Foreign direct investment into Africa increased in 2018 for the first time after three consecutive years of decline. However, at a mere $40 billion this represents less than 3.4% of total global FDI, and scarcity of capital remains a core issue for the continent. 2018 saw the parent of Abraaj, the sponsor of one of sub-Saharan Africa's largest private equity firms at nearly $1 billion, file for bankruptcy. This event and the circumstances around it created substantial disruption and instability in several corners of the market, however it reinforced the benefits of Fairfax Africa's permanent capital structure as a listed company on the Toronto Stock Exchange, with the transparency and

accountability that comes along with it. We continue to follow the Abraaj situation closely for any opportunities that may emerge for Fairfax Africa. Blackstone also announced plans in 2018 to scale back in Africa, which may similarly open up opportunity for Fairfax Africa.

As we write this letter, political and economic change and convulsions dominate the headlines for several key countries in Africa including the Democratic Republic of Congo, Kenya, Nigeria, South Africa and Zimbabwe.

Democratic Republic of Congo (DRC)

The DRC is one of the largest, most populous, resource-rich yet poverty-stricken countries on the continent (per capita annual income is less than $400). In January 2019 the fifth president of the country, Félix Tshisekedi, was elected under controversial circumstances. Based on leaked data from the election commission and a count by volunteers working with the Catholic Church, President-elect Tshisekedi is believed to have won less than 20% of the vote while another opposition candidate, Martin Fayulu, is believed to have taken over 60%. Notwithstanding this evidence and wide African and international protests, the constitutional court upheld the official outcome. The new president represents a party long in opposition to the previous regime, however he will not have a majority in the national assembly and will be unlikely to be able to influence much change from the status quo. While we believe the DRC may present opportunities for Fairfax Africa in the future, we will remain cautious in our approach.

Kenya

Kenya is a bright spot on the African economic horizon. After growing 5.9% in 2018, real GDP is projected to grow by over 6% in each of 2019 and 2020. Over 60% of the economy remains in the informal sector, presenting substantial opportunity in education, real estate and consumer products as the economy formalizes. Fairfax Africa is invested in Kenya through Nova Pioneer, and as we go to press we are actively investigating other potential investment opportunities in the country.

Nigeria

Nigeria is the most populous country and largest economy in Africa (representing close to 20% of total GDP), however much of the economy is based on oil revenues and wealth is highly concentrated. Much of the population remains in stifling poverty. After emerging from recession in 2017, Nigerian GDP grew at 1.9% in 2018, and is expected to grow at 2.3% and 2.4% in 2019 and 2020 respectively. The Power Sector Reform Program targets development of 10 gigawatts of operational capacity by 2020, and could be a boon for private investment in the sector. Economic challenges persist, external imbalances are growing, and risk will remain elevated through the year. On February 24, 2019, Nigeria's electoral commission declared incumbent President Muhammadu Buhari the winner of the country's presidential election after securing 56%, or 15.2 million votes, in the February polls.

Fairfax Africa is invested in Nigeria through Atlas Mara's 49% stake in UBN, and CIG is actively pursuing a number of opportunities in the country.

South Africa

South Africa is facing a very difficult situation. The official unemployment rate remains very high at 28% (real unemployment is much higher), while real GDP stagnated over the past year at 0.7% (1.3% in previous year). The fiscal deficit is high at 4%, while inflation is down slightly below 5%. Over the course of 2018, the South African rand deteriorated by nearly 16% from 12.4 to 14.4 South African rand per U.S. dollar at year-end 2018. This devaluation negatively impacted our results by $25.9 million or $0.41 per share. In 2018, the government signed long-delayed renewable energy contracts valued at nearly $4 billion with independent renewable power producers, resuming a process paused in the last years of the Zuma regime to migrate the country from coal (which still accounts for over 80% of electricity generation) to renewable power (currently only 7% of total generation capacity). This pent-up demand should be beneficial to our investment in CIG. Under President Ramaphosa there has been a strong push to clean up state-owned enterprises (SOEs) where corruption had taken deep root during President Zuma's regime, draining the coffers of the SOEs. The PIC, which oversees the government employees' pension fund, has not escaped the scandal's aftermath. Over the past year, half of the PIC's executive committee including the CEO, have been suspended or resigned. In February 2019, the entire PIC board, including the country's deputy finance minister who served as chair, resigned amidst an investigation into allegations of financial impropriety. As Africa's largest pension fund with over $144.8 billion in assets under management, the PIC is invested in most listed companies in South Africa, as well as in many privately-held companies including several in which Fairfax Africa is invested (AGH,

Philafrica and GroCapital). While the situation remains fluid, we do not believe that the governance situation at the PIC will have any impact on our investments in these companies.

Looking forward, South Africa is expected to see continued slow growth in 2019 and 2020 (approximately 2% each year) as the hangover effect of the Zuma years continues to negatively impact economic development and foreign investment. National elections to be held in May 2019 are widely expected to see President Cyril Ramaphosa re-elected, consolidating his power within the African National Congress and enabling bolder policy actions and pro-market reforms. The international investment community has responded favorably to the changes implemented under President Ramaphosa, as indicated by an over fivefold increase in foreign direct investment (FDI) from $1.3 billion in 2017 to $7.1 billion in 2018. While economic trends are improving, we'd like to see greater acceleration and positive momentum before investing much further in the country. Structural issues such as the lack of skilled labour, high leverage and poor governance at the SOEs will continue to act as a drag on growth. While government has to date denied plans for privatization, there may not be a viable option. On the positive side, strong and independent institutions, including the Reserve Bank, the judiciary, and a vocal free press, are comforting features.

Zimbabwe

Zimbabwe was once widely and proudly labeled as "the breadbasket of Africa". Under the Mugabe regime, agricultural and mining production and exports, as well as GDP and GDP per capita, each declined substantially. Hope for change was seeded last year by a "peaceful coup" that saw President Mugabe removed from power and Emmerson Mnangagwa installed as his successor. The new president soon thereafter declared Zimbabwe "open for business". These hopes were partially dashed in January 2019 when the police and political arm of the state reacted violently to protests triggered by a 167% increase in fuel prices. While President Mnangagwa repudiated the violence and committed to investigate and prosecute any malefactors, the promises rang hollow. As was seen in 2018 with the rise in France of *le mouvement gilet jaune* — also sparked by rising fuel prices — political leaders must take great care in destabilizing an already economically strained populace. Underlying these issues in Zimbabwe is an untenable monetary policy regime. Fairfax Africa has indirect investments in Zimbabwe through both AFGRI and Atlas Mara's BancABC, and the dual risks of monetary policy actions and further political instability are at the center of our radar. On February 20, 2019, the Ministry of Finance issued a monetary policy statement which opened the door for re-introduction of a local currency, and identified proactive measures to liberalize the foreign exchange markets. This move was widely expected to result in the formal recognition of the existing de facto devaluation of Real-time Gross Settlement dollars (RTGS) from 1:1 against the U.S. dollar. On February 22, 2019, the Reserve Bank of Zimbabwe announced the opening of an interbank trading window at 2.5 RTGS per U.S. dollar, however trading has been limited to date due to the lack of foreign currency and FDI. The banking industry and the accounting and auditing profession in Zimbabwe have been in discussions around how to deal with the potential currency impact on the 2018 financial results for foreign-owned banks, with a likely impact to capital (although not stated profit and loss). These discussions are ongoing, but if implemented would have a negative impact to the U.S. dollar capital position for all foreign-owned banks in Zimbabwe, including Atlas Mara's BancABC.

Share Repurchases

Fairfax Africa may from time to time purchase shares for cancellation if it finds the price attractive and if it determines that such purchases are financially prudent. During the fourth quarter of 2018, Fairfax Africa successfully executed on its previously authorized share purchase program, acquiring 108,224 subordinated voting shares at an average price of $9.05 per share through year-end. Subsequent to December 31, 2018 and up to March 8, 2019, the company repurchased for cancellation 1,671,937 subordinate voting shares at a cost of $14.6 million (an average price of $8.75 per share). These purchases were made at a substantial discount to book value per share. While not the focus of our efforts, these actions were mildly accretive to book value per share and, in our view, in the best interests of our shareholders.

Board of Directors

Louis von Zeuner resigned from the Board of Fairfax Africa in August 2018 to focus on his increasing responsibilities in South Africa in supporting President Ramaphosa in implementing governance reforms at certain SOEs. We wish Louis great success at this important task. Fortunately for us, Louis will continue to work closely with us on the AGH Board as a director and as the Chairman of the Audit & Risk committee.

We welcome retired Lt. General The Honourable Roméo Dallaire to the Board of Fairfax Africa. General Dallaire is the founder of the Roméo Dallaire Child Soldiers Initiative, a global partnership with a mission to end the recruitment and use of child soldiers. With deep Africa experience, General Dallaire is a celebrated advocate for human rights, especially in regard to child soldiers, veterans, and the prevention of mass atrocities. General Dallaire is also a respected government and United Nations advisor and former Canadian Senator. General Dallaire had a distinguished military career spanning forty years. Most notably, he was appointed Force Commander of the United Nations Assistance Mission for Rwanda prior to and during the 1994 genocide. General Dallaire is a recipient of the Order of Canada, the Meritorious Service Cross, the United States Legion of Merit, the Aegis Award on Genocide Prevention, and he is the author of several books.

In Closing

At Fairfax Africa, we are committed to ensuring that we and our investee companies operate with the highest professional standards consistent with Fairfax Financial's Guiding Principles and industry global best practices. While this is an ongoing process, we are pleased to report that we have made good progress in 2018 to align ourselves and our investee companies with Fairfax's distinctive culture and high standards.

On behalf of our colleagues at Fairfax Africa and our investee companies, we want to thank you for your continued support and confidence. We are dedicated to delivering on the potential for Fairfax Africa over the course of 2019 and beyond. We hope to see many of you at our annual meeting at 2:30 p.m. (Eastern time) on Wednesday, April 10th at *The Ritz-Carlton, Toronto*, 181 Wellington Street West, Toronto, Canada.

March 8, 2019

Michael Wilkerson
Chief Executive Officer

Paul Rivett
Vice-Chairman

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Management's Responsibility for the Consolidated Financial Statements

The preparation and presentation of the accompanying consolidated financial statements, Management's Discussion and Analysis of Financial Condition and Results of Operations (''MD&A'') and all financial information are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Financial statements, by nature, are not precise since they include certain amounts based upon estimates and judgments. When alternative methods exist, management has chosen those it deems to be the most appropriate in the circumstances.

Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of the consolidated financial statements.

We, as Fairfax Africa's Chief Executive Officer and Chief Financial Officer, have certified Fairfax Africa's annual disclosure documents filed with the Canadian Securities Administrators in accordance with Canadian securities legislation.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board carries out this responsibility principally through its Audit Committee which is independent from management.

The Audit Committee is appointed by the Board of Directors and reviews the consolidated financial statements and MD&A; considers the report of the independent auditor; assesses the adequacy of the internal controls of the company; examines the fees and expenses for audit services; and recommends to the Board the independent auditor for appointment by the shareholders. The independent auditor has full access to the Audit Committee and meet with it to discuss their audit work, Fairfax Africa's internal control over financial reporting and financial reporting matters. The Audit Committee reports its findings to the Board for consideration when approving the consolidated financial statements and MD&A for issuance to the shareholders.

March 8, 2019

Michael Wilkerson
Chief Executive Officer

Jennifer Allen
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Fairfax Africa Holdings Corporation

Our opinion
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fairfax Africa Holdings Corporation and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information
Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis of Financial Condition and Results of Operations and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report. The other information does not include information contained in the websites of the Company's African investments as disclosed in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Claire Cornwall.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario
March 8, 2019

Consolidated Financial Statements

Consolidated Balance Sheets

as at December 31, 2018 and December 31, 2017
(US$ thousands)

	Notes	December 31, 2018	December 31, 2017
Assets			
Cash and cash equivalents	6, 15	230,858	13,012
Restricted cash	6, 7	–	313,000
Short term investments	6	38,723	32,968
Loans	5, 6	38,595	24,233
Bonds	5, 6	59,856	19,414
Common stocks	5, 6	270,284	261,917
Derivatives	5, 6	2,017	520
Total cash and investments		640,333	665,064
Interest receivable		2,472	3,506
Other assets		1,025	541
Total assets		643,830	669,111
Liabilities			
Accounts payable and accrued liabilities		531	811
Derivative obligation	5, 6	5,724	–
Payable to related parties	12	1,658	1,482
Income taxes payable	10	3,263	82
Borrowings	7	29,527	150,000
Total liabilities		40,703	152,375
Equity			
Common shareholders' equity	8	603,127	516,736
		643,830	669,111

See accompanying notes.

Signed on behalf of the Board

V. P. Watsa
Director

Chris Hodgson
Director

Consolidated Statements of Earnings and Comprehensive Income
for the years ended December 31, 2018 and 2017
(US$ thousands except per share amounts)

	Notes	2018	2017
Income			
Interest	6	20,848	7,589
Net realized gains on investments	6	3,661	11,274
Net change in unrealized gains (losses) on investments	6	(40,690)	2,362
Net foreign exchange gains (losses)	6	(25,927)	10,626
		(42,108)	31,851
Expenses			
Investment and advisory fees	12	6,440	3,400
Performance fee	12	(319)	319
General and administration expenses	14	4,281	2,076
Interest expense	7	3,200	2,087
		13,602	7,882
Earnings (loss) before income taxes		(55,710)	23,969
Provision for income taxes	10	4,870	485
Net earnings (loss) and comprehensive income (loss)		(60,580)	23,484
Net earnings (loss) per share (basic and diluted)	9	$ (1.06)	$ 0.54
Shares outstanding (weighted average)	9	57,249,901	43,329,044

See accompanying notes.

Consolidated Statements of Changes in Equity
for the years ended December 31, 2018 and 2017
(US$ thousands)

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings (deficit)	Common shareholders' equity
Balance as of January 1, 2018	193,326	300,000	–	23,410	516,736
Net loss	–	–	–	(60,580)	(60,580)
Issuance of shares, net of issuance costs (note 8)	148,316	–	–	–	148,316
Purchases for cancellation (note 8)	(1,124)	–	–	143	(981)
Purchases and amortization	–	–	(364)	–	(364)
Balance as of December 31, 2018	340,518	300,000	(364)	(37,027)	603,127
Balance as of January 1, 2017	–	–	–	(74)	(74)
Net earnings	–	–	–	23,484	23,484
Issuance of shares, net of issuance costs (note 8)	193,326	300,000	–	–	493,326
Balance as of December 31, 2017	193,326	300,000	–	23,410	516,736

See accompanying notes.

Consolidated Statements of Cash Flows
for the years ended December 31, 2018 and 2017
(US$ thousands)

	Notes	2018	2017
Operating activities			
Net earnings (loss)		(60,580)	23,484
Items not affecting cash and cash equivalents:			
Net bond discount accretion		(3,613)	(39)
Payment in kind on loans and bonds		(4,148)	–
Amortization of share-based payment awards		71	–
Net realized gains on investments	6	(3,661)	(11,274)
Net change in unrealized (gains) losses on investments	6	40,690	(2,362)
Net foreign exchange (gains) losses	6	25,927	(10,626)
Net purchases of short term investments classified as FVTPL		(3,613)	(32,659)
Purchases of investments classified as FVTPL	15	(155,950)	(255,515)
Sales of investments classified as FVTPL	15	37,986	48,973
Decrease (increase) in restricted cash in support of investments	7	162,519	(162,519)
Changes in operating assets and liabilities:			
Interest receivable		1,034	(3,506)
Income taxes payable		3,181	82
Payable to related parties		176	622
Other		(919)	715
Cash provided by (used in) operating activities		39,100	(404,624)
Financing activities			
Borrowings:	7		
Proceeds		30,000	150,000
Issuance costs		(690)	(225)
Repayment		(150,000)	–
Decrease (increase) in restricted cash in support of term loan		150,481	(150,481)
Subordinate voting shares:	8		
Issuances		150,675	204,080
Issuance costs		(2,359)	(12,876)
Purchases for cancellation		(981)	–
Multiple voting shares:	8		
Issuances		–	227,154
Cash provided by financing activities		177,126	417,652
Increase in cash and cash equivalents		216,226	13,028
Cash and cash equivalents – beginning of year		13,012	–
Foreign currency translation		1,620	(16)
Cash and cash equivalents – end of year		230,858	13,012

See accompanying notes.

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Notes to Consolidated Financial Statements

for the years ended December 31, 2018 and 2017
(in US$ and thousands except share and per share amounts and as otherwise indicated)

1. Business Operations

Fairfax Africa Holdings Corporation (''the company'' or ''Fairfax Africa'') is an investment holding company whose objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equity securities 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 include a South Africa based subsidiary Fairfax Africa Investments Proprietary Limited (''SA Sub'' or ''FSA'') and a Mauritius based subsidiary Fairfax Africa Holdings Investments Limited (''Mauritius Sub'' or ''FMA'').

Fairfax Financial Holdings Limited (''Fairfax'') 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. 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 consolidated subsidiaries, responsible to source and advise with respect to all investments. Refer to note 12 for details on Fairfax's voting rights and equity interest in the company.

The company is federally incorporated and is 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

The company's consolidated financial statements for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB''). The company has determined that it continues to meet the definition of an investment entity under IFRS (see note 4).

The consolidated balance sheets of the company are presented on a non-classified basis. Except for bonds, loans, common stocks, and derivatives which are comprised of current and non-current amounts, all other assets expected to be realized and liabilities expected to be settled within the company's normal operating cycle of one year are considered current.

The preparation of the company's consolidated financial statements requires management to make a number of estimates and judgments 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 consolidated financial statements were approved for issue by the company's Board of Directors on March 8, 2019.

3. Summary of Significant Accounting Policies

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

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. As an investment entity (see note 4) the company is required to account for its investments in subsidiaries (Joseph Investment Holdings (''Joseph Holdings'')) at fair value through profit or loss (''FVTPL'') rather than by consolidation.

The company has concluded that SA Sub and Mauritius Sub should continue to be consolidated as these entities continue to 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 the ability to exercise significant influence, but not control, over the financial and operating policies. As an investment entity, the company accounts for its investments in associates (Atlas Mara Limited (''Atlas Mara''), Philafrica Foods Proprietary Limited (''Philafrica''), and GroCapital Holdings Proprietary Limited (''GroCapital Holdings'')) at FVTPL rather than under the equity method of accounting.

Foreign currency translation

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

Although the company's African Investments are 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 to provide comparability with other North American investment entities.

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 (losses) in the consolidated statements of earnings and 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 that is restricted. The carrying value of cash and cash equivalents approximates fair value.

Restricted cash – Restricted cash primarily consists of amounts required to be maintained on deposit with a Canadian bank to support the company's term loan and letter of credit facility (see note 7). The carrying value of restricted cash approximates fair value.

Total cash and investments

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

Classification – Short term investments, loans, bonds, common stocks and derivatives are classified at FVTPL. The company manages these investments on a fair value basis, using fair value information to assess investment performance and to make investment decisions.

Recognition and measurement – The company recognizes purchases and sales of investments on the trade date, which is the date on which the company commits to purchase or sell the asset. Transactions pending settlement are reflected on the consolidated balance sheet in other assets or in accounts payable and accrued liabilities. Transaction costs related to investments classified as FVTPL are expensed as incurred (a component of interest) in the consolidated statements of earnings and comprehensive income. The company recognizes cash and investments at fair value upon initial recognition.

Subsequent to initial recognition, investments classified at FVTPL are measured at fair value with changes in fair value reported in the consolidated statements of earnings and comprehensive income as income, comprised of interest, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments. Interest represents interest income on short term investments, loans and bonds calculated using the effective interest

method, net of investment expenses and includes bank interest. Calculation of a debt instrument's effective interest rate does not consider expected credit losses and requires estimates of future cash flows considering all contractual terms of the financial instrument including the stated interest rate, discount or premium, and any origination or structuring fees. Interest receivable is shown separately on the consolidated balance sheets based on the debt instrument's stated rate of interest. All other changes in fair value are reported in net realized gains (losses) on investments and net change in unrealized gains (losses) on investments in the consolidated statements of earnings and comprehensive income. For short term investments, loans and bonds, the sum of interest income and net realized gains (losses) on investments and net change in unrealized gains (losses) on investments is equal to their total change in fair value for the reporting period.

Interest, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments are reported as operating activities in the consolidated statements of cash flows.

Derecognition – 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 – Highly liquid debt instruments with maturity dates between three months and twelve months when purchased are classified as short term investments.

Loans – Loans are secured lending arrangements with public or private African businesses that qualify as African Investments as disclosed in note 5. The carrying value of loans excludes the debt instrument's accrued interest receivable at the stated rate of interest.

Bonds – Debt instruments with maturity dates greater than twelve months when purchased, or illiquid debt instruments with maturity dates of less than twelve months when purchased, are classified as bonds. The carrying value of bonds excludes the debt instrument's accrued interest receivable at the stated rate of interest.

Derivatives – Derivatives represent forwards contracts and warrants, which derive their value primarily from changes in underlying equity instruments. The fair value of derivatives in a gain position are presented on the consolidated balance sheets within total cash and investments, as derivatives. The fair value of derivatives in a loss position are presented on the consolidated balance sheets in derivative obligation. The initial premium paid for a derivative contract, if any, would be recorded as a derivative asset and subsequently adjusted for changes in the fair value of the contract at each reporting date. Changes in the fair value of derivatives are recorded within net change in unrealized gains (losses) on investments in the consolidated statement of earnings and comprehensive income.

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 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 using a three level hierarchy in accordance with IFRS (''fair value hierarchy'') as 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).

Net realized gains (losses) on investments, and Net change in unrealized gains (losses) on investments

Where a financial instrument continues to be held by the company at the end of a reporting period, changes in the fair value of that instrument during the reporting period, excluding those changes reported as interest, are presented in net change in unrealized gains (losses) on investments. On disposition of that financial instrument, its inception-to-date net gain (loss), excluding those changes previously reported as interest, is presented as net realized gains (losses) on investments in the consolidated statements of earnings and comprehensive income. The cumulative unrealized net gain (loss) recognized in prior periods on that financial instrument is then reversed in net change in unrealized gains (losses) on investments in the consolidated statements of earnings and comprehensive income.

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 earnings and 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 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 current substantively enacted tax rates. Changes in deferred income tax are included in the provision for income taxes in the consolidated statements of earnings and 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.

A deferred income tax liability has not been recognized on unremitted earnings of the company's subsidiaries holdings of African Investments where the company has determined it is not probable that those unremitted 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.

Borrowings

Borrowings are initially recognized at fair value, net of incremental and directly attributable transaction costs, and subsequently measured at amortized cost. Interest expense on borrowings is recognized in the consolidated statements of earnings and comprehensive income using the effective interest method. Borrowings are derecognized when extinguished, with any gain or loss on extinguishment recognized in other expenses in the consolidated statements of earnings and comprehensive income.

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 purchase 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.

Share-based payments

The company has restricted share plans or equivalent for its directors and employees with vesting periods of up to five years from the date of grant. The fair value of restricted share awards on the grant date is amortized to compensation expense, included in general and administration expenses in the consolidated statements of earnings and comprehensive income, over the vesting period, with a corresponding increase in share-based payments, net, in the consolidated statements of changes in equity. At each balance sheet date, the company reviews its estimates of the number of restricted share awards expected to vest.

Net earnings (loss) per share

Basic net earnings (loss) per share is calculated by dividing the net earnings (loss) by the weighted average number of subordinate and multiple voting shares issued and outstanding during the period.

Net earnings (loss) per diluted share

Diluted earnings (loss) per share is calculated by adjusting the weighted average number of subordinate and multiple voting shares outstanding during the period for the dilutive effect, if any, of the contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax (see note 12) that would have been outstanding during the period had all potential subordinate voting shares been issued at the beginning of the period.

New accounting pronouncement adopted in 2018

The company adopted the following amendment, effective January 1, 2018 in accordance with the applicable transitional provisions.

IFRS 9 Financial Instruments ("IFRS 9")
The complete version of IFRS 9 supersedes the 2010 version of IFRS 9 ("IFRS 9 (2010)") previously applied by the company. IFRS 9 includes requirements for the classification and measurement of financial assets and financial liabilities, an expected credit loss model for financial assets measured at amortized cost or fair value through other comprehensive income, and new hedge accounting guidance. The company has determined that its classifications of financial assets and financial liabilities, remain unchanged under IFRS 9 from those of IFRS 9 (2010). Equity investments and derivative assets and liabilities continue to be mandatorily classified at FVTPL, debt investments continue to be classified at FVTPL, and other financial assets and financial liabilities continue to be classified as amortized cost. IFRS 9 was adopted in accordance with its retrospective transition provisions without restatement of comparative periods. Adoption of IFRS 9 did not have a significant impact on the company's consolidated financial statements.

New accounting pronouncements issued but not yet effective

The following new standards and amendments have been issued by the IASB and were not yet effective for the fiscal year beginning January 1, 2018. The company does not expect to adopt any of them in advance of their respective effective dates.

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. Adoption of IFRIC 23 is not expected to have a significant impact on the company's consolidated financial statements.

IFRS Annual Improvements 2015-2017
In December 2017 the IASB issued amendments to clarify the requirements of four IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2019, primarily with prospective application. Adoption of the amendments is not expected to have a significant impact on the company's consolidated financial statements.

Conceptual Framework for Financial Reporting (''Conceptual Framework'')
On March 29, 2018 the IASB published a revised Conceptual Framework that includes revised definitions of an asset and a liability as well as new guidance on measurement, derecognition, presentation and disclosure. The revised Conceptual Framework does not constitute an accounting pronouncement and will not result in any immediate change to IFRS, but the IASB and IFRS Interpretations Committee will use it in setting future standards. The revised Conceptual Framework is effective for the company beginning on January 1, 2020 and will apply when developing an accounting policy for an issue not addressed by IFRS.

Definition of Material (Amendments to IAS 1 and IAS 8)
On October 31, 2018 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to clarify the definition of ''material''. The amendments are applied prospectively on or after January 1, 2020 and are not expected to have a significant impact on the company's consolidated financial statements.

4. Critical Accounting Estimates and Judgments

In the preparation of the company's consolidated financial statements, management has made a number of critical accounting estimates and judgments which are discussed below. 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 exercised judgment that it continues to meet the definition of an investment entity, as 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, remains unchanged. The company has also determined that SA Sub and Mauritius Sub continue to provide investment related services to the company and should continue to 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 would exit its private African Investments (''Private African Investments'', as disclosed later in note 5) either through initial public offerings or private sales. For publicly traded African Investments (''Public African Investments'', as disclosed later in note 5), exit strategies may include selling the investments through private placements or in public markets.

Valuation of Private African Investments

The valuation of the company's Private African Investments are assessed at the end of each reporting period.

For each Private African Investment acquired during the reporting period, the transaction price is generally considered to be representative of fair value, subject to changes in market conditions and factors specific to the investee. The company monitors various factors impacting the businesses of its investees and the transaction price of a Private African Investment may no longer be an appropriate estimate of fair value upon occurrence of certain events such as significant variances from budgeted earnings; changes in market conditions; changes to the regulatory

environment; movements in interest rates, foreign exchange rates and other market variables; and the passage of time.

Estimates and judgments for Private African 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 Private Africa 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 African Investments inherently has estimation uncertainty and different assumptions could lead to significantly different fair values. Refer to note 5 and 6 for additional disclosure related to the valuation of the company's Private African 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. The company exercised judgment in assessing that unremitted earnings related to its subsidiaries holdings of Africa Investments, as disclosed in note 10, are not expected to result in taxable amounts as the company has determined it is not probable that those unremitted earnings will be repatriated in the foreseeable future; as a consequence no tax has been recorded in the consolidated financial statements on these 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 income taxes may increase or decrease in future periods to reflect actual experience. The company has Fairfax 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 (recovery of) income taxes and expected timing of the reversal of deferred income tax assets and liabilities. The company exercised judgment that certain carryforwards of unused losses disclosed in note 10 should not be recognized as an asset as it was considered not probable that those losses could be utilized by the company.

Determination of functional currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates. The company expects its foreign currency exposure to increase, and the composition of that exposure to evolve as new African Investments are completed across more African countries and currencies. When the functional currency of an entity is not evident, management uses its judgment to determine the functional currency that most faithfully represents the economic effects of the entity's underlying transactions, events, and conditions. A significant portion of the company's investments and transactions, as well as the company's net proceeds pursuant to the offerings and borrowing, and significant expenses (including investment and advisory fees, and performance fees, in any) are denominated in the U.S. dollar. The performance and liquidity of the company are measured and evaluated in the U.S. dollar. Accordingly, management has determined that the U.S. dollar is the functional currency of the company.

5. African Investments

Throughout the company's consolidated financial statements for the year ended December 31, 2018, the term "African Investments" refers to deployed capital invested in Public and Private African Investments as disclosed within this note.

Summary of Changes in the Fair Value of the Company's African Investments

A summary of changes in the fair value of the company's Public and Private African Investments during 2018 and 2017 were as follows:

	2018							
	Balance as of January 1, 2018	**Purchases**	**Repayments/ conversions**	**Accretion of discount/ (amortization of premium)[1]**	**Net realized gains on investments**	**Net change in unrealized gains (losses) on investments[2]**	**Net foreign exchange gains (losses) on investments**	**Balance as of December 31, 2018**
Public African Investments:								
Common stocks:								
Atlas Mara	168,671	–	–	–	–	(49,579)	–	119,092
CIG	2,563	1,599	–	–	–	98	(374)	3,886
Other[3]	2,369	69	–	–	–	(2,100)	(310)	28
Total Public African Investments	173,603	1,668	–	–	–	(51,581)	(684)	123,006
Private African Investments:								
Loans:								
AGH Facility	24,233	–	(25,399)	–	–	–	1,166	–
Philafrica Facility	–	41,153	(35,841)	818	–	–	(6,130)	–
CIG	–	23,270	–	46	–	694	(2,942)	21,068
PGR2	–	20,996	–	–	–	(1,545)	(1,924)	17,527
	24,233	85,419	(61,240)	864	–	(851)	(9,830)	38,595
Bonds:								
Atlas Mara 7.5% Convertible Bonds	–	33,840	(36,182)	464	1,878	–	–	–
Atlas Mara 11.0% Convertible Bonds[4]	–	16,280	–	(9)	–	63	–	16,334
Atlas Mara 7.5% Bonds	–	17,676	–	104	–	(281)	–	17,499
Nova Pioneer Bond[5]	19,414	6,697	–	27	–	(115)	–	26,023
	19,414	74,493	(36,182)	586	1,878	(333)	–	59,856
Common stocks:								
Indirect equity interest in AGH[6]	88,314	21,712	–	–	–	18,082	(16,220)	111,888
Philafrica	–	23,254	–	–	–	870	(661)	23,463
GroCapital Holdings	–	12,141	–	–	–	–	(214)	11,927
	88,314	57,107	–	–	–	18,952	(17,095)	147,278
Derivatives:								
Atlas Mara Warrants	–	2,324	–	–	–	(1,308)	–	1,016
Nova Pioneer Warrants	520	326	–	–	–	155	–	1,001
	520	2,650	–	–	–	(1,153)	–	2,017
Derivative Obligation:								
CIG forward derivative liability[7]	–	–	–	–	–	(5,724)	–	(5,724)
	–	–	–	–	–	(5,724)	–	(5,724)
Total Private African Investments	132,481	219,669	(97,422)	1,450	1,878	10,891	(26,925)	242,022
Total African Investments	306,084	221,337	(97,422)	1,450	1,878	(40,690)	(27,609)	365,028

(1) Recorded in interest in the consolidated statement of earnings and comprehensive income.

(2) For all Private African Investments classified as Level 3 in the fair value hierarchy, net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at the end of the reporting period.

(3) Comprised of common shares of a public company listed on the Johannesburg Stock Exchange.

(4) Purchases included capitalized interest of $98.

(5) Purchases included capitalized interest of $2,250.

(6) Acquired through the company's ownership in Joseph Holdings. In 2018 the company increased its indirect equity interest in AGH from 42.2% to 44.7%. Purchases were primarily comprised of a $18,501 capital contribution to Joseph Holdings and a non-cash realized gain of $1,803 on the AGH Rights Offer (see note 5).

(7) Relates to the company's obligation to subscribe for 178,995,353 CIG ordinary shares as part of the CIG Rights Offer.

	2017							
	Balance as of January 1, 2017	**Purchases**	**Repayments/ conversions**	**Accretion of Discount(1)**	**Net realized gains on investments**	**Net change in unrealized gains (losses) on investments(2)**	**Net foreign exchange gains on investments**	**Balance as of December 31, 2017**
Public African Investments:								
Common stocks:								
Atlas Mara(3)	–	170,488	–	–	–	(1,817)	–	168,671
CIG	–	2,442	–	–	–	(132)	253	2,563
Other(4)	–	1,986	–	–	–	177	206	2,369
Total Public African Investments	–	174,916	–	–	–	(1,772)	459	173,603
Private African Investments:								
Loans:								
AGH Facility	–	23,255	–	–	–	–	978	24,233
Nova Pioneer Facility	–	4,000	(4,000)	–	–	–	–	–
	–	27,255	(4,000)	–	–	–	978	24,233
Bonds:								
Atlas Mara 5.0% Convertible Bond	–	100,000	(106,215)	1,117	5,098	–	–	–
Nova Pioneer Bond	–	19,545	–	–	–	(131)	–	19,414
	–	119,545	(106,215)	1,117	5,098	(131)	–	19,414
Common stocks:								
Indirect equity interest in AGH(5)	–	74,968	–	–	–	4,200	9,146	88,314
	–	74,968	–	–	–	4,200	9,146	88,314
Derivatives:								
Atlas Mara forward derivative on equity offering	–	–	(6,055)	–	6,055	–	–	–
Nova Pioneer Warrants	–	455	–	–	–	65	–	520
	–	455	(6,055)	–	6,055	65	–	520
Total Private African Investments	–	222,223	(116,270)	1,117	11,153	4,134	10,124	132,481
Total African Investments	–	397,139	(116,270)	1,117	11,153	2,362	10,583	306,084

(1) *Recorded in interest in the consolidated statement of earnings and comprehensive income.*

(2) *For all Private African Investments classified as Level 3 in the fair value hierarchy, net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at the end of the reporting period.*

(3) *Purchases in 2017 were comprised of a $159,335 capital contribution and non-cash net realized gains on Atlas Mara 5.0% Convertible Bond of $5,098 (previously entered into in 2017) and Atlas Mara Equity Offering of $6,055.*

(4) *Comprised of common shares of a public company listed on the Johannesburg Stock Exchange.*

(5) *Acquired through the company's ownership in Joseph Holdings.*

Public African Investments

The fair values of Fairfax Africa's Public African Investments are determined using the bid prices of those investments (without adjustments or discounts) at the balance sheet date.

Investment in Atlas Mara Limited (Common Shares)

Atlas Mara Limited (''Atlas Mara'') is a Sub-Saharan African financial services group listed on the London Stock Exchange under the symbol ATMA. Atlas Mara was founded in 2013 with a vision to establish itself as a premier financial institution across key markets in Sub-Saharan Africa. Since its inception, Atlas Mara has acquired control or significant influence in banks across seven Sub-Saharan African countries: Nigeria, Botswana, Zimbabwe, Mozambique, Rwanda, Tanzania and Zambia.

The company's investment in Atlas Mara is comprised of common shares, debt instruments and warrants. The debt instruments and warrants are classified as Level 3 investments in the fair value hierarchy and are discussed in the Private African Investments section under the heading Investment in Atlas Mara (Debt Instruments and Warrants) later in note 5.

Atlas Mara Common Shares

On July 17, 2017 the company invested $100,000 in Atlas Mara through the purchase of a mandatory convertible bond with an interest rate of 5.0% per annum. On August 31, 2017, concurrent with the closing of the Atlas Mara Equity Offering (described below), the convertible bond of $101,117 (including accrued interest) was converted into 44,722,222 ordinary shares of Atlas Mara at the Issue Price (defined below).

On August 31, 2017 the company acquired an additional 26,036,448 ordinary shares of Atlas Mara for $58,582 through participation in Atlas Mara's equity offering of $100,000 of new ordinary shares (the "Atlas Mara Equity Offering") at a price of $2.25 per share (the "Issue Price"). Fairfax Africa received a fee of $2,800 pursuant to an agreement to acquire any ordinary shares not taken up by qualifying Atlas Mara shareholders and to purchase a minimum of 30.0% of the Atlas Mara Equity Offering, resulting in a commitment to acquire Atlas Mara ordinary shares for net cash consideration of $55,782. The company's commitment to acquire Atlas Mara shares at a fixed price was determined to be a derivative financial instrument under IFRS. The appreciation of the Atlas Mara share price to $2.38 per share on the expiry date of the commitment (August 31, 2017) resulted in the recognition of a realized gain on investments of $6,055 recorded in the consolidated statements of earnings and comprehensive income in 2017.

On December 22, 2017 the company acquired an additional 1,200,000 ordinary shares of Atlas Mara for cash consideration of $2,436. Upon completion of this transaction, the company had invested aggregate consideration of $159,335 (including capitalized accrued interest and net of the $2,800 fee received) for a 43.3% equity interest in Atlas Mara.

At December 31, 2018 the fair value of the company's investment in Atlas Mara was $119,092 (December 31, 2017 – $168,671), comprised of 71,958,670 ordinary shares representing a 42.4% equity interest (December 31, 2017 – 43.3%). The changes in fair value of the company's investment in Atlas Mara in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Investment in Consolidated Infrastructure Group (Common Shares)

Consolidated Infrastructure Group Limited ("CIG") is a Pan-African engineering infrastructure company listed on the Johannesburg Stock Exchange under the stock symbol CIL. CIG has a diversified portfolio of operations including services and materials in power and electrical, oil and gas, building materials and the railway sector, with a footprint that spans over 20 African countries and the Middle East.

The company's investment in CIG is comprised of common shares, a debt instrument and a derivative obligation. The debt instrument and derivative obligation are classified as Level 3 investments in the fair value hierarchy and are discussed in the Private African Investments section under the heading Investment in Consolidated Infrastructure Group (Debt Instrument and Derivative Obligation) later in note 5.

CIG Common Shares

In 2017 Fairfax Africa acquired 8,789,282 ordinary shares, or a 4.5% equity interest in CIG, for cash consideration of $2,442. In 2018 the company acquired an additional 6,737,846 ordinary shares for cash consideration of $1,599. Upon completion of this transaction, the company had invested aggregate cash consideration of $4,041 for a 7.9% equity interest in CIG.

At December 31, 2018 the fair value of the company's investment in CIG was $3,886 (December 31, 2017 – $2,563), comprised of 15,527,128 ordinary shares representing a 7.9% equity interest (December 31, 2017 – 4.5%). The changes in fair value of the company's investment in CIG in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Subsequent to December 31, 2018

On January 4, 2019 CIG completed its previously announced rights offering for $57,179 (800 million South African rand) where existing CIG shareholders were invited to participate on a pro rata basis in a non-renounceable rights offer for 200,000,000 CIG ordinary shares (''CIG Rights Offer'') at a price of 4.00 South African rand (the ''Offer Price''). Fairfax Africa was committed to acquire any shares not taken up by existing CIG shareholders and as a result Fairfax Africa earned a fee equal to 2.5% of the CIG Rights Offer ($1,429 or 20 million South African rand).

Upon closing of the CIG Rights Offer the company acquired 178,995,353 ordinary shares of CIG for net cash consideration of $49,744 (696 million South African rand). Upon completion of this transaction the company had invested aggregate cash consideration of $53,785 for a 49.1% equity interest in CIG.

Investment in an Other Public African Investment

In 2018 and 2017 the company acquired common shares of a public company in the infrastructure sector, listed on the Johannesburg Stock Exchange (''Other Public African Investment'') for aggregate cash consideration of $2,055.

At December 31, 2018 the fair value of the company's investment in the Other Public African Investment was $28 (December 31, 2017 – $2,369) representing less than a 5.0% equity interest. The changes in fair value of the company's investment in the Other Public African Investment in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Private African Investments

The fair values of Fairfax Africa's Private African Investments cannot be derived from an active market and accordingly, are determined using industry accepted valuation techniques and models. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of these investments.

Investment in AFGRI Holdings Proprietary Limited

AFGRI Holdings Proprietary Limited (''AFGRI Holdings'') is a private holding company based in South Africa and owns 100.0% of AFGRI Group Holdings Proprietary Limited (''AGH'', formerly known as AFGRI), an investment holding company with interests in a number of agricultural and food-related companies providing products and services to ensure sustainable agriculture. AGH's core focus is grain commodities and it provides services across the entire grain production and storage cycle, offering financial support and solutions as well as high-tech equipment through the John Deere brand supported by a large retail footprint.

Indirect Equity Interest in AGH

Prior to Fairfax Africa's initial public offering (''IPO''), AgriGroupe Investments LP (''AgriGroupe LP'') held all of the ordinary shares and Class A shares of Joseph Investment Holdings (''Joseph Holdings''), an investment holding company formed to hold an investment in AGH. Fairfax's beneficial interest in the ordinary shares and Class A shares of Joseph Holdings was 65.9% and 72.6% respectively. Joseph Holdings has a 60.0% equity interest in AGH and other than cash, has no other assets, liabilities (contingent or otherwise) or operations, except minimal administrative overhead.

On February 17, 2017 in conjunction with its IPO, Fairfax Africa in a non-cash transaction acquired from AgriGroupe LP (the beneficial equity interests held by Fairfax in Joseph Holdings) 156,055,775 ordinary shares and 49,942,549 Class A shares for $25,001 and $49,967 respectively in exchange for: (i) 7,284,606 multiple voting shares of Fairfax Africa at $10.00 per multiple voting share issued to Fairfax; and, (ii) 212,189 subordinate voting shares of Fairfax Africa at $9.50 per subordinate voting share (being $10.00 less a private placement fee of $0.50 per subordinate voting share) issued to certain shareholders of Joseph Holdings. Upon completion of these transactions, the company invested $74,968 in Joseph Holdings, and owned 70.3% equity interest and 73.3% of the Class A shares of Joseph Holdings, becoming the largest beneficial shareholder of AGH with a 42.2% indirect equity interest.

On January 31, 2018 AGH completed its previously announced rights issue and raised $43,676 (518.6 million South African rand) at 2.27 South African rand per ordinary share (the ''AGH Rights Offer''). Joseph Holdings maintained its 60.0% equity interest in AGH through the purchase of 137,074,140 ordinary shares for cash consideration of $26,137 (311.2 million South African rand). To fund the additional investment in AGH, Joseph Holdings requested its

shareholders to provide funding on a pro rata basis consistent with their equity interest in Joseph Holdings. Certain shareholders of Joseph Holdings declined to take up their pro rata share, which resulted in Fairfax Africa acquiring 79,743,201 ordinary shares of Joseph Holdings for cash consideration of $18,501 (excluding a non-cash realized gain of $1,803 on the AGH Rights Offer). Upon completion of the AGH Rights Offer, Fairfax Africa held 235,798,976 ordinary shares of Joseph Holdings representing a 72.9% equity interest and 49,942,549 or 73.3% of the outstanding Class A shares, for an aggregate investment of $93,469. In aggregate, Fairfax Africa held a 43.8% indirect equity interest in AGH through its ownership in Joseph Holdings.

The company's right to acquire ordinary shares of AGH, through its investment in Joseph Holdings, at a fixed price was determined to be a derivative financial instrument under IFRS. The appreciation of AGH's share price to 2.43 South African rand on closing of the AGH Rights Offer resulted in the recognition of a non-cash realized gain on investments of $1,803 in the consolidated statements of earnings and comprehensive income in 2018.

On November 19, 2018 the company acquired an additional 5,260,679 ordinary shares and 270,362 Class A shares of Joseph Holdings for aggregate cash consideration of $1,408 from an employee of the company's portfolio sub-advisor, Pactorum Ltd. (''Pactorum''). Refer to note 12 for additional details on this related party transaction. Upon completion of this transaction, Fairfax Africa had invested $96,680, inclusive of the non-cash realized gain of $1,803, in Joseph Holdings (comprised of 74.6% of the ordinary shares and 73.7% of the Class A shares of Joseph Holdings). Fairfax Africa continues to be the largest beneficial shareholder of AGH, through its investment in Joseph Holdings, with a 44.7% indirect equity interest.

At December 31, 2018 the company estimated the fair value of its investment in the indirect equity interest in AGH using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.7% to 26.0% and a long term growth rate of 3.0% (December 31, 2017 – 11.6% to 25.1%, and 3.0% respectively). At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for AGH's business units prepared in the fourth quarter of 2018 (December 31, 2017 – fourth quarter of 2017) by AGH'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 AGH operates. At December 31, 2018 the company's internal valuation model indicated that the fair value of its 44.7% indirect equity interest in AGH, acquired through the company's ownership in Joseph Holdings, was $111,888 (December 31, 2017 – $88,314), comprised of the Class A shares and ordinary shares of Joseph Holdings. The changes in fair value of the company's indirect equity interest in AGH in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

AGH Facilities

On June 21, 2017 Fairfax Africa entered into a secured lending arrangement with AGH, pursuant to which Fairfax Africa provided $23,255 (300 million South African rand) of financing (the ''AGH Facility''). The AGH Facility earned interest at a rate of South African prime plus 2.0% per annum and a raising fee equal to 2.0% of the loan proceeds.

The AGH Facility was initially scheduled to mature on December 23, 2017 with an option for AGH to repay the AGH Facility in newly issued shares of AGH, subject to certain conditions on maturity. On December 19, 2017 the AGH Facility maturity date was extended from December 23, 2017 to January 31, 2018. During the extension period, the AGH Facility interest rate was increased to South African prime plus 6.0% per annum. On January 31, 2018 the AGH Facility matured and the company received $25,399 (including accrued interest) and recognized a realized foreign exchange gain of $1,166 (2017 – nil) in the consolidated statements of earnings and comprehensive income in 2018.

In 2018 the company recorded interest income of $383 (2017 – $1,982) within interest in the consolidated statements of earnings and comprehensive income related to the AGH Facility.

On December 13, 2018 the company entered into a second secured lending arrangement with AGH pursuant to which Fairfax Africa provided $13,074 (180 million South African rand) of financing. The facility will earn interest at a rate of South African prime plus 2.0%, payable on maturity and will mature six months from the date of last issuance. At December 31, 2018 the facility was not drawn down by AGH.

Subsequent to December 31, 2018

On January 21, 2019 the full $13,074 (180 million South African rand) was advanced to AGH. The facility including accrued interest matures on July 19, 2019.

Investment in Philafrica Foods Proprietary Ltd.

Philafrica Foods Proprietary Ltd. (''Philafrica'') is headquartered in South Africa, where it owns and operates maize mills, wheat mills, animal feed factories, snacking facilities, soya crushing and extraction plants, which process oil and other raw materials into edible oils, fats and proteins for human consumption (primarily for the food processing and quick-service restaurant industries), and a mussels farm and factory. Philafrica also has food-related businesses outside South Africa, consisting mainly of a cassava processing business in Côte d'Ivoire and Mozambique and a poultry joint venture in Mozambique. In addition to its 14 production plants, (including newly acquired mussels and snack manufacturing operations), across the South African provinces of Gauteng, Kwazulu Natal, Mpumalanga, Eastern Cape, Western Cape, the Free State and Limpopo, Philafrica has operations in Mozambique.

Philafrica Facility

On February 28, 2018 and May 28, 2018 Fairfax Africa entered into secured lending arrangements with Philafrica, pursuant to which the company provided Philafrica with $27,934 (330 million South African rand) and $13,219 (170 million South African rand, net of a 2.0% raising fee) (collectively referred to as the ''Philafrica Facility'') for aggregate net cash consideration of $41,153. The Philafrica Facility bears interest at a rate of South African prime plus 2.0% per annum, payable monthly in arrears or capitalized to the loan amount at the election of Philafrica. In 2018 Fairfax Africa received a $686 (10 million South African rand) raising fee equal to 2.0% of the loan proceeds.

On November 19, 2018 the company had converted $23,254 (325 million South African rand) of the Philafrica Facility into 26,000 newly issued ordinary shares of Philafrica as part of the Philafrica rights offering (described below). On December 24, 2018 the remaining investment in the Philafrica Facility, including raising fees and interest, was fully repaid in cash.

The changes in fair value of the Philafrica Facility in 2018 are presented in the table disclosed earlier in note 5.

In 2018 the company recorded interest income of $3,903 (2017 – nil) within interest in the consolidated statements of earnings and comprehensive income related to the Philafrica Facility.

Philafrica Common Shares

On November 19, 2018 Fairfax Africa participated in a previously announced rights offering of Philafrica ordinary shares for aggregate capital raise of $35,775 (500 million South African rand) (''Philafrica Rights Offer''). Fairfax Africa participated in the Philafrica Rights Offer and converted $23,254 (325 million South African rand) of the Philafrica Facility into 26,000 ordinary shares of Philafrica. Upon completion of this transaction, the company held a 26.0% equity interest in Philafrica, and AGH's equity interest decreased from 100.0% to 60.0%, with AGH maintaining control of Philafrica.

At December 31, 2018 the company estimated the fair value of its investment in Philafrica using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 13.7% to 24.4% and a long term growth rate of 3.0% (December 31, 2017 – nil and nil). At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for Philafrica's business units prepared in the fourth quarter of 2018 by Philafrica'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 Philafrica operates. At December 31, 2018 the company's internal valuation model indicated that the fair value of its investment in Philafrica was $23,463 (December 31, 2017 – nil) for the 26.0% equity interest. The changes in fair value of the company's investment in Philafrica in 2018 are presented in the table disclosed earlier in note 5.

Investment in GroCapital Holdings Proprietary Limited

GroCapital Holdings Proprietary Limited (''GroCapital Holdings'') is a bank holding company that owns 99.9% of the South African Bank of Athens Limited (''SABA''). SABA was established in 1947 in South Africa and is focused on delivering world-class banking services to the medium-sized business market in the country. SABA offers comprehensive traditional business banking such as lending, transaction banking, treasury and foreign exchange as well as alliance banking services, which provide niche transactional banking offerings in partnership with non-banking entities who would like to offer financial services into their customer base.

GroCapital Holdings Common Shares

In December 2016 AFGRI Holdings entered into an agreement with the National Bank of Greece S.A. and NBG Malta Holdings Ltd. (collectively ''NBG'') to acquire 27,965,985 ordinary shares, or a 99.8% equity interest in SABA (the ''SPA''). To facilitate the closing of this transaction, GroCapital Holdings was established as a bank holding company to acquire the SABA shares. On May 12, 2017 AFGRI Holdings appointed GroCapital Holdings as its nominee for purposes of the SPA and assigned its rights and obligations under the SPA to GroCapital Holdings. On September 28, 2018 Fairfax Africa acquired a 35.0% equity interest in GroCapital Holdings for cash consideration of $9,848 (139.4 million South African rand). The Public Investment Corporation SOC Limited (''PIC'') and AGH own the remaining 35.0% and 30.0% equity interest in GroCapital Holdings.

On October 4, 2018 GroCapital Holdings acquired the 99.8% equity interest in SABA from NBG through the SPA assignment from AFGRI Holdings. GroCapital Holdings subsequently acquired an additional equity interest in SABA from minority shareholders and at December 31, 2018 held an equity interest in SABA of 99.9%.

On October 26, 2018 GroCapital Holdings issued a capital call to its shareholders to fund their pro rata contribution, which was invested by GroCapital Holdings into SABA to ensure compliance with capital adequacy requirements of the South African regulators. On November 8, 2018 Fairfax Africa invested their pro rata contribution of the capital call of $2,293 (32.2 million South African rand) to GroCapital Holdings to maintain its 35.0% equity interest. Upon completion of this transaction, the company had invested aggregate cash consideration of $12,141 in GroCapital Holdings.

The initial transaction price for the company's investment in GroCapital Holdings was considered to approximate fair value at December 31, 2018 as there were no significant changes to its investment in SABA's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continue to be valid. In 2018 the change in fair value of the company's equity interest in GroCapital Holdings related to foreign exchange losses and is presented in the table disclosed earlier in note 5.

Investment in Consolidated Infrastructure Group (Debt Instrument and Derivative Obligation)

The company's investment in CIG is comprised of common shares classified as Level 1 in the fair value hierarchy and a debt instrument and derivative obligation classified as Level 3 in the fair value hierarchy. The company's investment in CIG common shares is discussed in the Public African Investments section under the heading Investment in Consolidated Infrastructure Group (Common Shares) earlier in note 5.

CIG Loan

On May 18, 2018 the company entered into a secured lending arrangement with CIG, pursuant to which the company provided CIG with $23,270 (300 million South African rand) of financing (the ''CIG Loan''). The initial term of the CIG Loan was for a period of one year at an interest rate of South African prime plus 4.0% per annum, payable monthly in cash. On August 29, 2018 at a CIG Extraordinary General Meeting, shareholder approval was received for the conversion features contained in the CIG Loan (described below), and as a result the term of the CIG Loan was increased to five years and the interest rate was reduced to South African prime plus 2.0% per annum.

Fairfax Africa has the option at any time during the five year term to convert all or a portion of the CIG Loan into a maximum of 57,692,308 ordinary shares of CIG at a price of 5.20 South African rand per share. CIG has the option after June 4, 2021 to convert the CIG Loan into ordinary shares at a price of 5.20 South African rand per share, provided that the CIG ordinary shares have traded at more than 6.24 South African rand per share for at least 90 consecutive days at the time of conversion.

Fairfax Africa received a fee of $597 (7.5 million South African rand) for its involvement in structuring the transaction that initially reduced the cost of the company's investment and is amortized over the term of the CIG Loan.

At December 31, 2018 the company estimated the fair value of its investment in the CIG Loan using an industry accepted discounted cash flow and option pricing model that incorporated the security's estimated credit spread of 7.8% (December 31, 2017 – nil) and estimated historical share price volatility of 60.9% (December 31, 2017 – nil). The estimated credit spread was based on a peer group of comparable companies adjusted for credit risk specific to CIG. At December 31, 2018 the company's internal valuation model indicated that the estimated fair value of the

CIG Loan was $21,068 (December 31, 2017 – nil). The changes in fair value of the CIG Loan in 2018 are presented in the table disclosed earlier in note 5.

In 2018 the company recorded interest income of $1,630 (2017 – nil) within interest in the consolidated statements of earnings and comprehensive income related to the CIG Loan.

CIG Rights Offer (Derivative Obligation)

The company's obligation to subscribe for 178,995,353 ordinary shares of CIG as part of the CIG Rights Offer (refer to the Public African Investments section under the heading Investment in Consolidated Infrastructure Group (Common Shares) earlier in note 5) gave rise to a forward derivative liability. At December 31, 2018 the company estimated the fair value of the derivative obligation using an estimated forward price of the CIG ordinary shares on the closing date of January 4, 2019 compared to the Offer Price, which was multiplied by the take-up of the CIG Rights Offer by Fairfax Africa. At December 31, 2018 the company's internal valuation model indicated that the estimated fair value of the derivative obligation was $5,724 (December 31, 2017 – nil). The changes in fair value of the derivative obligation for CIG's Rights Offer in 2018 are presented in the table disclosed earlier in note 5.

Subsequent to December 31, 2018

On January 4, 2019 upon closing of the CIG Rights Offer the company settled the derivative obligation and will record a realized gain of $5,724 in the consolidated statements of earnings and comprehensive income in the first quarter of 2019.

Investment in the PGR2 Loan (Debt Instrument)

On May 18, 2018, in conjunction with the CIG Loan, Fairfax Africa entered into a secured lending agreement with PGR2 Investments Proprietary Limited (''PGR2''), the largest shareholder of CIG at the time of the transaction, pursuant to which the company provided PGR2 with $19,969 (260 million South African rand) of secured financing (the ''PGR2 Loan''). The PGR2 Loan is secured by ordinary shares of CIG held by PGR2 and associated parties and bears interest at a rate of 15.0% per annum, payable semi-annually in cash, with a maturity date of May 24, 2021. The PGR2 loan is repayable in full if the ordinary shares of CIG trade above 6.50 South African rand for 30 consecutive days. Within six months after the closing date of the CIG Rights Offer, either party may elect to buy or sell shares from the other to the extent necessary to ensure both parties hold an equal number of shares. In 2018 the company's investment in the PGR2 Loan of $20,996 was comprised of a principal draw down of $19,969 (260 million South African rand) and capitalized interest of $1,027 (14.4 million South African rand).

At December 31, 2018 the company estimated the fair value of its investment in the PGR2 Loan using an industry accepted discounted cash flow and option pricing model that incorporated PGR2's estimated credit spread of 11.9% (December 31, 2017 – nil). The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to PGR2. At December 31, 2018 the company's internal valuation model indicated that the estimated fair value its investment in the PGR2 Loan was $17,527 (December 31, 2017 – nil). The changes in fair value of the PGR2 Loan in 2018 are presented in the table disclosed earlier in note 5.

In 2018 the company recorded interest income of $1,222 (2017 – nil) within interest in the consolidated statements of earnings and comprehensive income related to the PGR2 Loan.

Investment in Atlas Mara Limited (Debt Instruments and Warrants)

The company's investment in Atlas Mara is comprised of common shares classified as Level 1 in the fair value hierarchy and debt instruments and warrants classified as Level 3 in the fair value hierarchy. The company's investment in Atlas Mara common shares is discussed in the Public African Investments section under the heading Investment in Atlas Mara Limited (Common Shares) earlier in note 5. The Atlas Mara Bonds discussed below are not rated.

Atlas Mara 5.0% Convertible Bond (Converted into Common Shares)

On July 17, 2017 the company invested $100,000 in Atlas Mara through the purchase of a mandatory convertible bond with an interest rate of 5.0% per annum (the ''Atlas Mara 5.0% Convertible Bond'') which increased to 10.0% per annum on August 31, 2017. On August 31, 2017, concurrent with the closing of the Atlas Mara Equity Offering (described in the Public African Investments section as noted above), the Atlas Mara 5.0% Convertible Bond

(including accrued interest) was converted into 44,722,222 ordinary shares of Atlas Mara. The change in the fair value of the Atlas Mara 5.0% Convertible Bond between the date of initial recognition and the conversion into Atlas Mara ordinary shares resulted in the recognition of a realized gain on investment of $5,098 recorded in the consolidated statements of earnings and comprehensive income in 2017.

Atlas Mara 7.5% Convertible Bonds (Extinguished for Atlas Mara 7.5% Bonds plus Warrants, and Atlas Mara 11.0% Convertible Bonds)

On April 24, 2018 Fairfax Africa and Atlas Mara entered into a placing agreement pursuant to which the company purchased $16,000 par value convertible bonds maturing on April 24, 2020. The terms of the convertible bonds included a two year tenor, original issue discount of 5.0% and a 1.0% upfront origination fee with interest at a rate of 7.5% per annum. The bonds were convertible at maturity at the option of Fairfax Africa into ordinary shares of Atlas Mara (the ''Atlas Mara 7.5% Convertible Bonds'').

On July 5, 2018 the company amended the terms of the placing agreement (the ''Amended Placing Agreement'') to provide an additional $20,000 in funding to Atlas Mara. Upon completion of this transaction, the company held $36,000 par value convertible bonds with an interest rate of 7.5% maturing on April 24, 2020 for total aggregate cash consideration of $33,840 (net of the fees). In the fourth quarter of 2018 the terms of the Atlas Mara 7.5% Convertible Bonds were amended resulting in the company for accounting purposes treating it as an extinguishment, as described below.

Atlas Mara 7.5% Bonds plus Warrants

On November 6, 2018 the company amended the terms of the Amended Placing Agreement on the $20,000 par value convertible bonds as follows: (i) replaced the conversion feature of the bonds with 6,200,000 of Atlas Mara warrants, that can be exercised by the company at a price of $3.20 per ordinary share of Atlas Mara; and, (ii) amended maturity date of the bonds to November 6, 2021, with the option by Atlas Mara to extend the maturity by an additional year to November 6, 2022. The interest rate on the bonds remained at 7.5% per annum, with interest payable semi-annually (''Atlas Mara 7.5% Bonds''). Under IFRS the changes to the terms of the bonds were deemed as substantial and accounted for as a non-cash extinguishment for the $20,000 par value convertible bonds that were exchanged for $20,000 par value non-convertible bonds and 6,200,000 warrants with fair values of $17,676 and $2,324 on the date of amendment. In 2018 the company recognized a realized gain on investment of $993 on the extinguishment of the $20,000 par value convertible bond in the consolidated statements of earnings and comprehensive income.

At December 31, 2018 the company estimated the fair value of its investment in the Atlas Mara 7.5% Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Atlas Mara's estimated credit spread of 10.3% (December 31, 2017 – nil) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Atlas Mara. At December 31, 2018 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara 7.5% Bonds was $17,499 (December 31, 2017 – nil).

At December 31, 2018 the company estimated the fair value of its investment in the Atlas Mara warrants using an industry accepted discounted cash flow and option pricing model that incorporated estimated historical share price volatility of 34.5% (December 31, 2017 – nil). At December 31, 2018 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara warrants was $1,016 (December 31, 2017 – nil).

Atlas Mara 11.0% Convertible Bonds

On December 11, 2018 the company amended the terms of the Amended Placing Agreement for the $16,000 par value convertible bonds as follows: (i) an increase in the interest rate to 11.0% per annum accrued quarterly and in lieu of cash, the interest is payable in kind in the form of additional Atlas Mara bonds (''Atlas Mara 11.0% Convertible Bonds''); and, (ii) amended the maturity date to December 11, 2019 with the option by Atlas Mara to extend the maturity by an additional year to December 11, 2020. Under IFRS the changes to the terms of the convertible bonds were deemed substantial and accounted for as a non-cash extinguishment for the original $16,000 par value convertible bonds that were exchanged for 11.0% Convertible Bonds with a fair value of $16,182 on date of amendment. In 2018 the company recognized a realized gain of $885 on extinguishment of the $16,000 par value convertible bonds in the consolidated statements of earnings and comprehensive income.

At December 31, 2018 the company estimated the fair value of its investment in the Atlas Mara 11.0% Convertible Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Atlas Mara's estimated credit spread of 10.3% (December 31, 2017 – nil) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Atlas Mara. At December 31, 2018 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara 11.0% Convertible Bonds was $16,334 (December 31, 2017 – nil).

The changes in fair value of the company's bond and warrant investments in Atlas Mara during 2018 and 2017 are presented in the tables disclosed earlier in note 5. In 2018 the company recorded interest income of $2,441 (2017 – $1,117) within interest in the consolidated statements of earnings and comprehensive income related to the Atlas Mara bonds.

Investment in Nova Pioneer Education Group

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 2013 with its first school opening in South Africa in 2014. Since then, the company has expanded across South Africa and launched its first campus in Kenya in 2015. Nova Pioneer currently operates ten schools with a combined enrollment of approximately 3,850 students.

Nova Pioneer Facility (Converted in 2017 for Nova Pioneer Bond and Warrants)

On June 8, 2017 Fairfax Africa entered into a secured lending arrangement with Ascendant Learning Limited (''Ascendant''), the Mauritius based parent entity of Nova Pioneer. In advance of the secured lending arrangement, Ascendant was permitted to borrow up to $4,000 (the ''Nova Pioneer Facility'') for the benefit of Nova Pioneer. The Nova Pioneer Facility had an initial interest rate of 5.0% per annum, which increased to 18.0% per annum on June 30, 2017. The Nova Pioneer Facility was secured against certain assets of Ascendant and its subsidiaries. On June 8, 2017 and August 10, 2017, Ascendant borrowed $3,000 and $1,000, respectively, on the Nova Pioneer Facility. On August 22, 2017 the Nova Pioneer Facility was converted into the Nova Pioneer securities (discussed below).

Nova Pioneer Bonds and Warrants

On June 30, 2017 Fairfax Africa announced a $20,000 investment in Nova Pioneer which consisted of secured debentures maturing on December 31, 2024 (the ''Nova Pioneer Bonds'') and 2,000,000 warrants (the ''Nova Pioneer Warrants'') to be issued in tranches. At December 31, 2017 the $20,000 investment was completed, consisting of securities with fair values on the date of the investment of Nova Pioneer Bonds of $19,545 and 2,000,000 Nova Pioneer Warrants of $455.

The Nova Pioneer Bonds bear interest at a rate of 20.0% per annum and are redeemable by Ascendant at par at any time after June 30, 2021, except in circumstances relating to a change of control or a value realization event. Each Nova Pioneer Warrant can be exercised by the company at a price of $2.06 per ordinary share of Ascendant. Other than in circumstances relating to a change of control or a value realization event, the Nova Pioneer Warrants may be exercised after June 30, 2021. The Nova Pioneer Bonds are not rated.

On August 30, 2018 on the same terms as the initial investment in Nova Pioneer as described above, the company entered into an Amending Agreement and completed an additional $4,000 investment in Nova Pioneer, comprised of secured debentures and 400,000 Nova Pioneer Warrants, with fair values on the date of the investment of $3,705 and $295. On December 31, 2018 the company entered into a Second Amending Agreement, under the same terms as the prior investment, to provide an additional $10,000 investment in Nova Pioneer and invested $773 relating to the incremental investment in Nova Pioneer, comprised of secured debentures and 77,293 Nova Pioneer Warrants, with fair values on the date of the investment of $742 and $31 (''tranche 1''). Upon completion of this transaction, the company had invested $26,242 in Nova Pioneer Bonds and $781 in Nova Pioneer Warrants, with a remaining investment commitment of $9,227 at December 31, 2018 (partially completed on January 11, 2019 for an additional $3,500 investment, as described below).

At December 31, 2018 the company estimated the fair value of its investment in the Nova Pioneer Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Nova Pioneer's estimated credit

spread of 18.5% (December 31, 2017 – 18.9%). The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Nova Pioneer and assumptions related to certain redemption options embedded in the bonds. At December 31, 2018 the company's internal valuation model indicated that the fair value of the investment in Nova Pioneer Bonds was $26,023 (December 31, 2017 – $19,414). The changes in fair value of the Nova Pioneer Bonds in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

In 2018 the company recorded interest income of $4,772 (2017 – $1,016) within interest in the consolidated statements of earnings and comprehensive income related to the Nova Pioneer Bonds.

At December 31, 2018 the company estimated the fair value of its investment in the Nova Pioneer Warrants using an industry accepted discounted cash flow and option pricing model that incorporated an estimated share price of $1.46 (December 31, 2017 – $1.15) At December 31, 2018 the company's internal valuation model indicated that the fair value of the investment in the Nova Pioneer Warrants was $1,001 (December 31, 2017 – $520). The changes in fair value of the Nova Pioneer Warrants in 2018 and 2017 are presented in the tables disclosed earlier in note 5.

Subsequent to December 31, 2018

On January 11, 2019 the company completed an additional $3,500 investment in Nova Pioneer as part of the Second Amending Agreement, comprised of secured debentures and 350,000 Nova Pioneer Warrants, with fair values on the date of investment of $3,333 and $167 ("tranche 2").

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:

	December 31, 2018				December 31, 2017			
	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value of assets	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value of assets
Cash and cash equivalents	230,858	–	–	230,858	13,012	–	–	13,012
Restricted cash[1]	–	–	–	–	313,000	–	–	313,000
	230,858	–	–	230,858	326,012	–	–	326,012
Short term investments – U.S. treasury bills	38,723	–	–	38,723	32,968	–	–	32,968
Loans:								
AGH Facility	–	–	–	–	–	–	24,233	24,233
CIG	–	–	21,068	21,068	–	–	–	–
PGR2	–	–	17,527	17,527	–	–	–	–
	–	–	38,595	38,595	–	–	24,233	24,233
Bonds:								
Atlas Mara 11.0% Convertible Bonds	–	–	16,334	16,334	–	–	–	–
Atlas Mara 7.5% Bonds	–	–	17,499	17,499	–	–	–	–
Nova Pioneer Bond	–	–	26,023	26,023	–	–	19,414	19,414
	–	–	59,856	59,856	–	–	19,414	19,414
Common stocks:								
Atlas Mara	119,092	–	–	119,092	168,671	–	–	168,671
CIG	3,886	–	–	3,886	2,563	–	–	2,563
Other	28	–	–	28	2,369	–	–	2,369
Indirect equity interest in AGH	–	–	111,888	111,888	–	–	88,314	88,314
Philafrica	–	–	23,463	23,463	–	–	–	–
GroCapital Holdings	–	–	11,927	11,927	–	–	–	–
	123,006	–	147,278	270,284	173,603	–	88,314	261,917
Derivatives:								
Atlas Mara Warrants	–	–	1,016	1,016	–	–	–	–
Nova Pioneer Warrants	–	–	1,001	1,001	–	–	520	520
	–	–	2,017	2,017	–	–	520	520
Total cash and investments	392,587	–	247,746	640,333	532,583	–	132,481	665,064
Derivative obligation:								
CIG forward derivative liability[2]	–	–	(5,724)	(5,724)	–	–	–	–
Total cash and investments, net of derivative obligation	392,587	–	242,022	634,609	532,583	–	132,481	665,064
	61.9%	–	38.1%	100.0%	80.1%	–	19.9%	100.0%

(1) *During 2018, $150,000 of cash collateral was used to repay the company's Term Loan with interest received on the cash collateral of $2,535 released to the company as non-restricted cash (see note 7). During 2018, $162,519 of cash collateral and accrued interest, relating to the LC Facility was released from restricted cash (see note 7). At December 31, 2017 restricted cash comprised of $150,000 cash collateral relating to the Term Loan, $162,000 cash collateral relating to the LC Facility and $1,000 of interest earned on restricted cash.*

(2) *Relates to the company's obligation to subscribe for 178,995,353 CIG ordinary shares as part of the CIG Rights Offer.*

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2018 and 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. The changes in fair value of the company's Private African Investments (classified as Level 3) are disclosed in note 5.

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 its Private African Investments classified as Level 3 at December 31, 2018. 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. This sensitivity analysis excludes the company's investments in the derivative obligation relating to the CIG Rights Offer and the equity interest in GroCapital Holdings as the company determined that there were no significant unobservable inputs suited for a sensitivity analysis.

Investments	**Fair value of Investment**	**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)]**
Loans:						
CIG Loan	$21,068	Discounted cash flow and option pricing model	Credit spread Historical share price volatility	7.8% 60.9%	(275) / 338 nil / (1,525)	(202) / 248 nil / (1,121)
PGR2 Loan	$17,527	Discounted cash flow and option pricing model	Credit spread	11.9%	(330) / 362	(243) / 266
Bonds:						
Atlas Mara 11.0% Convertible Bonds	$16,334	Discounted cash flow and option pricing model	Credit spread	10.3%	(82) / 77	(60) / 57
Atlas Mara 7.5% Bonds	$17,499	Discounted cash flow and option pricing model	Credit spread	10.3%	(424) / 430	(312) / 316
Nova Pioneer Bonds	$26,023	Discounted cash flow and option pricing model	Credit spread	18.5%	(851) / 894	(626) / 657
Common stocks:						
Indirect equity interest in AGH	$111,888	Discounted cash flow	After-tax discount rate Long-term growth rate	11.7% to 26.0% 3.0%	(4,810) / 5,632 2,018 / (1,623)	(4,172) / 4,886 1,750 / (1,408)
Philafrica	$23,463	Discounted cash flow	After-tax discount rate Long-term growth rate	13.7% to 24.4% 3.0%	(1,162) / 1,268 414 / (397)	(1,008) / 1,100 359 / (344)
Derivatives:						
Atlas Mara Warrants	$1,016	Discounted cash flow and option pricing model	Historical share price volatility	34.5%	273 / (6)	201 / (4)
Nova Pioneer Warrants	$1,001	Discounted cash flow and option pricing model	Share price	$1.46	99 / (190)	73 / (140)

(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), long term growth rates (25 basis points), estimated share price volatility (minimum and maximum historical volatility over a two year period from the balance sheet date), changes in share price (5.0%) and credit spreads (100 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, estimated share price volatility or credit spreads would result in a higher (lower) fair value of the company's Private African Investments classified as Level 3 in the fair value hierarchy.

Fixed Income Maturity Profile

Loans and bonds are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of call and put features. At December 31, 2018 debt instruments containing call features represented $38,595 and $42,357 (December 31, 2017 – nil and $19,414) of the total fair value of loans and bonds respectively. At December 31, 2018 and 2017 there were no debt instruments containing put features.

	December 31, 2018		December 31, 2017	
	Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
Loans:				
Due in 1 year or less	–	–	24,233	24,233
Due after 1 year through 5 years	44,313	38,595	–	–
	44,313	38,595	24,233	24,233
Effective interest rate		14.1%		16.3%
Bonds:				
Due in 1 year or less	–	–	–	–
Due after 1 year through 5 years	60,320	59,856	20,000	19,414
	60,320	59,856	20,000	19,414
Effective interest rate		15.3%		20.0%

Investment Income

An analysis of investment income for the years ended December 31 is summarized in the table that follows:

Interest

	2018	**2017**
Interest:		
Cash and cash equivalents	2,360	1,020
Restricted cash	1,947	1,374
Short term investments	2,190	309
Loans	7,138	2,076
Bonds	7,213	2,810
Total interest income	20,848	7,589

Net gains (losses) on investments and net foreign exchange gains (losses)

	2018			2017		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	**Net realized gains (losses)**	**Net change in unrealized gains (losses)**	**Net gains (losses)**
Net gains (losses) on investments:[1]						
Short term investments – U.S. treasury bills	(20)	–	(20)	–	–	–
Loans	–	(851)	(851)	–	–	–
Bonds	1,878	(333)	1,545	5,219	(131)	5,088
Common stocks	1,803	(32,629)	(30,826)	–	2,428	2,428
Derivatives	–	(6,877)	(6,877)	6,055	65	6,120
	3,661	(40,690)	(37,029)	11,274	2,362	13,636
Net foreign exchange gains (losses) on:[1]						
Cash and cash equivalents	1,620	–	1,620	(16)	–	(16)
Loans	(4,964)	(4,866)	(9,830)	–	978	978
Common stocks	–	(17,779)	(17,779)	–	9,605	9,605
Other	–	62	62	–	59	59
	(3,344)	(22,583)	(25,927)	(16)	10,642	10,626

(1) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private African Investments during 2018 and 2017.

7. Borrowings

	December 31, 2018			December 31, 2017		
	Principal	**Carrying value[1]**	**Fair value[2]**	**Principal**	**Carrying value**	**Fair value[2]**
Revolving Credit Facility, floating rate due March 21, 2019	30,000	29,527	30,000	–	–	–
Secured Term Loan, floating rate, repaid on August 29, 2018	–	–	–	150,000	150,000	150,000
	30,000	29,527	30,000	150,000	150,000	150,000

(1) Principal net of unamortized issue costs.

(2) Principal approximated fair value at December 31, 2018 and 2017.

Revolving Credit Facility

On September 7, 2018 the company entered into a $90,000 secured, revolving demand credit facility with a syndicate of Canadian lenders, bearing interest at a rate of LIBOR plus 400 basis points (the "Credit Facility") which is payable in arrears on the applicable interest payment date. The Credit Facility has a maturity date of September 7, 2019 with an option to extend for an additional year on an annual basis. Issuance costs of $690 were initially deferred, with $217 amortized and recorded in interest expense in the consolidated statement of earnings and comprehensive income in 2018. The Credit Facility is presented net of unamortized issuance costs when drawn; otherwise unamortized issuance costs are recorded in other assets on the consolidated balance sheet. The Credit Facility contains a financial covenant that requires the company to maintain common shareholders' equity of not less than $600,000.

On December 21, 2018 the company drew $30,000 from the Credit Facility with a 3-month term that will be repaid on March 21, 2019 along with accrued interest of $509. At December 31, 2018 the company was in compliance with the financial covenant requirement to maintain common shareholders' equity of not less than $600,000.

Term Loan

On August 31, 2017 the company completed a secured term loan with a Canadian bank with a principal amount of $150,000 and bearing interest at a rate of LIBOR plus 100 basis points (the ''Term Loan''). In connection with the Term Loan, the company was required to maintain cash collateral of $150,000, which together with interest received of $2,535, was classified as restricted cash on the consolidated balance sheet. On January 31, 2018 the company extended the maturity of the Term Loan to August 31, 2018. On August 29, 2018 the proceeds from the cash collateral, including interest received, was released from restricted cash and used to fully repay the Term Loan.

Letter of Credit Facility

On August 31, 2017 the company entered into a non-revolving term credit facility available by way of a letter of credit in the aggregate amount of $153,900 (2 billion South African rand) (the ''LC Facility'') with a Canadian bank in connection with the company's offer to acquire shares in PPC Limited, a South African company listed on the Johannesburg Stock Exchange. The LC Facility incurred interest at a rate of 100 basis points.

Under the terms of the LC Facility, the company was required to contribute cash to a cash-collateral account equivalent to 105.0% of the LC Facility. At December 31, 2017 the company had placed $162,000 in a cash-collateral account, which together with interest received of $519, was classified as restricted cash in the consolidated balance sheet at December 31, 2017. On December 7, 2017 the company rescinded its offer to acquire shares in PPC Limited and the LC Facility was terminated. Subsequently on January 12, 2018, the cash collateral of $162,000 was released from restricted cash.

Interest Income

In 2018 the company earned interest income of $1,947 (2017 – $1,374) on the cash collateral provided for the Term Loan and LC Facility which was recognized as interest in the company's consolidated statements of earnings and comprehensive income.

Interest Expense

In 2018 consolidated interest expense of $3,200 (2017 – $2,087) was comprised of interest expense of $2,983 (2017 – $1,619) and amortization of issuance costs of $217 (2017 – $468).

8. 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.

Issued Capital

Issued capital at December 31, 2018 included 30,000,000 (December 31, 2017 – 30,000,000) multiple voting shares and 32,811,965 (December 31, 2017 – 20,620,189) subordinate voting shares. Each subordinate voting share carries one vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax Africa's subordinate voting shares trade on the Toronto Stock Exchange (''TSX'') under the symbol FAH.U. Each multiple voting share carries fifty votes per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax, through its subsidiaries, owns all the issued and outstanding multiple voting shares, which are not publicly traded. At December 31, 2018 and December 31, 2017 there were no preference shares outstanding.

Common Stock

The number of shares outstanding was as follows:

	2018	2017
Subordinate voting shares – January 1	20,620,189	–
Issuances of shares	12,300,000	20,620,189
Purchases for cancellation	(108,224)	–
Subordinate voting shares – December 31	32,811,965	20,620,189
Multiple voting shares – January 1	30,000,000	1
Issuances during the year	–	29,999,999
Multiple voting shares – December 31	30,000,000	30,000,000
Common shares effectively outstanding – December 31	62,811,965	50,620,189

Capital Transactions

On June 18, 2018 the company completed an underwritten public offering of 12,300,000 subordinate voting shares at a price of $12.25 per share (the ''Secondary Offering'') and raised gross proceeds of $150,675 (net proceeds of $148,316 after commission and expenses of $2,359). Fairfax purchased, directly or through its affiliates, 4,100,000 subordinate voting shares for $50,225. Subsequently, Fairfax purchased additional subordinate voting shares through open market purchases. Net proceeds from the Secondary Offering will be used to acquire additional African Investments and for general corporate purposes. Upon closing of the Secondary Offering, Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 6,885,421 subordinate voting shares (December 31, 2017 – 30,000,000 and 2,500,000 respectively) of Fairfax Africa.

On February 17, 2017 the company completed its IPO and underwriters' over-allotment option and issued 6,030,000 subordinate voting shares at an issue price of $10.00 per share for gross proceeds of $60,300. Concurrent with the IPO, Fairfax and certain cornerstone investors acquired 22,715,394 multiple voting shares and 14,378,000 subordinate voting shares in private placements for gross proceeds of $227,154 and $143,780 respectively (the ''Concurrent Private Placements'').

The company acquired a 42.2% indirect equity interest in AGH (through the acquisition of the ordinary and class A shares of Joseph Holdings as described in note 5) with an estimated fair value of $74,968 in exchange for 7,284,606 multiple voting shares of the company issued to Fairfax (upon the winding-up of AgriGroupe LP) and 212,189 subordinate voting shares issued to certain other Joseph Holdings shareholders (the ''AGH Transaction'').

The aggregate proceeds of $506,202 were comprised of gross cash proceeds of $431,234 (net proceeds of $418,358 after commission and expenses of $12,876) from the IPO and Concurrent Private Placements, and the non-cash capital contribution of $74,968 from the AGH Transaction, (collectively ''the Offerings'').

Purchase of Shares

During 2018, under the terms of the normal course issuer bid, the company purchased for cancellation 108,224 subordinate voting shares (2017 – nil) for a net cost of $981 (2017 – nil), of which $143 was recorded as a benefit in retained earnings (2017 – nil).

Subsequent to December 31, 2018

Subsequent to December 31, 2018 and up to March 8, 2019, the company purchased for cancellation 1,671,937 subordinate voting shares at a net cost of $14,623.

Dividends

The company did not pay any dividends on its outstanding multiple and subordinate voting shares during 2018 and 2017.

9. Net Earnings per Share

Net earnings per share is calculated in the following table based on the weighted average shares outstanding:

	2018	2017
Net earnings (loss) – basic and diluted	(60,580)	23,484
Weighted average shares outstanding – basic	57,249,901	43,329,044
Contingently issuable subordinate voting shares	–	22,294
Weighted average common shares outstanding – diluted	57,249,901	43,351,338
Net earnings (loss) per share – basic and diluted	$ (1.06)	$ 0.54

At December 31, 2018 there were no contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax (December 31, 2017 – 22,294). The performance fee is assessed quarterly and relates to the period from February 17, 2017 to December 31, 2019. Under the terms of the Investment Advisory Agreement (defined in note 12), if a performance fee is payable for the period ending on December 31, 2019, settlement of the performance fee will take place in subordinate voting shares of the company if the market price per share is less than two times the then book value per share. The number of subordinate voting shares to be issued would be calculated based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including December 31, 2019 (''VWAP''). Refer to note 12 for further details on the contingently issuable subordinate voting shares in the event that a performance fee is determined to be payable.

10. Income Taxes

The company's provision for income taxes for the years ended December 31 are summarized in the following table:

	2018	2017
Current income tax:		
Current year expense	4,870	485
Deferred income tax:		
Origination and reversal of temporary differences	(52)	–
Adjustments to prior years' deferred income taxes	52	–
	–	–
Provision for income taxes	4,870	485

A significant portion of the company's earnings (loss) before income taxes is 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).

On July 31, 2018 Mauritius enacted the Finance (Miscellaneous Provision) Act (the ''Mauritius Finance Act'') which abolishes, with effect from January 1, 2019, the deemed Foreign Tax Credit (''FTC'') regime available to Global Business License companies. For entities holding a Category 1 Global Business License issued before October 16, 2017 (held by FMA) the deemed FTC regime will continue to apply until June 30, 2021. In place of the deemed FTC, the Mauritius Finance Act introduces an 80% exemption regime on foreign source income including certain foreign dividends and foreign source interest. The 80% exemption is available upon meeting predefined substance requirements issued by the Financial Services Commission. The company has evaluated the potential impact of the Mauritius Finance Act and concluded that it will not have a material impact on the company.

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for income taxes for 2018 and 2017 is summarized in the following table:

	2018				2017			
	Canada	**Mauritius**	**South Africa**	**Total**	**Canada**	**Mauritius**	**South Africa**	**Total**
Earnings (loss) before income taxes	(6,333)	(41,978)	(7,399)	(55,710)	(1,757)	23,901	1,825	23,969
Provision for income taxes	3,214	91	1,565	4,870	–	106	379	485
Net earnings (loss)	(9,547)	(42,069)	(8,964)	(60,580)	(1,757)	23,795	1,446	23,484

The increase in pre-tax losses in Canada in 2018 compared to 2017 primarily reflected unrealized losses on the company's Other Public African Investment and increased interest expense, partially offset by net foreign exchange gains on cash and cash equivalents and increased interest income.

The decrease in pre-tax profitability in Mauritius in 2018 compared to 2017 primarily reflected decreased net change in unrealized gains on investments (principally related to the company's investment in Atlas Mara), increased foreign exchange losses (principally related to the company's indirect equity interest in AGH) and decreased net realized gains on derivative obligations and bonds, partially offset by unrealized gains related to the company's investment in the indirect equity interest in AGH and increased interest income.

The decrease in pre-tax profitability in South Africa in 2018 compared to 2017 primarily reflected net foreign exchange losses on the Philafrica and CIG loans and unrealized losses on the company's derivative obligation related the CIG Rights Offer, partially offset by increased interest income and a net realized foreign exchange gain on the AGH Facility.

A reconciliation of the provision for (recovery of) income taxes calculated at the Canadian statutory income tax rate to the provision for income taxes at the effective tax rate in the consolidated financial statements for the years ended December 31 is summarized in the following table:

	2018	**2017**
Canadian statutory income tax rate	26.5%	26.5%
Provision for (recovery of) income taxes at the Canadian statutory income tax rate	(14,763)	6,352
Tax rate differential on losses incurred (income earned) outside of Canada	14,869	(4,531)
Provision relating to prior years	52	–
Change in unrecorded tax benefit of losses and temporary differences	(2,017)	2,678
Foreign exchange effect	6,710	(3,994)
Other including permanent differences	19	(20)
Provision for income taxes	4,870	485

The tax rate differential on losses incurred outside of Canada of $14,869 in 2018 (2017 – income earned of $4,531) principally reflected the impact of net investment income taxed in Mauritius at lower rates, partially offset by income earned taxed in South Africa at marginally higher rates.

The change in unrecorded tax benefit of losses and temporary differences of $2,017 in 2018 (2017 – $2,678) principally reflected changes in unrecorded deferred tax assets incurred related to utilization of net operating loss carryforwards in Canada of $4,388 (2017 – net operating loss carryforward of $2,677), partially offset by foreign accrual property losses of $2,371 (2017 – nil) with respect to the company's wholly-owned subsidiaries that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS. At December 31, 2018 deferred tax assets in Canada of $4,626 (December 31, 2017 – $6,115) were not recorded by the company as it was not probable that those losses could be utilized by the company.

Foreign exchange effect of $6,710 in 2018 (2017 – $3,994) 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 is the U.S. dollar.

Changes in net income taxes payable for the years ended December 31 were as follows:

	2018	2017
Balance – January 1	82	–
Amounts recorded in the consolidated statements of earnings and comprehensive income	4,870	485
Payments made during the year	(1,689)	(403)
Balance – December 31	3,263	82

Management reviews the recoverability of the potential deferred income tax asset on an ongoing basis and adjusts, as necessary, to reflect its anticipated realization. At December 31, 2018 deferred tax assets not recorded by the company of $4,626 (December 31, 2017 – $6,115) were principally comprised of: (i) $2,259 (December 31, 2017 – $2,456) related to the costs of the IPO and Secondary Offerings; (ii) foreign accrual property losses of $2,371 (December 31, 2017 – nil); and (iii) net operating loss carryforwards of nil (December 31, 2017 – $3,659). The foreign accrual property losses expire in 2038.

At December 31, 2018 a net unrealized loss related to the company's African Investments resulted in no deferred income tax consideration for withholding and other taxes that could be payable on unremitted earnings of African Investments. At December 31, 2017 deferred income tax of approximately $1,800 has not been recognized on unremitted earnings of approximately $6,700 as the company determined it is not probable that those unremitted earnings will be repatriated in the foreseeable future.

11. Financial Risk Management

Overview

The primary goals of the company's financial risk management 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 sheet from events that have the potential to materially impair its financial strength. The company's activities expose it to certain financial risks during or at the end of the reporting period. 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 December 31, 2018 compared to those identified at December 31, 2017, except as discussed 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 due to changes in market price. 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 dependent upon 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 common shareholders' equity when measured in U.S. dollars, the company's functional currency. At December 31, 2018 the company increased the holdings in African Investments which are partially denominated in South African rand, decreasing the amount of assets that are denominated in U.S. dollars, which is the functional and presentation currency of the company. As a result, the company common shareholders' equity and net earnings may also be significantly affected by foreign currency movements as it pertains to the items denoted in the table that follows. The company has not hedged its foreign currency risk.

The company's net foreign currency exposure on balances denominated in currencies other than the U.S. dollar (expressed in U.S. dollars) are comprised as follows:

	December 31, 2018					December 31, 2017			
	Cash and cash equivalents	Investments	Interest receivable	Derivative obligation	Net exposure	Cash and cash equivalents	Investments	Interest receivable	Net exposure
Canadian dollars	254	–	–	–	254	1,024	–	–	1,024
South African rand[(1)]	64,883	189,787	421	(5,724)	249,367	139	117,479	2,114	119,732
Mauritian rupees	15	–	–	–	15	32	–	–	32
Total	65,152	189,787	421	(5,724)	249,636	1,195	117,479	2,114	120,788

(1) *At December 31, 2018 the company was exposed to the South African rand primarily due to its indirect equity interest in AGH, equity interests in Philafrica and GroCapital Holdings, and the CIG and PGR2 loans, partially offset by the CIG rights offer derivative obligation. At December 31, 2017 the company was exposed to the South African rand primarily due to its indirect equity interest in AGH and the AGH Facility. The AGH Facility matured on January 31, 2018 and was fully repaid in cash.*

The table above shows the company's net exposure to all other currencies, other than the U.S. dollar. The company's net exposure to the South African rand increased at December 31, 2018 compared to December 31, 2017 primarily as a result of the investments in Philafrica and the CIG and PGR2 loans, partially offset by the AGH Facility maturing.

The following table illustrates the potential impact on pre-tax earnings (loss) and net earnings (loss) of a hypothetical appreciation or depreciation in the South African rand (the foreign currency to which the company has the most exposure).

	December 31, 2018			December 31, 2017		
Changes in South African rand exchange rate	Net foreign currency exposure	Hypothetical $ change effect on pre-tax earnings	Hypothetical $ change effect on net earnings	Net foreign currency exposure	Hypothetical $ change effect on pre-tax earnings	Hypothetical $ change effect on net earnings
10.0% appreciation	274,304	24,937	18,329	131,705	11,973	8,800
5.0% appreciation	261,835	12,468	9,164	125,719	5,987	4,400
No change	249,367	–	–	119,732	–	–
5.0% depreciation	236,899	(12,468)	(9,164)	113,745	(5,987)	(4,400)
10.0% depreciation	224,430	(24,937)	(18,329)	107,759	(11,973)	(8,800)

Certain shortcomings are inherent with this method of analysis, including the assumption that the hypothetical appreciation or depreciation of the South African rand against the U.S. Dollar occurred with all other variables held constant.

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. Typically, as interest rates rise, the fair value of fixed income investments decline and, conversely, as interest rates decline, the fair value of fixed income investments rise. In each case, the longer the maturity of the financial instrument, the greater the consequence of a change in interest rates. The company's interest rate risk management strategy is to position its fixed income portfolio based on its view of future interest rates and the yield curve, balanced with liquidity requirements. General economic conditions, political conditions and many other factors can also adversely affect the bond markets and, consequently, the value of fixed income securities held. Interest rate movements in African countries may affect the company's common shareholders' equity and net earnings. The Portfolio Advisor and Fairfax actively monitor interest rates in African countries for the potential impact changes in interest rates may have on the company's investment portfolio. There were no significant changes to the company's framework used to monitor, evaluate and manage interest rate risk at December 31, 2018 compared to December 31, 2017.

The company's exposure to interest rate risk increased in 2018 primarily reflecting the investments in the Atlas Mara 11.0% Convertible Bonds, Atlas Mara 7.5% Bonds, the CIG and PGR2 Loans and the additional investment in Nova Pioneer Bonds, partially offset by the repayment of the AGH Facility (January 31, 2018) and the Philafrica Facility

(December 24, 2018). 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. At December 31, 2017 the impact of the hypothetical effect on net earnings relating to the Philafrica Facility (fully repaid as of December 24, 2018) and the AGH Facility (repaid on January 31, 2018) has not been included in the below sensitivity analysis due to the short duration to maturity.

	December 31, 2018			December 31, 2017		
	Fair value of fixed income portfolio	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**	**Fair value of fixed income portfolio**	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**
Change in interest rates						
200 basis point increase	94,720	(2,742)	(3.8)%	18,078	(982)	(6.9)%
100 basis point increase	96,488	(1,443)	(2.0)%	18,729	(504)	(3.5)%
No change	98,451	–	–	19,414	–	–
100 basis point decrease	100,552	1,544	2.1%	20,126	524	3.7%
200 basis point decrease	102,363	2,875	4.0%	20,629	893	6.3%

Certain shortcomings that 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 these 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; these variations include non-parallel shifts in the term structure of interest rates and a change in individual issuer credit spreads.

Market Price Fluctuations

Market price fluctuation is the risk that the fair value or future cash flows of an equity investment will fluctuate due to 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. The company's exposure to equity price risk through its equity investments at December 31, 2018 compared to December 31, 2017 are described below.

The company holds significant equity investments. The market value and the liquidity of these investments are volatile and may vary dramatically either up or down in short periods, and their ultimate value will therefore only be known over a period of time or on disposition.

The company's exposure to market price risk increased to $270,284 at December 31, 2018 from $261,917 at December 31, 2017 as a result of additional investments in the indirect equity interest in AGH and investments in Philafrica and GroCapital Holdings (Level 3 investments in the fair value hierarchy), partially offset by unrealized losses on the company's investments in Atlas Mara and Other Public African Investment (Level 1 investments in the fair value hierarchy). 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 investments classified as Level 3 in the fair value hierarchy.

The following table illustrates the potential impact on pre-tax earnings (loss) and net earnings (loss) of a 10.0% change in the fair value of the company's equity investments classified as Level 1 in the fair value hierarchy (Atlas Mara, CIG and Other Public African Investment).

	December 31, 2018		**December 31, 2017**	
Change in equity markets	+10.0%	− 10.0%	+10.0%	− 10.0%
Level 1 equity investments, fair value at December 31	123,006	123,006	173,603	173,603
Hypothetical $ change effect on pre-tax earnings (loss)	12,301	(12,301)	17,360	(17,360)
Hypothetical $ change effect on net earnings (loss)	9,093	(9,093)	12,825	(12,825)

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. There were no significant changes to the company's framework used to monitor, evaluate and manage credit risk at December 31, 2018 compared to December 31, 2017. Significant changes in the company's exposure to credit risk are discussed below:

Cash and Cash Equivalents, and Short Term Investments

At December 31, 2018 the company's cash and cash equivalents of $230,858 (December 31, 2017 – $13,012) were comprised of $169,398 at the holding company (principally in high credit quality Canadian financial institutions) and $61,460 at the company's wholly-owned subsidiaries (principally $55,032 held in deposit accounts with SABA which were partially used to finance the CIG Rights Offer). The company monitors risks associated with cash and cash equivalents, and short term investments by regularly reviewing the financial strength and creditworthiness of these financial institutions. From these reviews, the company may transfer balances from financial institutions where it perceives heightened credit risk to others considered to be more stable.

At December 31, 2018 the company's short term investments in U.S. treasury bills of $38,723 (December 31, 2017 – $32,968) were rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AA+ by Standard & Poor's Financial Services LLC ("S&P").

Investments in Debt Instruments

The company's risk management strategy for debt instruments is to limit the amount of credit exposure with respect to any one corporate issuer. While the company reviews third party credit ratings, it also carries out its own analysis and does not delegate the credit decision to rating agencies. The company endeavours to limit credit exposure by monitoring fixed income portfolio limits on individual corporate issuers and limits based on credit quality.

At December 31, 2018 the company's debt instruments were all considered to be subject to credit risk with a fair value of $98,451 (December 31, 2017 – $43,647) representing 15.5% (December 31, 2017 – 12.4%) of the total cash and investments portfolio, net of the derivative obligation (excluding restricted cash of $313,000 at December 31, 2017).

The composition of the company's fixed income portfolio, including loans and bonds is presented in the table below:

	December 31, 2018	December 31, 2017
Loans:(1)		
AGH Facility	–	24,233
CIG	21,068	–
PGR2	17,527	–
Bonds:(1)		
Atlas Mara 11.0% Convertible Bonds	16,334	–
Atlas Mara 7.5% Bonds	17,499	–
Nova Pioneer Bonds	26,023	19,414
Total loans and bonds	98,451	43,647

(1) The company's African Investments in loans and bonds are not rated.

The company's exposure to credit risk from its investment in fixed income securities increased at December 31, 2018 compared to December 31, 2017 primarily reflecting the investments in the Atlas Mara 11.0% Convertible Bonds, Atlas Mara 7.5% Bonds, the CIG and PGR2 Loans and the additional investment in Nova Pioneer Bonds, partially offset by the repayment of the AGH Facility (January 31, 2018) and the Philafrica Facility (December 24, 2018), all of which have specific collateral arrangements or guarantees that mitigates the company's exposure to credit risk. The company assesses the creditworthiness of each new counterparty prior to entering into contracts. Management monitors credit risk from its African investments in debt instruments through reviewing financial performance of its counterparties, collateral arrangements, diversification, and other credit risk mitigation techniques.

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 liquid assets 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, if any, must be remitted to the respective tax jurisdictions as they are due. There were no significant changes to the company's exposure to liquidity risk (except as set out in the discussion below) or the framework used to monitor, evaluate and manage liquidity risk at December 31, 2018 compared to December 31, 2017.

The undeployed cash and investments at December 31, 2018 provides adequate liquidity to meet the company's known significant commitments in 2019, which are principally comprised of the CIG Rights Offer (closed on January 4, 2019), Second AGH Facility, the additional investment in Nova Pioneer, investment and advisory fees, general and administration expenses and corporate income taxes. On August 29, 2018 the company used the cash collateral classified as restricted cash to repay the principal amount of the Term Loan. To further augment its liquidity, on June 18, 2018 the company raised net proceeds of $148,316 from the Secondary Offering (see note 8), and the holding company can draw upon its revolving credit facility (see note 7). On December 21, 2018 the company drew $30,000 from the Credit Facility with a 3-month term that will be repaid on March 21, 2019 along with accrued interest of $509. 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.

Refer to note 12 for details on the settlement of the performance fees, if any, at the end of the first calculation period, December 31, 2019.

Concentration Risk

The company's cash and investments are 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 total cash and investments, net of the derivative obligation composition by the issuer's region of domicile where the primary underlying risk of the business resides was as follows:

	December 31, 2018				December 31, 2017			
	South Africa	Sub-Saharan Africa[1]	Canada	Total	South Africa	Sub-Saharan Africa[1]	Canada	Total
Cash and cash equivalents	55,139	6,321	169,398	230,858	657	–	12,355	13,012
Restricted cash	–	–	–	–	–	–	313,000	313,000
Short term investments – U.S. treasury bills	–	–	38,723	38,723	–	–	32,968	32,968
Loans:								
AGH Facility	–	–	–	–	24,233	–	–	24,233
CIG[2]	–	21,068	–	21,068	–	–	–	–
PGR2	17,527	–	–	17,527	–	–	–	–
	17,527	21,068	–	38,595	24,233	–	–	24,233
Bonds:								
Atlas Mara 11.0% Convertible Bonds[3]	–	16,334	–	16,334	–	–	–	–
Atlas Mara 7.5% Bonds[3]	–	17,499	–	17,499	–	–	–	–
Nova Pioneer Bond[4]	26,023	–	–	26,023	19,414	–	–	19,414
	26,023	33,833	–	59,856	19,414	–	–	19,414
Common stocks:								
Atlas Mara[3]	–	119,092	–	119,092	–	168,671	–	168,671
CIG[2]	–	3,886	–	3,886	–	2,563	–	2,563
Other[5]	28	–	–	28	2,369	–	–	2,369
Indirect equity interest in AGH[6]	111,888	–	–	111,888	88,314	–	–	88,314
Philafrica[7]	23,463	–	–	23,463	–	–	–	–
GroCapital Holdings	11,927	–	–	11,927	–	–	–	–
	147,306	122,978	–	270,284	90,683	171,234	–	261,917
Derivatives:								
Atlas Mara Warrants[3]	–	1,016	–	1,016	–	–	–	–
Nova Pioneer Warrants[4]	1,001	–	–	1,001	520	–	–	520
	1,001	1,016	–	2,017	520	–	–	520
Total cash and investments	246,996	185,216	208,121	640,333	135,507	171,234	358,323	665,064
Derivative obligation[8]	–	(5,724)	–	(5,724)	–	–	–	–
Total cash and investments, net of derivative obligation	246,996	179,492	208,121	634,609	135,507	171,234	358,323	665,064

(1) Sub-Saharan Africa is geographically, the area of the continent of Africa that lies south of the Sahara Desert. It encompasses 46 of Africa's 54 countries including: Angola, Botswana, Congo-Brazzaville, Côte d'Ivoire, Ethiopia, Kenya, Mauritius, Mozambique, Nigeria, Rwanda, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. For the purposes of assessing concentration risk, Fairfax Africa's investments in South Africa are disclosed separately.

(2) CIG's footprint extends across 20 African countries and the Middle East. Key countries include South Africa, Angola, Ethiopia and Kenya.

(3) Atlas Mara is listed on the London Stock Exchange and has acquired control or significant influence positions in banking operations across seven countries in Sub-Saharan Africa: Botswana, Nigeria, Zimbabwe, Zambia, Mozambique, Rwanda and Tanzania.

(4) In addition to South Africa, Nova Pioneer also has school campuses in Kenya.

(5) Comprised of common shares of a public company listed on the Johannesburg Stock Exchange.

(6) Acquired through the company's ownership in the investment holding company Joseph Holdings. In addition to South Africa, AGH currently has operational activities in Zambia, Zimbabwe, Mozambique, Congo-Brazzaville, Botswana, Côte d'Ivoire and Uganda. AGH also has an equipment operation in Australia under the John Deere brand, an animal feeds research development venture in the United Kingdom and an investment in animal feeds in the United States.

(7) Philafrica also has food-related businesses outside of South Africa, consisting mainly of a cassava processing business in Cote d'Ivoire and Mozambique and a poultry joint venture in Mozambique. Philafrica recently completed the acquisition of Pakworks, a snack manufacturing company which produces dry snacks exclusively for PepsiCo in Sub-Saharan Africa.

(8) Relates to the company's obligation to subscribe for 178,995,353 CIG ordinary shares as part of the CIG Rights Offer.

The company's holdings of Public and Private African Investments (see note 5) at December 31, 2018 and 2017 are summarized by the issuer's primary sector in the table below:

	December 31, 2018	December 31, 2017
Financial services	165,868	168,671
Food and agriculture	135,351	112,547
Infrastructure	19,258	4,932
Education	27,024	19,934
Other	17,527	–
	365,028	306,084

During 2018 the company's concentration risk in the financial services sector decreased primarily due to unrealized losses on Atlas Mara common shares, partially offset by the investments in GroCapital Holdings, the Atlas Mara 11.0% Convertible Bonds and the Atlas Mara 7.5% Bonds and Warrants. The company's concentration risk in the food and agriculture sector increased primarily due to the additional investment in the indirect equity interest in AGH, and the equity interest acquired in Philafrica, partially offset by the maturity of the AGH Facility. The company's concentration risk in the infrastructure sector increased primarily due to the investments in CIG and the CIG Loan, net of the derivative obligation, partially offset by unrealized losses on the company's Other Public African Investment. The company's concentration risk in the education sector increased as a result of the additional investment in Nova Pioneer, while the company's concentration risk in the other sector related to the PGR2 Loan.

The company will not make an African Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% 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 25.0% of the company's total assets (the ''Investment Concentration Restriction''). The company's investment limit for an African Investment in accordance with the Investment Concentration Restriction decreased at December 31, 2018 from December 31, 2017 principally as a result of the repayment of the Term Loan and net foreign exchange losses arising as a result of the weakening of the South African rand relative to the U.S. dollar, partially offset by the net proceeds received from the Secondary Offering and funds drawn from the Credit Facility.

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. At December 31, 2018 the company determined that it was in compliance with the Investment Concentration Restriction.

Capital Management

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern, and to maintain an optimal capital structure to reduce the cost of capital in order to optimize returns for common shareholders. 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 comprised of common shareholders' equity and drawn funds from the Credit Facility at December 31, 2018 decreased from $666,736 at December 31, 2017 (comprised of the Term Loan and common shareholders' equity) to $632,654 at December 31, 2018, principally reflecting a decrease in the Term Loan, partially offset by an increase in common shareholders' equity, as described below, and funds drawn from the Credit Facility.

On January 31, 2018 the company extended the maturity of the Term Loan to August 31, 2018. On August 29, 2018 the proceeds from the cash collateral, including interest received, was released from restricted cash and used to fully repay the Term Loan. See note 7 for details.

On September 7, 2018 the company entered into a $90,000 secured, revolving demand credit facility with a syndicate of Canadian lenders, bearing interest at a rate of LIBOR plus 400 basis points which is payable in arrears on the applicable interest payment date. The Credit Facility has a maturity date of September 7, 2019 with an option to extend for an additional year on an annual basis. On December 21, 2018 the company drew $30,000 from the Credit Facility with a 3-month term that will be repaid on March 21, 2019 along with accrued interest of $509. At December 31, 2018 the company was in compliance with the financial covenant requirement to maintain common shareholders' equity of not less than $600,000 (see note 7 for details).

Common shareholders' equity increased to $603,127 at December 31, 2018 from $516,736 at December 31, 2017 primarily reflecting the net proceeds received from the Secondary Offering of $148,316, partially offset by a net loss of $60,580 in 2018.

12. Related Party Transactions

Payable to Related Parties

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

	December 31, 2018	December 31, 2017
Performance fee	–	319
Investment and advisory fees	1,550	1,395
Other	108	(232)
	1,658	1,482

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.

Performance Fee

The performance fee, if applicable, is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 (the ''first calculation period'') and for each consecutive three-year period thereafter. It is calculated on a cumulative basis, as 20.0% of any increase in common shareholders' equity per share (including distributions) above a 5.0% 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''. At December 31, 2018 the company determined that there was no performance fee accrual (December 31, 2017 – $319) as the book value per share of $9.60 (before factoring in the impact of the performance fee) at December 31, 2018 was less than the hurdle per share at that date of $11.00.

If a performance fee is payable for the first calculation period, it will be paid within 30 days after the company issues its annual audited consolidated financial statements, in subordinate voting shares of the company unless the market prices per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash. The number of subordinate voting shares to be issued will be calculated based on the VWAP of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period in respect of which the performance fee is paid. At December 31, 2018 there were no contingently issuable shares subordinate voting shares relating to the performance fee payable to Fairfax (December 31, 2017 – 22,294).

In 2018 the company recorded a performance fee recovery of $319 (2017 – performance fee of $319) in performance fee in the consolidated statements of earnings and comprehensive income.

Investment and Advisory Fees

The investment and advisory fees are 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. In 2018 the company determined a significant portion of its assets were invested in African investments, which are considered deployed capital. In 2018 the investment and advisory fee recorded in the consolidated statements of earnings and comprehensive income was $6,440 (2017 – $3,400).

Other

Other payable of $108 at December 31, 2018 (December 31, 2017 – receivable of $232) was primarily comprised of amounts due to related parties for expenses incurred by Fairfax and the Portfolio Advisor on behalf of the company.

Fairfax's Voting Rights and Equity Interest

On February 17, 2017, upon closing of the IPO, Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 2,500,000 subordinate voting shares of Fairfax Africa.

Upon closing of the Secondary Offering on June 18, 2018 and through open market purchases, Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 6,885,421 subordinate voting shares (December 31, 2017 – 30,000,000 and 2,500,000 respectively) of Fairfax Africa.

At December 31, 2018 Fairfax's holdings of multiple and subordinate voting shares represented 98.3% of the voting rights and 58.7% of the equity interest in Fairfax Africa (December 31, 2017 – 98.8% and 64.2%).

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 the Corporate Secretary of the company will be borne by Fairfax.

Director Compensation

Compensation for the company's Board of Directors for the years ended December 31, determined in accordance with the company's IFRS accounting policies, was recognized in general and administrative expenses in the consolidated statements of earnings and comprehensive income as follows:

	2018	**2017**
Retainers and fees	138	150
Share-based payments	71	–
	209	150

Other

Deposits on Account with SABA

On October 4, 2018 GroCapital Holdings acquired the 99.8% equity interest in SABA from NBG through the SPA assignment from AFGRI Holdings. GroCapital Holdings subsequently acquired an additional equity interest in SABA from minority shareholders and at December 31, 2018 had an equity interest in SABA of 99.9%. At December 31, 2018 the company had $55,032 (December 31, 2017 – nil) held in deposit accounts with SABA which were partially used to finance the CIG Rights Offer.

Additional Indirect Investment in AGH

On November 19, 2018 the company acquired an additional 5,260,679 ordinary shares and 270,362 Class A shares of Joseph Holdings for aggregate cash consideration of $1,408 from an employee of Pactorum. The estimated fair value of the ordinary shares and Class A shares of Joseph Holdings acquired in this transaction were based on the company's third quarter of 2018 internal valuation model used to determine the estimated fair value of its investment in the indirect equity interest in AGH. Following the completion of this transaction, Fairfax Africa held 74.6% of the ordinary shares and 73.7% of the Class A shares of Joseph Holdings.

13. 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.

14. General and Administration Expenses

General and administration expenses for the years ended December 31 were comprised as follows:

	2018	2017
Audit, legal and tax professional fees	1,940	1,253
Salaries and employee benefit expenses	984	418
Administrative expenses	1,307	378
Brokerage fees	50	27
	4,281	2,076

15. Supplementary Cash Flow Information

Cash and cash equivalents were included in the consolidated balance sheets and statements of cash flows as follows:

	December 31, 2018	December 31, 2017
Cash and balances with banks	76,389	13,012
U.S. treasury bills	154,469	–
	230,858	13,012

Details of certain cash flows included in the consolidated statements of cash flows for the years ended December 31 were as follows:

	2018	2017
(a) Purchases of investments classified as FVTPL		
Loans	(84,392)	(23,255)
Bonds	(37,545)	(69,159)
Common stocks	(33,718)	(162,646)
Derivatives	(295)	(455)
	(155,950)	(255,515)
(b) Sales of investments classified as FVTPL		
Loans	37,986	–
Bonds	–	48,973
	37,986	48,973
(c) Net interest received		
Interest received	16,639	3,861
Interest paid on borrowings	(3,965)	(1,720)
	12,674	2,141
(d) Income taxes paid	1,689	403

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Management's Discussion and Analysis of Financial Condition and Results of Operations (as of March 8, 2019)

(Figures and amounts are in US$ and $ thousands except share and per share amounts and as otherwise indicated. Figures may not add due to rounding.)

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 entire Annual Report for additional commentary and information. Additional information relating to the company, including its annual information form, can be found on SEDAR at www.sedar.com. Additional information can also be accessed from the company's website www.fairfaxafrica.ca.

(2) 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.

(3) The MD&A contains references to book value per share. On any date, book value per share is calculated as common shareholders' equity at the end of the reporting period, determined in accordance with IFRS, divided by the total number of common shares of the company effectively 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, if any, to Fairfax Financial Holdings Limited (''Fairfax'').

(4) Throughout this MD&A, the term ''African Investments'' refers to deployed capital invested in Public and Private African Investments as disclosed in note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2018.

Business Developments

Overview

Fairfax 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. 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 consolidated subsidiaries, responsible to source and advise with respect to all investments. Fairfax Africa'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 publicly traded.

The book value per share at December 31, 2018 was $9.60 compared to $10.21 at December 31, 2017 representing a decrease in 2018 of 6.0%, primarily reflecting a net loss of $60,580 (principally related to net change in unrealized losses on investments, net foreign exchange losses, investment and advisory fees, general and administration expenses and interest expense), partially offset by the Secondary Offering completed on June 18, 2018 as described below.

The following narrative sets out the company's key business developments in 2018 and 2017.

Capital Transactions

On September 7, 2018 the company entered into a $90,000 secured, revolving demand credit facility with a syndicate of Canadian lenders, bearing interest at a rate of LIBOR plus 400 basis points (the ''Credit Facility'') which is payable in arrears on the applicable interest payment date. The Credit Facility has a maturity date of September 7, 2019 with an option to extend for an additional year on an annual basis. On December 21, 2018 the company drew $30,000 from the Credit Facility with a 3-month term that will be repaid on March 21, 2019 along with accrued interest of $509.

On June 18, 2018 the company completed an underwritten public offering of 12,300,000 subordinate voting shares at a price of $12.25 per share (the ''Secondary Offering'') and raised gross proceeds of $150,675 (net proceeds of

$148,316 after commission and expenses of $2,359). Fairfax purchased, directly or through its affiliates, 4,100,000 subordinate voting shares for $50,225. Subsequently, Fairfax purchased additional subordinate voting shares through open market purchases. Net proceeds from the Secondary Offering will be used to acquire additional African Investments and for general corporate purposes.

On August 31, 2017 the company completed a secured term loan with a Canadian bank with a principal amount of $150,000 and bearing interest at a rate of LIBOR plus 100 basis points (the ''Term Loan''). In connection with the Term Loan, the company was required to maintain cash collateral of $150,000, which together with interest received of $2,535, was classified as restricted cash on the consolidated balance sheet. On January 31, 2018 the company extended the maturity of the Term Loan to August 31, 2018. On August 29, 2018 the proceeds from the cash collateral, including interest received, was released from restricted cash and used to fully repay the Term Loan.

On August 31, 2017 the company entered into a non-revolving term credit facility available by way of a letter of credit in the aggregate amount of $153,900 (2 billion South African rand) (the ''LC Facility'') with a Canadian bank in connection with the company's offer to acquire shares in PPC Limited, a South African company listed on the Johannesburg Stock Exchange. The LC Facility incurred interest at a rate of 100 basis points. Under the terms of the LC Facility, the company was required to contribute cash to a cash-collateral account equivalent to 105.0% of the LC Facility. At December 31, 2017 the company had placed $162,000 in a cash-collateral account, which together with interest received of $519, was classified as restricted cash in the consolidated balance sheet at December 31, 2017. On December 7, 2017 the company rescinded its offer to acquire shares in PPC Limited and the LC Facility was terminated. Subsequently on January 12, 2018, the cash collateral of $162,000 was released from restricted cash.

On February 17, 2017 the company completed its initial public offering (''IPO'') and underwriters' over-allotment option and issued 6,030,000 subordinate voting shares at an issue price of $10.00 per share for gross proceeds of $60,300. Concurrent with the IPO, Fairfax and certain cornerstone investors acquired 22,715,394 multiple voting shares and 14,378,000 subordinate voting shares in private placements for gross proceeds of $227,154 and $143,780 respectively (the ''Concurrent Private Placements''). The company acquired a 42.2% indirect equity interest in AFGRI Group Holdings (''AGH'', formerly known as AFGRI) (through the acquisition of the ordinary and class A shares of Joseph Holdings as described in note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2018, with an estimated fair value of $74,968 in exchange for 7,284,606 multiple voting shares of the company issued to Fairfax (upon the winding-up of AgriGroupe Investments LP (''AgriGroupe LP'')) and 212,189 subordinate voting shares issued to certain other Joseph Holdings shareholders (the ''AGH Transaction''). The aggregate proceeds of $506,202 were comprised of gross cash proceeds of $431,234 (net proceeds of $418,358 after commission and expenses of $12,876) from the IPO and Concurrent Private Placements, and the non-cash capital contribution of $74,968 from the AGH Transaction, (collectively ''the Offerings'').

For additional details on the above transactions, refer to note 7 (Borrowings) and note 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2018.

African Investments

Full descriptions of the African Investments committed to and acquired in 2018 and 2017 are provided in the African Investments section of this MD&A.

Operating Environment

Overview

After tepid GDP growth of only 2.1% in 2016, Africa's economy recovered with 3.6% growth in 2017 and 3.5% growth in 2018. According to a January 2019 report by the African Development Bank (''AfDB''), GDP growth is projected to accelerate to 4.0% in 2019 and 4.1% in 2020, higher than in other emerging and developing economies as a whole, but lower than in China and India. In 2019, 40% of African countries are projected to see growth of at least 5%, primarily driven by average year-over-year growth of 6.0% in the East African countries of Ethiopia, Kenya, Rwanda, Tanzania and Djibouti, partially offset by slower growth in South Africa and Nigeria, the continent's two largest economies.

The company believes that this growth will be driven largely by investments in infrastructure, a thriving services sector, and agricultural output. Fairfax Africa's exposure in Sub-Saharan Africa (''SSA''), South Africa, Nigeria and Kenya through its African Investments is discussed below.

Sub-Saharan Africa

After a two-year period of lagging GDP growth in SSA, the Rand Merchant Bank reported in January 2019 that the region's GDP is projected to rise to between 3.1% and 3.4% in 2018 from 2.7% in 2017, and to 3.8% in 2019 and 3.9% in 2020. These figures include certain low-growth markets where Fairfax Africa's portfolio companies do not operate. Half of this expected growth is attributable to a rebound in Nigeria of 2.3% and modest recovery in South Africa of 1.9%. South Africa and Nigeria account for approximately half of Africa's GDP. The remaining half of this expected growth is driven by public infrastructure investments in Kenya, Ethiopia, Cote d'Ivoire, Ghana, Senegal and Rwanda, which are averaging expected growth of 6%.

In its January 2019 African Markets Revealed research report, Standard Bank indicated that despite the positive economic outlook for Africa, it is highly probable that the performance of African economies will diverge from that of its market. Management believes this dichotomy between actual economic and market performance presents an ideal opportunity for further investments in Africa at an attractive price point. Approximately half of the company's African Investments operate in South Africa, with the remainder primarily in Nigeria and Kenya.

South Africa

Fairfax Africa is invested in South Africa through its indirect equity interests in AGH and the South African Bank of Athens Limited (''SABA''), and investments in Philafrica Foods Proprietary Ltd. (''Philafrica'') and Consolidated Infrastructure Group Limited (''CIG'').

South Africa is the SSA region's second largest economy and is driven primarily by agriculture, mining and manufacturing. The South African economy grew by 2.2% quarter-on-quarter in the third quarter of 2018, ending the country's second recession since 1994. However, unemployment remained very high at 28%, contributing to persistent inequalities in income and economic opportunities. Higher oil prices and a weak exchange rate following the emerging market sell-off are pushing inflation to the upper half of the 3% to 6% target range of the South African Reserve Bank (''SARB''). Given the weak South African rand exchange rate, exports will be the main driver of growth for the country.

The AfDB is forecasting that GDP growth will recover from a dip of 0.7% in 2018 compared to 1.3% in 2017, to 1.9% in 2019. This modest increase in growth is reflective of continued weak activity in most of the major industrial sectors with upside potential should the agriculture sector rebound. The uncertainty over upcoming land reform policies continues to constrain growth in South Africa.

The foreign currency credit rating of the Government of South Africa bonds applies to U.S. dollar currency debt and the local currency credit rating applies to debt raised in South African rand through the domestic market. All three major credit rating agencies maintained their ratings in the fourth quarter of 2018. In October 2018 Moody's Corporation (''Moody's'') reaffirmed its credit rating for the Government of South Africa's bonds at Baa3, with a stable outlook, citing the long-term maturity of government debt and the fact that relatively little of this debt is foreign currency denominated as positive factors. Standard & Poor's Financial Services LLC (''S&P'') maintained its credit rating at BB, with a stable outlook and Fitch Ratings Inc. (''Fitch'') maintained its credit rating at BB+, with a stable outlook.

The South African rand relative to the U.S. dollar weakened from 12.38 at December 31, 2017 to 14.39 at December 31, 2018, reflecting foreign investors' anxiety over the direction of the economy in the short to medium term. Despite the 16.2% depreciation of the South African rand, the International Monetary Fund (''IMF'') believes that South Africa's long-term currency stability is supported by a range of buffers, including a floating exchange rate, deep financial markets, contained foreign currency exposures, and long debt maturities.

Nigeria

Fairfax Africa is invested in Nigeria through Atlas Mara Limited's (''Atlas Mara'') 49% stake in Union Bank of Nigeria (''UBN'') and CIG is actively pursuing a number of opportunities in the country.

Nigeria is the SSA region's most populous country and has the largest economy, which is primarily driven by the oil sector. According to the AfDB, Nigeria accounts for nearly 20% of Africa's GDP and about 75% of the West African economy. Nigeria's economy is continuing its recovery from a recession that ended in early 2017. AfDB projects Nigeria's GDP growth to increase from 0.8% in 2017 to 1.9% in 2018 and 2.3% in 2019 and 2.4% in 2020, strengthened by the impact of recovering oil production and prices. However, this growth will be tempered by

investor anxiety over the unpredictable outcome of the upcoming presidential election in February 2019 and lower inflation.

Nigeria's sovereign credit rating was downgraded to B2 with a stable outlook by Moody's in November 2017, citing insufficient diversification of non-oil government revenue which exposes the government's balance sheet to further cyclical shocks despite recent oil price recovery. The rating has held constant since that date, and the stability of the rating stems from credit supportive medium-term growth prospects, increased foreign capital inflows, a rebound in oil production, and the current account projected to remain in surplus. S&P's credit rating for Nigeria is B with a stable outlook and Fitch's credit rating is B+ with a stable outlook.

Kenya

Fairfax Africa is invested in Kenya through its investment in Nova Pioneer Education Group (''Nova Pioneer'') and is actively investigating other potential investments in the country.

According to the Kenya National Bureau of Statistics, Kenya's economy experienced a dip in growth of 4.9% in 2017 due to the compound effect of adverse weather conditions, which contributed to its under performance in the agricultural sector, a tight credit environment and a prolonged election cycle. Despite this, Kenya remains one of the world's most consistent high-growth economies, with GDP growth of 5.9% in 2018 and near-term forecasted growth of 6.0% in 2019 and 2020, primarily due to normalized weather conditions and increased agricultural yields, less political uncertainty, improved business confidence and strong private consumption. Kenya's position as a much more diverse economy (compared to its SSA peers) is expected to continue to attract foreign investment in infrastructure projects. Over the medium and long-term, Kenya's economy is expected to continue on a high GDP growth trajectory of 6.0%, mainly driven by favourable demographics arising from declining poverty, a dynamic services sector (domestic tourism, hospitality and information technology) and a strong infrastructure investment pipeline.

In February 2018 Moody's downgraded Kenya's credit rating from B1 to B2 with a stable outlook, due to rising debt levels and a deterioration in debt affordability. Nevertheless, the agency stated that ''Kenya retains strong fundamental economic strengths with a relatively diversified economy that holds strong growth potential''. Moreover, Kenya has a relatively deep capital market and mature financial sector, which afford government some capacity to issue debt domestically in local currency and with longer terms. S&P's and Fitch's credit rating for Kenya remains at B+ with a stable outlook.

The Mauritius Finance Act 2018

On July 31, 2018 Mauritius enacted the Finance (Miscellaneous Provision) Act (the ''Mauritius Finance Act'') which abolishes, with effect from January 1, 2019, the deemed Foreign Tax Credit (''FTC'') regime available to Global Business License companies. For entities holding a Category 1 Global Business License issued before October 16, 2017 (held by Fairfax Africa Holdings Investments Limited (''Mauritius Sub'' or ''FMA'')) the deemed FTC regime will continue to apply until June 30, 2021. In place of the deemed FTC, the Mauritius Finance Act introduces an 80% exemption regime on foreign source income including certain foreign dividends and foreign source interest. The 80% exemption is available upon meeting predefined substance requirements issued by the Financial Services Commission. The company has evaluated the potential impact of the Mauritius Finance Act and concluded that it will not have a material impact on the company.

Business Objectives

Investment Objective

Fairfax Africa is an investment holding company whose objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equity securities 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 include a South African based subsidiary Fairfax Africa Investments Proprietary Limited (''SA Sub'' or ''FSA'') and FMA.

Investment Strategy

The company invests in businesses that are expected to benefit from Africa's demographic trends that are expected to underpin growth for several years. Sectors of the African economy that the company believes will benefit most from such trends include the energy, food and agricultural, financial services, infrastructure and logistics, and consumer products and retail sectors. The company, however, 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 its management, Fairfax (the Portfolio Advisor), and Pactorum Ltd. (''Pactorum'', a Mauritius and South African-based third-party strategic consultant), and their respective networks in Africa, to source and evaluate investment opportunities for the company.

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.

The company intends to make African Investments with a view to being a strategic partner to grow the business and optimize investment returns for the shareholders of Fairfax Africa. The level and nature of this strategic investment will vary by investment. Such a position may include one or more of the following, as deemed appropriate by the company: (i) board appointment or nomination rights; (ii) board observer rights; (iii) input on management selection; (iv) the provision of managerial assistance; and (v) ongoing monitoring and cooperation with the board and management of the portfolio business to ensure that its strategy is being implemented in a manner that is consistent with the investment objectives of the company and with the company's and Fairfax's fundamental values (as set forth in Fairfax's guiding principles which are included in Fairfax's publicly available annual reports).

Fairfax Africa's involvement with the African Investments may include providing specialized guidance or expertise in limited circumstances or on a temporary basis and does not extend to any involvement in the day-to-day operations of those African Investments. Activities are expected to be ancillary and undertaken to maximize returns from investments. Board representation is sought only to maintain protective rights and to maximize the value of the company's investment for its shareholders.

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 would exit its private African Investments (''Private African Investments'' as disclosed in the African Investments section of this MD&A) either through initial public offerings or private sales. For publicly traded African Investments (''Public African Investments'' as disclosed in the African Investments section of this MD&A), exit strategies may include selling the investments through private placements or in public markets.

Investment Selection

To identify potential investments, the company principally relies on the expertise of its management, the Portfolio Advisor and Pactorum and their respective extensive networks in Africa. Pactorum provides, on an exclusive basis to the Portfolio Advisor, and for the benefit of the company, investment research and analysis, transaction origination, due diligence and similar consulting services with respect to investments of the company and its subsidiaries. Pactorum, in its capacity as a strategic consultant, assists the company and the Portfolio Advisor in researching and identifying investment opportunities for the company and its subsidiaries. As a result of its proximity to the investment opportunities in Africa and its immersion in certain key African marketplaces, the Pactorum team identifies many of the investment opportunities for the company and frequently conducts, together with the company, Fairfax and the Portfolio Advisor, the initial suitability screen when evaluating potential African Investments. Pactorum works closely with the company and the Portfolio Advisor in respect of the review and evaluation of potential investment opportunities for the company.

The Portfolio Advisor may employ other strategic or other consultants to provide services to it, for the benefit of the company, with respect to evaluating African Investments.

The following is an illustrative list of criteria that the company, Fairfax, the Portfolio Advisor and Pactorum believe to be paramount when identifying and investing in African Investments:

Attractive valuation – The company's conservative fundamental value approach leads it to focus on businesses that have positive, stable cash flows that can be purchased at discounted multiples. While the company does not intend to invest in start-up businesses or businesses that have speculative business plans, it may invest a portion of its capital in early-stage companies where the company views potential for growth and positive and stable cash flows and the opportunity for additional investment in the future.

Experienced and aligned management – The company focuses on businesses with experienced, entrepreneurial management teams with strong, long term track records. The company generally requires the portfolio businesses to have in place, either prior to or immediately following an investment by the company, proper management incentives to drive the businesses' profitability and maintain effective governance structures.

Strong competitive position in industry – The company seeks to invest in businesses that hold leading and defendable market positions, possess strong brand power and are well-positioned to capitalize on the growth opportunities in the African economy. The company also seeks to invest in businesses that demonstrate significant competitive advantages relative to their peers, such that they are in a position to protect their market position and profitability.

Alignment of the management team with the values of the company – The company, Fairfax, the Portfolio Advisor and Pactorum all seek to adhere to the highest standards of business practices and ethics. The company requires that the management teams at each of its portfolio businesses adhere to a similar standard of business practices and ethics and adhere to the company's fundamental values as described above.

The Portfolio Advisor, Pactorum, the company and their affiliates conduct thorough due diligence investigations when evaluating any African Investments prior to making a recommendation to the company and its subsidiaries to invest. This generally includes consultations with Fairfax's network of current and former management teams, consultants, competitors, investment bankers and senior executives to assess, among other things, the industry dynamics, the character of the management team and the viability of the business plan.

More specifically, due diligence in respect of a particular investment opportunity typically includes, among other items as deemed necessary from time to time: (i) review of historical and projected financial information; (ii) on-site visits; (iii) interviews with management, employees, customers and vendors; (iv) review of material agreements; (v) background checks; and (vi) research relating to the businesses' management, industry, markets, products and services, and competitors.

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 20.0% 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 25.0% of the company's total assets (the ''Investment Concentration Restriction''). The company's investment limit for an African Investment in accordance with the Investment Concentration Restriction decreased at December 31, 2018 from December 31, 2017 principally as a result of the repayment of the Term Loan and net foreign exchange losses arising as a result of the weakening of the South African rand relative to the U.S. dollar, partially offset by the net proceeds received from the Secondary Offering and funds drawn from the Credit Facility. 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 the Investment Concentration Restriction. At December 31, 2018 the company determined that it was in compliance with the Investment Concentration Restriction.

African Investments

Cautionary Statement Regarding Financial Information of Significant African Investments

Fairfax Africa has agreed to voluntarily provide within its MD&A, summarized unaudited financial information prepared for all of its African Investments for which it had previously filed a business acquisition report in accordance with section 8.2 of *National Instrument 51-102 Continuous Disclosure Obligations*. AGH and CIG (a listed entity on the Johannesburg Stock Exchange), prepare their financial statements in accordance with IFRS as issued by

the IASB. Atlas Mara, a listed entity on London Stock Exchange, prepares its financial statements in accordance with IFRS as adopted by the European Union (AGH, Atlas Mara and CIG collectively, ''Significant African Investments''). The company is limited in respect to the amount of independent verification it is able to perform with respect to the financial statements of the Significant African Investments. Such unaudited 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 in their underlying functional currencies.

The company's investments in AGH, CIG and Atlas Mara's fiscal years each end on March 31, August 31 and December 31 respectively. Summarized financial information of the company's Significant African Investments has generally been provided for the periods subsequent to the company's investment and to the extent that the most recent interim financial information is available to the company's management. Significant African Investments' summarized financial information should be read in conjunction with Fairfax Africa's historical consolidated financial statements including the notes thereto and the related MD&A as well as Fairfax Africa's other public filings.

Fairfax Africa has no knowledge that would indicate that the Significant African Investments' summarized financial information contained herein requires material modifications. However, readers are cautioned that the Significant African Investments' summarized financial information contained in the MD&A may not be appropriate for their purposes.

Summary of African Investments

The table below provides a summary of the company's African Investments:

		December 31, 2018				December 31, 2017			
	Date Acquired	Ownership %	Net cash consideration	Fair value	Net change	Ownership %	Net cash consideration	Fair value	Net change
Public African Investments:									
Common stocks:									
Atlas Mara	August and December 2017	42.4%	159,335	119,092	(40,243)	43.3%	159,335	168,671	9,336
CIG	Primarily fourth quarters of 2017 and 2018	7.9%	4,041	3,886	(155)	4.5%	2,442	2,563	121
Other[(1)]	Various	<5%	2,055	28	(2,027)	<5%	1,986	2,369	383
			165,431	123,006	(42,425)		163,763	173,603	9,840
Private African Investments:									
Loans:									
AGH Facility[(2)]	June 2017		–	–	–		23,255	24,233	978
CIG	June 2018		23,270	21,068	(2,202)		–	–	–
PGR2	June and December 2018		19,969	17,527	(2,442)		–	–	–
			43,239	38,595	(4,644)		23,255	24,233	978
Bonds:									
Atlas Mara 11.0% Convertible Bonds	December 2018		15,040	16,334	1,294		–	–	–
Atlas Mara 7.5% Bonds	November 2018		16,476	17,499	1,023		–	–	–
Nova Pioneer Bond	Third and fourth quarters of 2017 and 2018		23,250	26,023	2,773		19,545	19,414	(131)
			54,766	59,856	5,090		19,545	19,414	(131)
Common stocks:									
Indirect equity interest in AGH	February 2017, January and November 2018	44.7%	94,877	111,888	17,011	42.2%	74,968	88,314	13,346
Philafrica	November 2018	26.0%	23,254	23,463	209	–	–	–	–
GroCapital Holdings	Fourth quarter of 2018	35.0%	12,141	11,927	(214)	–	–	–	–
			130,272	147,278	17,006		74,968	88,314	13,346
Derivatives:									
Atlas Mara Warrants	November 2018		2,324	1,016	(1,308)		–	–	–
Nova Pioneer Warrants	Third and fourth quarters of 2017 and 2018		750	1,001	251		455	520	65
			3,074	2,017	(1,057)		455	520	65
Derivative Obligation:									
CIG forward derivative liability[(3)]	May 2018		–	(5,724)	(5,724)		–	–	–
			231,351	242,022	10,671		118,223	132,481	14,258
Total African Investments			396,782	365,028	(31,754)		281,986	306,084	24,098

(1) Comprised of common shares of a public company listed on the Johannesburg Stock Exchange.

(2) On January 31, 2018 the company received $25,399 from AGH for settlement of the AGH Facility, resulting in a realized foreign exchange gain of $1,166.

(3) Relates to the company's obligation to subscribe for 178,995,353 CIG ordinary shares as part of the CIG Rights Offer.

Summary of Changes in Fair Value of the Company's African Investments

A summary of changes in the fair value of the company's Public and Private African Investments during 2018 and 2017 were as follows:

	2018							
	Balance as of January 1, 2018	Purchases	Repayments/ conversions	Accretion of discount/ (amortization of premium)[1]	Net realized gains on investments	Net change in unrealized gains (losses) on investments	Net foreign exchange gains (losses) on investments	Balance as of December 31, 2018
Public African Investments:								
Common stocks:								
Atlas Mara	168,671	–	–	–	–	(49,579)	–	119,092
CIG	2,563	1,599	–	–	–	98	(374)	3,886
Other[2]	2,369	69	–	–	–	(2,100)	(310)	28
Total Public African Investments	173,603	1,668	–	–	–	(51,581)	(684)	123,006
Private African Investments:								
Loans:								
AGH Facility	24,233	–	(25,399)	–	–	–	1,166	–
Philafrica Facility	–	41,153	(35,841)	818	–	–	(6,130)	–
CIG	–	23,270	–	46	–	694	(2,942)	21,068
PGR2	–	20,996	–	–	–	(1,545)	(1,924)	17,527
	24,233	85,419	(61,240)	864	–	(851)	(9,830)	38,595
Bonds:								
Atlas Mara 7.5% Convertible Bonds	–	33,840	(36,182)	464	1,878	–	–	–
Atlas Mara 11.0% Convertible Bonds[3]	–	16,280	–	(9)	–	63	–	16,334
Atlas Mara 7.5% Bonds	–	17,676	–	104	–	(281)	–	17,499
Nova Pioneer Bond[4]	19,414	6,697	–	27	–	(115)	–	26,023
	19,414	74,493	(36,182)	586	1,878	(333)	–	59,856
Common stocks:								
Indirect equity interest in AGH[5]	88,314	21,712	–	–	–	18,082	(16,220)	111,888
Philafrica	–	23,254	–	–	–	870	(661)	23,463
GroCapital Holdings	–	12,141	–	–	–	–	(214)	11,927
	88,314	57,107	–	–	–	18,952	(17,095)	147,278
Derivatives:								
Atlas Mara Warrants	–	2,324	–	–	–	(1,308)	–	1,016
Nova Pioneer Warrants	520	326	–	–	–	155	–	1,001
	520	2,650	–	–	–	(1,153)	–	2,017
Derivative Obligation:								
CIG forward derivative liability[6]	–	–	–	–	–	(5,724)	–	(5,724)
	–	–	–	–	–	(5,724)	–	(5,724)
Total Private African Investments	132,481	219,669	(97,422)	1,450	1,878	10,891	(26,925)	242,022
Total African Investments	306,084	221,337	(97,422)	1,450	1,878	(40,690)	(27,609)	365,028

(1) *Recorded in interest in the consolidated statement of earnings and comprehensive income.*

(2) *Comprised of common shares of a public company listed on the Johannesburg Stock Exchange.*

(3) *Purchases included capitalized interest of $98.*

(4) *Purchases included capitalized interest of $2,250.*

(5) *Acquired through the company's ownership in Joseph Holdings. In 2018 the company increased its indirect equity interest in AGH from 42.2% to 44.7%. Purchases were primarily comprised of a $18,501 capital contribution to Joseph Holdings and a non-cash realized gain of $1,803 on the AGH Rights Offer.*

(6) *Relates to the company's obligation to subscribe for 178,995,353 CIG ordinary shares as part of the CIG Rights Offer.*

	2017							
	Balance as of January 1, 2017	Purchases	Repayments/ conversions	Accretion of Discount[1]	Net realized gains on investments	Net change in unrealized gains (losses) on investments	Net foreign exchange gains on investments	Balance as of December 31, 2017
Public African Investments:								
Common stocks:								
Atlas Mara[2]	–	170,488	–	–	–	(1,817)	–	168,671
CIG	–	2,442	–	–	–	(132)	253	2,563
Other[3]	–	1,986	–	–	–	177	206	2,369
Total Public African Investments	–	174,916	–	–	–	(1,772)	459	173,603
Private African Investments:								
Loans:								
AGH Facility	–	23,255	–	–	–	–	978	24,233
Nova Pioneer Facility	–	4,000	(4,000)	–	–	–	–	–
	–	27,255	(4,000)	–	–	–	978	24,233
Bonds:								
Atlas Mara 5.0% Convertible Bond	–	100,000	(106,215)	1,117	5,098	–	–	–
Nova Pioneer Bond	–	19,545	–	–	–	(131)	–	19,414
	–	119,545	(106,215)	1,117	5,098	(131)	–	19,414
Common stocks:								
Indirect equity interest in AGH[4]	–	74,968	–	–	–	4,200	9,146	88,314
	–	74,968	–	–	–	4,200	9,146	88,314
Derivatives:								
Atlas Mara forward derivative on equity offering	–	–	(6,055)	–	6,055	–	–	–
Nova Pioneer Warrants	–	455	–	–	–	65	–	520
	–	455	(6,055)	–	6,055	65	–	520
Total Private African Investments	–	222,223	(116,270)	1,117	11,153	4,134	10,124	132,481
Total African Investments	–	397,139	(116,270)	1,117	11,153	2,362	10,583	306,084

(1) Recorded in interest in the consolidated statement of earnings and comprehensive income.

(2) Purchases in 2017 were comprised of a $159,335 capital contribution and non-cash net realized gains on Atlas Mara 5.0% Convertible Bond of $5,098 (previously entered into in 2017) and Atlas Mara Equity Offering of $6,055.

(3) Comprised of common shares of a public company listed on the Johannesburg Stock Exchange.

(4) Acquired through the company's ownership in Joseph Holdings.

Public African Investments

The fair values of Fairfax Africa's Public African Investments are determined using the bid prices of those investments (without adjustments or discounts) at the balance sheet date.

Investment in Atlas Mara Limited (Common Shares)

Business Overview

Atlas Mara Limited (''Atlas Mara'') is a Sub-Saharan African financial services group listed on the London Stock Exchange under the symbol ATMA. Atlas Mara was founded in 2013 with a vision to establish itself as a premier financial institution across key markets in Sub-Saharan Africa. Since its inception, Atlas Mara has acquired control or significant influence in banks across seven Sub-Saharan African countries: Nigeria, Botswana, Zimbabwe, Mozambique, Rwanda, Tanzania and Zambia.

The company's investment in Atlas Mara is comprised of common shares, debt instruments and warrants. The debt instruments and warrants are discussed in the Private African Investments section under the heading Investment in Atlas Mara Limited (Debt Instruments and Warrants) later in this MD&A.

Atlas Mara's principal lines of business are as follows:

Retail and Commercial Banking

Atlas Mara's retail and commercial banking provides banking services to retail, small and medium-sized enterprises ("SMEs"), and corporate clients through physical branch networks, third party partnerships and digital channels. Atlas Mara provides a wide range of products for SMEs and corporate clients including short term working capital financing, trade finance services, medium and long term investment credit, treasury services and transactional banking. Atlas Mara leverages its presence in the countries it is domiciled to facilitate investment and flow of funds for its regional and multinational corporate clients. Atlas Mara's retail banking offers a full suite of products to its retail customers through bank accounts, personal short term loans, and auto, home and mortgage financing.

Atlas Mara's retail and commercial banking segments operate under the brand names and in the African countries as follows:

- ABC Holdings Limited ("BancABC") is comprised of banks across Botswana, Zambia, Zimbabwe, Mozambique and Tanzania,
- Banque Populaire du Rwanda Limited ("BPR") in Rwanda, and
- an investment in associate in Union Bank of Nigeria ("UBN") located in Nigeria.

Markets and Treasury

The markets and treasury line of business provides transaction capabilities for its clients' foreign exchange and hedging requirements and also centrally manages Atlas Mara's surplus liquidity and funding requirements.

Digital Banking

Developing a digital banking platform that can be implemented across its markets to strengthen its retail banking segment continues to be a strategic focus for Atlas Mara and is expected to lead to a broader base of deposits and lower cost of funds. Sub-Saharan Africa remains one of the greatest global opportunities for enhancing financial intermediation using technology. Atlas Mara intends to use the digital banking platform to profitably accelerate its core business growth across its business and promote financial inclusion.

Additional information can be accessed from Atlas Mara's website www.atlasmara.com.

Transaction Description

Atlas Mara Common Shares

On July 17, 2017 the company invested $100,000 in Atlas Mara through the purchase of a mandatory convertible bond with an interest rate of 5.0% per annum. On August 31, 2017, concurrent with the closing of the Atlas Mara Equity Offering (described below), the convertible bond of $101,117 (including accrued interest) was converted into 44,722,222 ordinary shares of Atlas Mara at the Issue Price (defined below).

On August 31, 2017 the company acquired an additional 26,036,448 ordinary shares of Atlas Mara for $58,582 through participation in Atlas Mara's equity offering of $100,000 of new ordinary shares (the "Atlas Mara Equity Offering") at a price of $2.25 per share (the "Issue Price"). Fairfax Africa received a fee of $2,800 pursuant to an agreement to acquire any ordinary shares not taken up by qualifying Atlas Mara shareholders and to purchase a minimum of 30.0% of the Atlas Mara Equity Offering, resulting in a commitment to acquire Atlas Mara ordinary shares for net cash consideration of $55,782. The company's commitment to acquire Atlas Mara shares at a fixed price was determined to be a derivative financial instrument under IFRS. The appreciation of the Atlas Mara share price to $2.38 per share on the expiry date of the commitment (August 31, 2017) resulted in the recognition of a realized gain on investments of $6,055 recorded in the consolidated statements of earnings and comprehensive income in 2017.

On December 22, 2017 the company acquired an additional 1,200,000 ordinary shares of Atlas Mara for cash consideration of $2,436. Upon completion of this transaction, the company had invested aggregate consideration of $159,335 (including capitalized accrued interest and net of the $2,800 fee received) for a 43.3% equity interest in Atlas Mara.

At December 31, 2018 the company had appointed four of the nine Atlas Mara board members.

Subsequent to December 31, 2018

On February 6, 2019 Atlas Mara announced it is undertaking a review of strategic options to determine the key strategic priorities and actions for 2019 and beyond to drive shareholder value. The process includes a review of each banking operation to ensure that top five market leadership is practicably achievable in the near term, or to explore transactions that will reduce risk exposure where such leadership is unlikely on a stand-alone basis. Concurrent with this announcement, Michael Wilkerson (Fairfax Africa's Chief Executive Officer) replaced Bob Diamond as the Executive Chairman of Atlas Mara. Mr. Diamond, Atlas Mara's founder, had initially assumed the role of Executive Chairman on an interim basis and will return to his role as a non-executive director of the Board. Mr. Wilkerson's appointment as Executive Chairman reflects the company's role as the largest shareholder in Atlas Mara and facilitates Fairfax Africa's objective to closely oversee the investment while the company works to generate value creation for all Atlas Mara shareholders. Atlas Mara also revised the composition of its board and as a result at March 8, 2019 Fairfax Africa had appointed three of the seven Atlas Mara board members.

Key Business Drivers, Events, and Risks

Atlas Mara's key business drivers relate to its ability to penetrate geographically diverse segments of the financial services industry in SSA, particularly in the corporate and retail markets aiming to offer differentiated products and services to top tier national companies and the retail segment.

Over the past three years Atlas Mara has raised $900 million of debt and equity financing, completed six acquisitions and has hired a team of professionals with extensive experience in the African banking sector. A significant component of Atlas Mara's portfolio is its investment in associate UBN. During the second quarter of 2018 Atlas Mara purchased additional shares in UBN and increased its equity interest from 48.0% to 49.0%. The company issued 2,360,062 ordinary shares as consideration for the UBN shares acquired. Atlas Mara's investment in UBN provides the company with a strong position in the financial services sector in Nigeria, Africa's largest economy. The AfDB expects the Nigerian economy to build on its recovery from a recession in 2017, forecasting GDP growth of 2.3% in 2019 compared to 1.9% in 2018. This growth is expected to be driven by increased contribution from key non-oil sectors such as agriculture and energy.

Atlas Mara has commenced an extensive review of its capital and funding structure and began upgrading its information technology systems group-wide. Atlas Mara is focused on a long-term migration to a stronger retail deposit franchise in each operating market, to reduce reliance on interbank and wholesale funding. There is a heightened urgency in expediting this work as the market backdrop has been less buoyant than it was in 2017. Lower international demand for commodities, international trade tensions, Central Banks in the United States and Europe pursuing less accommodating monetary policies and the relative strengthening of the U.S. dollar have reduced foreign inflows and the economic growth trajectory in some of Atlas Mara's markets, particularly Mozambique, Tanzania and Zambia. These factors have resulted in tighter liquidity conditions, increased capital requirements and lower credit demand from viable customers.

Despite these challenges, during the first nine months of 2018, Atlas Mara was able to maintain a stable balance sheet and reported net earnings of $31,252, compared to $16,003 for the comparable first nine months of 2017, discussed later.

On December 13, 2018 Atlas Mara completed the partial IPO of its wholly-owned subsidiary BancABC Botswana on the Botswana Stock Exchange, selling 20.5% equity interest to institutional and retail investors and raised $28.0 million in gross proceeds. The IPO proceeds will be used to develop and enhance IT infrastructure and banking platforms across its operations in Africa.

Valuation and Consolidated Financial Statement Impact

Atlas Mara Common Shares

At December 31, 2018 the fair value of the company's investment in Atlas Mara was $119,092 (December 31, 2017 – $168,671), comprised of 71,958,670 ordinary shares representing a 42.4% equity interest (December 31, 2017 – 43.3%). The changes in fair value of the company's investment in Atlas Mara in 2018 and 2017 are presented in the tables at the outset of the African Investments section of this MD&A. Atlas Mara's share price decreased by 29.1% from $2.34 per share at December 31, 2017 to $1.66 per share at December 31, 2018.

Atlas Mara's Summarized Financial Information

Atlas Mara and the company's fiscal years both end on December 31. As of March 8, 2019 Atlas Mara had not yet released its December 31, 2018 audited financial statements and as a result they were not made available to Fairfax Africa. Summarized below are Atlas Mara's balance sheets at September 30, 2018 and December 31, 2017.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2018	December 31, 2017[1]
Financial assets	2,239,474	2,244,895
Non-financial assets	906,187	895,490
Financial liabilities	2,326,703	2,230,371
Non-financial liabilities	58,764	96,791
Shareholders' equity	760,194	813,223

(1) Certain prior year comparative figures have been reclassified to be consistent with current year's presentation.

Financial assets modestly decreased primarily due to a decrease in cash and short-term funds, financial assets held at FVTPL and loans and advances, partially offset by an increase in investment securities as the company continues to invest in treasury bonds. Non-financial assets modestly increased due to a higher investment in associate balance due to share of profits recorded from Atlas Mara's equity accounted investment in UBN, partially offset by a decrease in intangible and other assets.

Financial liabilities increased moderately due to increased borrowed funds and customer deposits. Non-financial liabilities had decreased due to a decrease in other liabilities. Shareholders' equity decreased primarily due after-tax adjustments to opening retained earnings from the adoption of IFRS 9 and other comprehensive loss mainly as a result of foreign exchange translation losses, partially offset by net earnings during the period.

Summarized below are Atlas Mara's statements of earnings for the nine months ended September 30, 2018 and 2017.

Statements of Earnings
(unaudited – US$ thousands)

	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Revenue	175,961	188,936
Earnings before taxes	42,121	20,778
Net earnings	31,252	16,003

Revenues decreased primarily due to lower interest income as a result of decline in loan book growth, lower interest margins, tighter market liquidity and depressed credit markets, partially offset by an increase in non-interest revenue due to increased trading revenue in Zimbabwe and increased fees and commissions income in Botswana, Zambia and Zimbabwe. Net earnings increased primarily reflecting improved performance from its investment in associate UBN, a gain on the investment in UBN and lower impairment charges as a result of recoveries and impairment reversals, partially offset by increased operating expenses attributable to investments in information technology infrastructure and increased employee costs.

Investment in Consolidated Infrastructure Group (Common Shares)

Business Overview

Consolidated Infrastructure Group Limited (''CIG'') is a Pan-African engineering infrastructure company listed on the Johannesburg Stock Exchange under the stock symbol CIL. CIG has a diversified portfolio of operations including services and materials in power and electrical, oil and gas, building materials and the railway sector, with a footprint that spans over 20 African countries and the Middle East. Historically, over 71% of CIG's net earnings has been derived outside of South Africa.

The company's investment in CIG is comprised of common shares, a debt instrument and a derivative obligation. The debt instrument and derivative obligation are discussed in the Private African Investments section under the heading Investment in Consolidated Infrastructure Group (Debt Instrument and Derivative Obligation) later in this MD&A.

CIG's principal lines of business are as follows:

Power

CIG's Power business is comprised of the following wholly-owned subsidiaries: (i) Conco Group (''Conco'') is Africa's largest power infrastructure service provider with three decades of experience in transmission, distribution and power infrastructure development. Conco provides high voltage turnkey solutions of unsurpassed design/engineering and quality, to a multitude of customers across the African continent and the Middle East; (ii) Consolidated Power Maintenance Proprietary Limited (''CPM'') provides long term operational and maintenance services to wind farms, solar parks, municipalities and utilities; (iii) CIGenCo SA Proprietary Limited (''CIGenCo'') is a developer and owner of renewable energy power generation; and (iv) Conlog Proprietary Limited (''Conlog''), a leading metering solution provider to utilities, municipalities and property management companies in South Africa, the Middle East and across Africa. Conlog's smart meters help with utility management, revenue protection, load and demand management, and the company has a strong focus on big data analytics and smart city solutions.

Consolidated Building Materials

CIG's Consolidated Building Materials business is comprised of the following subsidiaries: (i) Drift Supersand Proprietary Limited (''Drift Supersand''), through a 74.0% equity interest held by CIG, provides crushed stone and rock for the construction industry for application in roads, ready-mix, concrete and for stabilization; and (ii) West End Claybrick Proprietary Limited (''West End Claybrick''), a wholly-owned subsidiary, manufactures housing materials (semi-faced and plaster clay bricks, and a range of concrete roof tiles for the building sector including developers, contractors and wholesalers).

Oil & Gas

CIG's Oil and Gas business, through Angola Environmental Servicos Limitada (''AES''), an Angolan company, provides fully integrated waste management services, and collection, recycling and disposals of oil-based waste to the oil and gas industry. CIG owns 30.5% of AES and accounts for its investment in associate under the equity method of accounting.

Rail

CIG's Rail business through Tension Overhead Electrification (Pty) Limited or Tractionel Enterprise (''Tractionel''), a wholly-owned subsidiary in South Africa, is a leading provider of railway electrification and maintenance (installation and maintenance of railway electrics, and railway maintenance services to public and private owners).

Additional information can be accessed from CIG's website www.ciglimited.co.za.

Transaction Description

CIG Common Shares

In 2017 Fairfax Africa acquired 8,789,282 ordinary shares, or a 4.5% equity interest in CIG, for cash consideration of $2,442. In 2018 the company acquired an additional 6,737,846 ordinary shares for cash consideration of $1,599. Upon completion of this transaction, the company had invested aggregate cash consideration of $4,041 for a 7.9% equity interest in CIG.

At December 31, 2018 the company had appointed one of the eleven board members of CIG.

Subsequent to December 31, 2018

On January 4, 2019 CIG completed its previously announced rights offering for $57,179 (800 million South African rand) where existing CIG shareholders were invited to participate on a pro rata basis in a non-renounceable rights offer for 200,000,000 CIG ordinary shares (''CIG Rights Offer'') at a price of 4.00 South African rand (the ''Offer Price''). Fairfax Africa was committed to acquire any shares not taken up by existing CIG shareholders and as a result Fairfax Africa earned a fee equal to 2.5% of the CIG Rights Offer ($1,429 or 20 million South African rand).

Upon closing of the CIG Rights Offer the company acquired 178,995,353 ordinary shares of CIG for net cash consideration of $49,744 (696 million South African rand). Upon completion of this transaction the company had invested aggregate cash consideration of $53,785 for a 49.1% equity interest in CIG and appointed four of the thirteen CIG board members.

Key Business Drivers, Events, and Risks

The CIG Rights Offer is intended to enable the company to establish a strong and sustainable capital structure that will allow CIG to take advantage of long-term value creation opportunities in the markets that it serves through its diversified portfolio of businesses. Specifically:

- Right-sizing the operations of Conco to ensure that it is running at optimum levels. Conco in the past had grown too fast and was in too many regions and countries, resulting in margin pressures, increased investments in working capital and increased complexity in its operations. CIG is addressing the risks associated with restructuring Conco by assessing office and division closures, reducing working capital investments and borrowings;
- Organically growing its Conlog smart metering business by establishing a prepaid meter leasing platform and funding additional capital expenditures to increase plant capacity;
- Investing in its pipeline of 7 renewable energy projects (219.5 megawatts) to generate annuity income; and
- Focusing on providing waste management services through AES as the oil sector recovers, leading to more rigs coming online in Angola.

CIG's footprint extends across 20 African countries in addition to South Africa and the Middle East. Key markets for CIG outside South Africa include Angola, Ethiopia and Kenya. Refer to the Business Developments section under the heading Operating Environment of this MD&A for a description of the macroeconomic conditions.

Valuation and Consolidated Financial Statement Impact

CIG Common Shares

At December 31, 2018 the fair value of the company's investment in CIG was $3,886 (December 31, 2017 – $2,563), comprised of 15,527,128 ordinary shares representing a 7.9% equity interest (December 31, 2017 – 4.5%). The changes in fair value of the company's investment in CIG in 2018 and 2017 are presented in the tables disclosed at the outset of the African Investments section of this MD&A. CIG's share price decreased slightly by 0.3% from 3.61 South African rand per share at December 31, 2017 to 3.60 South African rand per share at December 31, 2018.

CIG's Summarized Financial Information

The company's fiscal year ends on December 31 and CIG's fiscal year ends on August 31. The South African rand weakened relative to the U.S. dollar in fiscal 2018 compared to fiscal 2017. To avoid the distortion of results caused by foreign currency translation, the tables below present CIG's financial and operating results in both U.S. dollar and South African rand (CIG's presentation and functional currency). The discussion which follows refers to those South African rand figures unless indicated otherwise.

Balance Sheets
(US$ thousands)

	South African rand		US$	
	August 31, 2018	**August 31, 2017**	**August 31, 2018(1)**	**August 31, 2017(1)**
Current assets	3,692,963	4,303,542	252,080	331,042
Non-current assets	2,135,636	2,708,085	145,777	208,314
Current liabilities	2,906,649	2,942,960	198,406	226,382
Non-current liabilities	1,075,836	229,319	73,436	17,640
Shareholders' equity	1,846,114	3,839,348	126,015	295,334

(1) The net assets of CIG were translated at August 31, 2018 at $1 U.S. dollar = 14.65 South African rand and at August 31, 2017 at $1 U.S. dollar = 13.00 South African rand. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets decreased primarily due to lower receivables from decline in customer contracts as a result of reduced order intake. Non-current assets declined largely as a result of impairment of goodwill and an investment in associate (discussed later). Current liabilities remained relatively consistent from the prior year while non-current liabilities increased primarily as a result of increased borrowings, inclusive of the loan advanced by Fairfax Africa (refer to the Private African Investments section under the heading Investment in Consolidated Infrastructure Group (Debt Instrument and Derivative Obligation) later in this MD&A).

Summarized below are CIG's statements of earnings for the years ended August 31, 2018 and 2017.

Statements of Earnings
(US$ thousands)

	South African rand		US$	
	Twelve months ended August 31, 2018	**Twelve months ended August 31, 2017**	**Twelve months ended August 31, 2018(1)**	**Twelve months ended August 31, 2017(1)**
Revenue	2,706,570	4,368,875	209,649	325,307
Loss before taxes	(1,839,880)	(145,447)	(142,516)	(10,830)
Net loss	(2,027,762)	(150,456)	(157,069)	(11,203)

(1) *Amounts for the years ended August 31, 2018 and 2017 were translated into US$ using the average exchange rates of $1 U.S. dollar = 12.91 South African rand and $1 U.S. dollar = 13.43 South African rand prevailing during those periods.*

Revenue decreased primarily due to declines in the Power business, as it continued to be affected by difficult trading conditions which resulted in lower order intake and slower execution of work. Net loss increased primarily due to ongoing restructuring initiatives that contributed to project cost overruns, increase in borrowing costs and impairment of goodwill from the acquisitions of Conco and Tractionel, as well as an impairment in its investment in associate AES.

Investment in an Other Public African Investment

In 2018 and 2017 the company acquired common shares of a public company in the infrastructure sector, listed on the Johannesburg Stock Exchange (''Other Public African Investment'') for aggregate cash consideration of $2,055. At December 31, 2018 the fair value of the company's investment in the Other Public African Investment was $28 (December 31, 2017 – $2,369) representing less than a 5.0% equity interest. The changes in fair value of the company's investment in the Other Public African Investment in 2018 and 2017 are presented in the tables at the outset of the African Investments section of this MD&A.

At December 31, 2018 the company did not have any board representation in the Other Public African Investment.

Private African Investments

Cautionary Statement Regarding the Valuation of Private African Investments

In the absence of an active market for the company's 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.

Investment in AFGRI Holdings Proprietary Limited

Business Overview

AFGRI Holdings Proprietary Limited (''AFGRI Holdings'') is a private holding company based in South Africa and owns 100.0% of AFGRI Group Holdings Proprietary Limited (''AGH'', formerly known as AFGRI), an investment holding company with interests in a number of agricultural and food-related companies providing products and services to ensure sustainable agriculture. AGH's core focus is grain commodities and it provides services across the

entire grain production and storage cycle, offering financial support and solutions as well as high-tech equipment through the John Deere brand supported by a large retail footprint. AGH is one of the largest John Deere distributors outside of the United States, with a presence in several markets in Africa and western Australia.

AGH's investment philosophy is to create long term sustainable value by targeting investments in agriculture, food processing and financial services, by building or acquiring equity interests in companies which provide the company with control or significant influence. AGH's long term growth strategy is based on a vision to ensure sustainable agriculture and enable food security across Africa. In addition to South Africa, AGH currently has operational activities aimed at supporting agriculture in Zambia, Zimbabwe, Mozambique, Congo-Brazzaville, Botswana, Côte d'Ivoire and Uganda. AGH 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. AGH's current strategic initiatives also include 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.

AGH's principal lines of business are as follows:

AFGRI (formerly known as AFGRI Agricultural Services)

AGH holds a 73.2% equity interest in AFGRI Proprietary Limited, ("AFGRI", formerly known as AFGRI Agricultural Services), which focuses on grain management, silos, equipment (through the John Deere brand), agricultural finance and insurance, retail and farmer development. AFGRI is the market leader for grain management solutions in South Africa, with 69 silos and 15 bunkers representing more than 5 million tonnes of storage capacity. AFGRI manages one of South Africa's largest loan books to the agricultural sector on behalf of the Land Bank, (a South African government-owned development bank). AFGRI maintains approximately $1.0 billion (14.0 billion South African rand) in loan book value, inclusive of the corporate lending portfolio managed by GroCapital Advisory Services Proprietary Limited ("GroCapital Advisory"). AFGRI also manages the group's agri-related businesses outside South Africa through AFGRI International (see below), consisting mainly of grain management and equipment operations in Zambia, Uganda, Zimbabwe, Tanzania, Mozambique, Congo and Australia.

Philafrica Foods

AGH holds a 60.0% equity interest in Philafrica. Philafrica is headquartered in South Africa, where it owns and operates maize mills, wheat mills, animal feed factories, snacking facilities, soya crushing and extraction plants, which process oil and other raw materials into edible oils, fats and proteins for human consumption (primarily for the food processing and quick-service restaurant industries), and a mussels farm and factory. Refer to the Private African Investments section under the heading Investment in Philafrica Foods Proprietary Ltd. later in this MD&A for a discussion on Fairfax Africa's equity interest in Philafrica.

GroCapital Advisory Services (formerly known as AFGRI Investment Services)

GroCapital Advisory, a wholly-owned subsidiary, provides collateral management solutions, such as monitoring status, quality and quantity of collateral to various parties, in 13 African countries on behalf of banks, insurers and customers. GroCapital Advisory holds a number of key investments in financial services, logistics, technology and other sectors. Investments in financial services and logistics comprise more than 75% of GroCapital Advisory's business. GroCapital Advisory's investments in financial services, which manages the Land Bank's corporate debtors' books, and investments in logistics includes the group's collateral management business as well as an interest in a diesel venture.

Cambium Business Services (formerly known as AFGRI Management Services)

Cambium Business Services Proprietary Limited ("Cambium"), a wholly-owned subsidiary, is a service company responsible for the group's support functions with core competencies in internal audit, governance, risk and compliance, human resources, information technology, and other financial and management services.

AFGRI International

AFGRI International Proprietary Limited ("AFGRI International"), a wholly-owned subsidiary, focuses on operations outside of South Africa.

Additional information can be accessed from AGH's website www.agh.co.za.

Transaction Description

Indirect Equity Interest in AGH

On February 17, 2017 in conjunction with its IPO, Fairfax Africa in a non-cash transaction acquired from AgriGroupe LP (the beneficial equity interests held by Fairfax in Joseph Holdings) 156,055,775 ordinary shares and 49,942,549 Class A shares for $25,001 and $49,967 respectively in exchange for: (i) 7,284,606 multiple voting shares of Fairfax Africa at $10.00 per multiple voting share issued to Fairfax; and, (ii) 212,189 subordinate voting shares of Fairfax Africa at $9.50 per subordinate voting share (being $10.00 less a private placement fee of $0.50 per subordinate voting share) issued to certain shareholders of Joseph Holdings. Upon completion of these transactions, the company invested $74,968 in Joseph Holdings, and owned 70.3% equity interest and 73.3% of the Class A shares of Joseph Holdings, becoming the largest beneficial shareholder of AGH with a 42.2% indirect equity interest.

On January 31, 2018 AGH completed its previously announced rights issue and raised $43,676 (518.6 million South African rand) at 2.27 South African rand per ordinary share (the ''AGH Rights Offer''). Joseph Holdings maintained its 60.0% equity interest in AGH through the purchase of 137,074,140 ordinary shares for cash consideration of $26,137 (311.2 million South African rand). To fund the additional investment in AGH, Joseph Holdings requested its shareholders to provide funding on a pro rata basis consistent with their equity interest in Joseph Holdings. Certain shareholders of Joseph Holdings declined to take up their pro rata share, which resulted in Fairfax Africa acquiring 79,743,201 ordinary shares of Joseph Holdings for cash consideration of $18,501 (excluding a non-cash realized gain of $1,803 on the AGH Rights Offer). Upon completion of the AGH Rights Offer, Fairfax Africa held 235,798,976 ordinary shares of Joseph Holdings representing a 72.9% equity interest and 49,942,549 or 73.3% of the outstanding Class A shares, for an aggregate investment of $93,469. In aggregate, Fairfax Africa held a 43.8% indirect equity interest in AGH through its ownership in Joseph Holdings.

The company's right to acquire ordinary shares of AGH, through its investment in Joseph Holdings, at a fixed price was determined to be a derivative financial instrument under IFRS. The appreciation of AGH's share price to 2.43 South African rand on closing of the AGH Rights Offer resulted in the recognition of a non-cash realized gain on investments of $1,803 in the consolidated statements of earnings and comprehensive income in 2018.

On November 19, 2018 the company acquired an additional 5,260,679 ordinary shares and 270,362 Class A shares of Joseph Holdings for aggregate cash consideration of $1,408 from an employee of the company's portfolio sub-advisor, Pactorum Ltd. (''Pactorum''). Refer to note 12 for additional details on this related party transaction. Upon completion of this transaction, Fairfax Africa had invested $96,680, inclusive of the non-cash realized gain of $1,803, in Joseph Holdings (comprised of 74.6% of the ordinary shares and 73.7% of the Class A shares of Joseph Holdings). Fairfax Africa continues to be the largest beneficial shareholder of AGH, through its investment in Joseph Holdings, with a 44.7% indirect equity interest.

At December 31, 2018 the company had appointed five of the ten AGH board members and three of the four Joseph Holdings board members.

AGH Facilities

On June 21, 2017 Fairfax Africa entered into a secured lending arrangement with AGH, pursuant to which Fairfax Africa provided $23,255 (300 million South African rand) of financing (the ''AGH Facility''). The AGH Facility earned interest at a rate of South African prime plus 2.0% per annum and a raising fee equal to 2.0% of the loan proceeds.

The AGH Facility was initially scheduled to mature on December 23, 2017 with an option for AGH to repay the AGH Facility in newly issued shares of AGH, subject to certain conditions on maturity. On December 19, 2017 the AGH Facility maturity date was extended from December 23, 2017 to January 31, 2018. During the extension period, the AGH Facility interest rate was increased to South African prime plus 6.0% per annum. On January 31, 2018 the AGH Facility matured and the company received $25,399 (including accrued interest) and recognized a realized foreign exchange gain of $1,166 (2017 – nil) in the consolidated statements of earnings and comprehensive income in 2018.

On December 13, 2018 the company entered into a second secured lending arrangement with AGH pursuant to which Fairfax Africa provided $13,074 (180 million South African rand) of financing. The facility will earn interest at a rate of South African prime plus 2.0%, payable on maturity and will mature six months from the date of last issuance. At December 31, 2018 the facility was not drawn down by AGH.

Subsequent to December 31, 2018

On January 21, 2019 the full $13,074 (180 million South African rand) was advanced to AGH. The facility including accrued interest matures on July 19, 2019.

Key Business Drivers, Events, and Risks

AGH is headquartered in South Africa. Refer to the Business Developments section under the heading Operating Environment of this MD&A for a description of the macroeconomic conditions in South Africa.

AGH's key business drivers relate to its ability to sustain and grow its grain management and equipment operations through capital upgrades, support the growth of Philafrica and expand its financial services offerings to the agricultural sector.

In March 2018 AFGRI Holdings previously announced acquisition of National Bank of Greece Group's 99.8% stake in SABA was approved by the Ministry of Finance. AFGRI Holdings had previously received approval for the acquisition in 2017 by the competition authorities and the South African Reserve Bank. On September 28, 2018 AFGRI Holdings acquired a 30.0% equity interest in GroCapital Holdings Proprietary Limited (''GroCapital Holdings''). On October 4, 2018 GroCapital Holdings acquired the 99.8% equity interest in SABA and subsequently acquired an additional equity interest in SABA from minority shareholders and as a result at December 31, 2018 held an equity interest in SABA of 99.9%. The acquisition of GroCapital Holdings provides AGH with a retail and alliance banking platform for current and prospective customers, allowing AGH to continue its focus on innovation and food security.

For AGH's fiscal year ending March 31, 2018, the company achieved an overall Broad-Based Black Economic Empowerment (''B-BBEE'') scorecard rating of level 4, representing one of the most empowered companies in the agricultural sector in South Africa. The B-BBEE scorecard was designed to ensure economic transformation and re-distribution within the South African corporate sector, to the benefit of racial groups who were previously discriminated against. A B-BBEE scorecard rating level of 4 represents 100% compliance with the Black Economic Empowerment Act.

In January 2019 South Africa's department of Agriculture, Forestry and Fisheries released its preliminary area planted estimate for the 2019 summer crop, with the total area for the maize crop planted decreasing slightly by 2.2% to 2.27 million hectares when compared to the 2018 summer crop covering 2.32 million hectares (which yielded 12.9 million tons of maize).

On November 19, 2018, concurrent with Philafrica's previously announced rights offering, AGH converted $59,601 (833 million South African rand) of its $96,092 (1,343 million South African rand) shareholder loan with Philafrica into 30,000 ordinary shares of Philafrica. Following the completion of the Philafrica Rights Offer, AGH held 60,000 ordinary shares of Philafrica representing a 60.0% equity interest (Philafrica was a wholly-owned subsidiary of AGH prior to its rights offer).

Valuation and Consolidated Financial Statement Impact

Indirect Equity Interest in AGH

At December 31, 2018 the company estimated the fair value of its investment in the indirect equity interest in AGH using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.7% to 26.0% and a long term growth rate of 3.0% (December 31, 2017 – 11.6% to 25.1%, and 3.0% respectively). At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for AGH's business units prepared in the fourth quarter of 2018 (December 31, 2017 – fourth quarter of 2017) by AGH'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 AGH operates. At December 31, 2018 the company's internal valuation model indicated that the fair value of its 44.7% indirect equity interest in AGH, acquired through the company's ownership in Joseph Holdings, was $111,888 (December 31, 2017 – $88,314), comprised of the Class A shares and ordinary shares of Joseph Holdings. The changes in fair value of the company's indirect equity interest in AGH in 2018 and 2017 are presented in the tables at the outset of the African Investments section of this MD&A.

The change in the fair value of the company's indirect equity interest in AGH at December 31, 2018 from December 31, 2017 was primarily related to the additional investment of $18,501 completed on January 31, 2018 as part of the AGH Rights Offer, a non-cash realized gain of $1,803 related to the forward derivative arising from the

AGH Rights Offer and unrealized gains of $18,082 primarily due to an increase in the fair value of the silo business within AAS, partially offset by unrealized foreign exchange losses of $16,220.

AGH Facilities

On January 31, 2018 the AGH Facility matured and the company received $25,399 (including accrued interest) and recognized a realized foreign exchange gain of $1,166 (2017 – nil) in the consolidated statements of earnings and comprehensive income in 2018.

In 2018 the company recorded interest income of $383 (2017 – $1,982) within interest in the consolidated statements of earnings and comprehensive income related to the AGH Facility.

AGH's Summarized Financial Information

The company's fiscal year ends on December 31 and AGH's fiscal year ends on March 31. Effective March 31, 2018 AGH changed its presentation currency from U.S. dollars to the South African rand to better align with: (i) its functional currency; (ii) the change in its governance structure to that of an investment holding company; and (iii) the Board's performance evaluation and investment decisions, which are based on the South African rand.

The South African rand weakened relative to the U.S. dollar in the first six months of fiscal 2018 compared to the first six months of fiscal 2017 by 4.8%. To avoid the distortion of results caused by foreign currency translation, the tables below present AGH's financial and operating results in both U.S. dollar and South African rand (AGH's functional currency). The discussion which follows refers to those South African rand figures unless indicated otherwise.

Balance Sheets
(unaudited – US$ thousands)

	South African rand		US$	
	September 30, 2018	**March 31, 2018**	**September 30, 2018[(1)]**	**March 31, 2018[(1)]**
Current assets	7,568,525	6,011,610	534,962	508,407
Non-current assets	5,067,389	4,747,152	358,174	403,311
Current liabilities	6,975,846	5,115,028	493,123	432,580
Non-current liabilities	3,499,875	3,452,998	247,379	292,700
Shareholders' equity	2,160,193	2,190,736	152,634	186,438

(1) The net assets of AGH were translated at September 30, 2018 at $1 U.S. dollar = 14.15 South African rand and at March 31, 2018 at $1 U.S. dollar = 11.82 South African rand. The exchange rates used were the spot rates prevailing on those respective dates.

The increase in current assets primarily reflected an increase in trade and other receivables, inventories and cash and cash equivalents arising from trading activities in AFGRI International (as the Zambia market enters its buying season), improved performances in AFGRI's grain management business (due to an increase in storage fees) and an increase in volumes in Philafrica's milling and Nedan divisions (arising from better procurement in a less volatile commodity market), partially offset by a decrease in income tax assets and trade receivables financed by banks. The increase in non-current assets primarily related to increases in other intangible assets, property, plant and equipment, deferred income taxes and goodwill arising from Philafrica's acquisition of Pakworks. The increase in current liabilities primarily related to increases in short-term borrowings and bank overdrafts, trade and other payables, commodity finance, short-term portion of long-term borrowings, commodity finance and derivative financial instruments (due to a weaker rand, which impacted the fair value of derivatives within the financial markets brokerage business), partially offset by a reduction in borrowings from banks to finance trade receivables. The increase in non-current liabilities primarily related to borrowings and deferred income tax liabilities.

Summarized below are AGH's statements of earnings for the six months ended September 30, 2018 and 2017.

Statements of Earnings
(unaudited – US$ thousands)

	South African rand		US$	
	Six months ended September 30, 2018	**Six months ended September 30, 2017**	**Six months ended September 30, 2018[(1)]**	**Six months ended September 30, 2017[(1)]**
Revenue	6,399,401	6,304,810	479,271	478,331
Earnings before taxes	47,845	171,716	3,584	13,027
Net earnings (loss)	(31,262)	106,253	(2,341)	8,060

(1) Amounts for the six months ended September 30, 2018 and 2017 were translated into US$ using the average exchange rates of $1 U.S. dollar = 13.35 South African rand and $1 U.S. dollar = 13.18 South African rand prevailing during those periods.

Revenues increased primarily due to the strong performances in Philafrica's milling and Nedan divisions (arising from better procurement in a less volatile commodity market), the inclusion of recently acquired Pakworks' revenue for 3 months and a strong performance by AFGRI International's equipment business following its 2017 acquisition, partially offset by lower equipment volumes in South Africa (through the John Deere brand) following a late harvest and uncertainty surrounding government plans on land reform (with farmers holding off on capital purchases), and lower volumes at Philafrica's mussels, cassava and poultry businesses. The decrease in earnings before taxes and net loss were primarily due to increased costs associated with Philafrica's acquisitions of DADTCO and Pakworks, a decrease in grain management's storage fees following a smaller summer crop, a decrease in equipment volumes in South Africa (due to the factors mentioned earlier), foreign currency losses reported at the non-South African operations following the depreciation of the South African rand and increased income tax expense.

Investment in Philafrica Foods Proprietary Ltd.

Business Overview

Philafrica Food Proprietary Ltd. (''Philafrica'') is headquartered in South Africa, where it owns and operates maize mills, wheat mills, animal feed factories, snacking facilities, soya crushing and extraction plants, which process oil and other raw materials into edible oils, fats and proteins for human consumption (primarily for the food processing and quick-service restaurant industries), and a mussels farm and factory. Philafrica also has food-related businesses outside South Africa, consisting mainly of a cassava processing business in Côte d'Ivoire and Mozambique and a poultry joint venture in Mozambique. In addition to its 14 production plants, (including newly acquired mussels and snack manufacturing operations), across the South African provinces of Gauteng, KwaZulu-Natal, Mpumalanga, Eastern Cape, Western Cape, the Free State and Limpopo, Philafrica has operations in Mozambique.

Philafrica's vision is to transform the lives of millions of Africans through food processing in Africa. Currently, most African countries are net importers of processed food products. Philafrica's management believes that the most effective way to transform African agriculture is to create market pull through large-scale food processing, which requires vertical integration throughout the entire food value chain straight back to the farms and ensures consistent quality supply of raw materials into the company's food production sites. In order to achieve this vision, Philafrica has implemented a three pillar strategy focused on: (i) increasing its share in the South African value chain by acquiring food processing companies; (ii) replacing imported food products by growing and processing more local raw materials in Africa, specifically by building greenfield production sites; and (iii) localizing the entire food value chain so that Africa can capitalize on export opportunities, specifically through acquisitions within strategic countries such as Côte d'Ivoire, Ghana, Ethiopia and Mozambique.

Philafrica's principal lines of business are as follows:

Cassava Processing

Philafrica's Cassava Processing business, through its controlling stake in the Dutch Agricultural Development and Trading Company (''DADTCO''), produces a high quality wet starch and dry starch flour derived from cassava. Cassava is a starchy root and the largest produced crop in Africa (on a tonnage measurement), and is mainly grown by smallholder farmers. Philafrica processes cassava into an intermediate product (''business-to-business'') and an end product (''business-to-consumer''). The intermediate product, cassava starch cake, is a semi wet cassava paste or

wet starch flour. The end product is cassava starch flour, which is a white dry starch flour derived from the cassava root. Both cassava starch cake and cassava starch flour are primarily used in the baking and brewing industries.

The cassava root is a perishable product that needs to be processed within 48 hours of harvesting, making it a difficult crop to industrialize. DADTCO has invented a unique mobile cassava processing factory that is able to process cassava into food grade products at the village level, bridging the gap between smallholder farmers and large food companies while guaranteeing consistent high product quality.

Grain Milling

Philafrica's Grain Milling business, through its AFGRI Milling division, is involved in the industrial milling of yellow corn (maize) and wheat flour. AFGRI Milling operates three maize mills in Mpumalanga (Bethal, Kinross and Ermelo) and one wheat mill in Harrismith in the Free State. These mills have achieved FSSC 22000 Food Safety System Certification, which is the worldwide preferred and accepted Food Safety Standard and they are also certified Halaal and Kosher producers.

Corn, or maize as it is known in South Africa, is the largest produced field crop and is planted throughout the country under diverse environments. South Africa is the main maize producer on the African continent. Approximately 14 million tons of maize is produced annually on 2.5 million hectares of land, of which 7.7 million tons and 6.2 million tons are white and yellow maize respectively. In developed countries, yellow maize is consumed mainly as a second-cycle produce, in the form of meat, eggs and dairy products. In Africa, white maize is consumed directly and serves as staple diet for some 200 million people. In South Africa yellow maize is used predominantly for animal feed as well as for cereals and snack products.

To ensure consistent high product quality, AFGRI Milling has implemented a stringent Identity Preservation Program in collaboration with AFGRI Grain Management Proprietary Ltd., a wholly-owned subsidiary of AGH, in order to segregate, handle and store the different classes and grades of maize and wheat which is required to mill to customer specifications.

Oil and Protein

Philafrica's Oil and Protein business, through its division Nedan Foods (''Nedan''), processes oil and other raw materials into edible oils and high-protein textured vegetable products for the food processing and fast food industries. As a bulk oil supplier to the industrial food market and related industries in South Africa, Nedan is also the market leader in texturized soya protein for human consumption and supplies high quality oil cake for the animal feed industry. Nedan operates soya crushing and extraction plants with a refinery in Mokopane (Limpopo province) with a plant capacity of 255,000 tonnes of soya beans per annum, and holds the FSSC 22000 Food Safety System Certification and is also a Halaal and Kosher certified producer.

Animal Feeds

Philafrica's animal feeds business, through AFGRI Animal Feeds, plays a vital role in the food value chain converting raw materials into balanced feed for animal production to feed South Africa. With seven factories across the country and approximately 1 million metric tonnes of annual capacity, AFGRI Animal Feeds is the largest independent feed company, producing a comprehensive range of rations for poultry, dairy, beef, sheep, game and pet food (under the dog food brand name *Jock*). It also operates an upstream integration business focused on supply of raw materials, such as poultry-rendered products and by-pass products, to the animal feed industry in South Africa.

Poultry Mozambique

Philafrica's Poultry Mozambique business, through its joint venture with Novos Horizontes, is based in Nampula, Mozambique and provides integrated and sustainable agriculture and food processing across the entire poultry value chain.

Snack Manufacturing

Philafrica's Snack Manufacturing business, through its recent acquisition of Pakworks, is a snack manufacturing company producing dry snacks exclusively for PepsiCo in SSA under the popular *Nik Naks* and *Simba* brand names. Pakworks operates a production facility based in Heilbron in the Free State of South Africa with three main

manufacturing platforms: (i) processing, frying and packaging of peanuts; (ii) two hard-extruding lines producing *Nik Naks*; and (iii) a full pellet frying line with the flexibility to process corn as well as potato-based pellets.

Mussel Farming and Processing

Philafrica's Mussel Farming and Processing business, through Southern Atlantic Seafood Holdings under the brand name Atlantic Royal, the largest, fully vertically-integrated mussel farm and processing company in South Africa. Philafrica's Mussel Farming and Processing business provides farming, harvesting, processing, packaging and marketing services to process and freeze the raw material directly after harvest, thus ensuring the highest quality mussels for the market.

Additional information can be accessed from Philafrica's website www.philafricafoods.com.

Transaction Description

Philafrica Facility

On February 28, 2018 and May 28, 2018 Fairfax Africa entered into secured lending arrangements with Philafrica, pursuant to which the company provided Philafrica with $27,934 (330 million South African rand) and $13,219 (170 million South African rand, net of a 2% raising fee) (collectively referred to as the ''Philafrica Facility'') for aggregate net cash consideration of $41,153. The Philafrica Facility bears interest at a rate of South African prime plus 2.0% per annum, payable monthly in arrears or capitalized to the loan amount at the election of Philafrica. In 2018 Fairfax Africa received a $686 (10 million South African rand) raising fee equal to 2.0% of the loan proceeds.

On November 19, 2018 the company had converted $23,254 (325 million South African rand) of the Philafrica Facility into 26,000 newly issued ordinary shares of Philafrica as part of the Philafrica rights offering (described below). On December 24, 2018 the remaining investment in the Philafrica Facility, including raising fees and interest, was fully repaid in cash.

Philafrica Common Shares

On November 19, 2018 Fairfax Africa participated in a previously announced rights offering of Philafrica ordinary shares for aggregate capital raise of $35,775 (500 million South African rand). Fairfax Africa participated in the Philafrica Rights Offer and converted $23,254 (325 million South African rand) of the Philafrica Facility into 26,000 ordinary shares of Philafrica. Upon completion of this transaction, the company held a 26.0% equity interest in Philafrica, and AGH's equity interest decreased from 100.0% to 60.0%, with AGH maintaining control of Philafrica.

At December 31, 2018 the company had appointed two of the seven Philafrica board members.

Key Business Drivers, Events, and Risks

Philafrica is headquartered in South Africa, refer to the Business Developments section under the heading Operating Environment of this MD&A for a description of the macroeconomic conditions in South Africa.

Philafrica's key business drivers relate to its ability to grow and vertically integrate its share in the food value chain across the African continent.

On July 1, 2018 Philafrica announced its acquisition of a majority shareholding in Pakworks, following approval by the Competition Tribunal. The Pakworks acquisition will allow Philafrica to partner with one of its important milling customers and diversify its business model by moving down the supply chain to drive additional value.

On November 19, 2018 Philafrica completed its previously announced rights offering of $35,775 (500 million South African rand) as discussed above. The proceeds from the rights offering will provide Philafrica with the liquidity needed to pursue merger and acquisition activities, and reduced its total debt, which strengthened its balance sheet enabling Philafrica to refinance its debt with more favourable market terms.

Valuation and Consolidated Financial Statement Impact

Philafrica Facility

At December 31, 2018 the Philafrica Facility was fully extinguished as discussed above. The changes in fair value of the Philafrica Facility in 2018 are presented in the table at the outset of the African Investments section of this MD&A. In 2018 upon conversion and repayment of the Philafrica Facility, the company recorded a realized foreign exchange loss of $6,130 in the consolidated statements of earnings and comprehensive income.

In 2018 the company recorded interest income of $3,903 (2017 – nil) within interest in the consolidated statements of earnings and comprehensive income related to the Philafrica Facility.

Philafrica Common Shares

At December 31, 2018 the company estimated the fair value of its investment in Philafrica using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 13.7% to 24.4% and a long term growth rate of 3.0% (December 31, 2017 – nil and nil). At December 31, 2018 free cash flow projections were based on EBITDA estimates derived from financial information for Philafrica's business units prepared in the fourth quarter of 2018 by Philafrica'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 Philafrica operates. At December 31, 2018 the company's internal valuation model indicated that the fair value of its investment in Philafrica was $23,463 (December 31, 2017 – nil) for the 26.0% equity interest. The changes in fair value of the company's investment in Philafrica in 2018 are presented in the table disclosed at the outset of the African Investments section of this MD&A.

Investment in GroCapital Holdings Proprietary Limited

Business Overview

GroCapital Holdings is a bank holding company that owns 99.9% of SABA. SABA was established in 1947 in South Africa and is focused on delivering world-class banking services to the medium-sized business market in the country. SABA offers comprehensive traditional business banking such as lending, transaction banking, treasury and foreign exchange as well as alliance banking services, which provide niche transactional banking offerings in partnership with non-banking entities who would like to offer financial services into their customer base.

SABA's principal lines of business are as follows:

Business and Commercial Banking

SABA's Business and Commercial Banking is focused on the cornerstones of business banking (transactional banking, lending and deposit services) and targets the small and medium sized business customer. To facilitate international business transactions SABA's Business and Commercial banking is fully integrated with the SABA's Treasury and Global Transactional Services (''GTS'') business (see below). SABA also offers risk and investment solutions from leading providers in the industry which includes short and long term insurance as well as investment management services. These solutions are delivered through seven business suites situated in key business centres across South Africa.

Treasury and Global Transaction Services

SABA's GTS business is focused on providing professional and personalized foreign exchange (import and export) services to the small and medium sized business customer. GTS' range of products include spot and forward contracts, foreign currency accounts, letters of credit, collection of foreign currency, cross border payments and exchange control applications.

Alliance Banking

SABA's Alliance Banking business model focuses on banking products developed and offered to identified market segments or groups through a leveraged partner system. SABA strategically partners with established retailers and innovative financial technology (FinTech) companies to deliver these solutions.

Additional information can be accessed from SABA's website www.bankofathens.co.za.

Transaction Description

GroCapital Holdings Common Shares

In December 2016 AFGRI Holdings entered into an agreement with the National Bank of Greece S.A. and NBG Malta Holdings Ltd. (collectively ''NBG'') to acquire 27,965,985 ordinary shares, or a 99.8% equity interest in SABA (the ''SPA''). To facilitate the closing of this transaction, GroCapital Holdings was established as a bank holding company to acquire the SABA shares. On May 12, 2017 AFGRI Holdings appointed GroCapital Holdings as its nominee for purposes of the SPA and assigned its rights and obligations under the SPA to GroCapital Holdings. On September 28, 2018 Fairfax Africa acquired a 35.0% equity interest in GroCapital Holdings for cash consideration of $9,848 (139.4 million South African rand). The Public Investment Corporation SOC Limited (''PIC'') and AGH own the remaining 35.0% and 30.0% equity interest in GroCapital Holdings.

On October 4, 2018 GroCapital Holdings acquired the 99.8% equity interest in SABA from NBG through the SPA assignment from AFGRI Holdings. GroCapital Holdings subsequently acquired an additional equity interest in SABA from minority shareholders and at December 31, 2018 had an equity interest in SABA of 99.9%.

On October 26, 2018 GroCapital Holdings issued a capital call to its shareholders to fund their pro rata contribution, which was invested by GroCapital Holdings into SABA to ensure compliance with capital adequacy requirements of the South African regulators. On November 8, 2018 Fairfax Africa invested their pro rata contribution of the capital call of $2,293 (32.2 million South African rand) to GroCapital Holdings to maintain its 35.0% equity interest. Upon completion of this transaction, the company had invested aggregate cash consideration of $12,141 in GroCapital Holdings.

At December 31, 2018 the company had not yet appointed any GroCapital Holdings board members where the company is allowed to appoint two of the seven. At December 31, 2018 the company had appointed one of the nine SABA board members.

Key Business Drivers, Events, and Risks

SABA is headquartered in South Africa. See the Operating Environment section of this MD&A for a description of the macroeconomic conditions in South Africa.

SABA's key business drivers relate to its ability to grow and penetrate the financial services industry in Africa, particularly through its Business Banking and Alliance Banking lines of businesses. As part of AGH's GroCapital Advisory Services line of business, SABA intends to grow its customer base in the agricultural industry with a focus on SMEs. SABA's Alliance Banking creates an opportunity to provide co-branded financial services to AGH's customers in a strategic partnership with established retailers and FinTech companies.

Valuation and Consolidated Financial Statement Impact

GroCapital Holdings Common Shares

The initial transaction price for the company's investment in GroCapital Holdings was considered to approximate fair value at December 31, 2018 as there were no significant changes to its investment in SABA's business, capital structure and operating environment and the key assumptions in the company's acquisition valuation model continue to be valid. In 2018 the change in fair value of the company's equity interest in GroCapital Holdings related to foreign exchange losses and is presented in the table at the outset of the African Investments section of this MD&A.

Investment in Consolidated Infrastructure Group (Debt Instrument and Derivative Obligation)

Business Overview

The company's investment in CIG is comprised of common shares, a debt instrument and a derivative obligation. The company's investment in CIG common shares is discussed in the Public African Investments section under the heading Investment in Consolidated Infrastructure Group (Common Shares) earlier in this MD&A.

Transaction Description

CIG Loan

On May 18, 2018 the company entered into a secured lending arrangement with CIG, pursuant to which the company provided CIG with $23,270 (300 million South African rand) of financing (the "CIG Loan"). The initial term of the CIG Loan was for a period of one year at an interest rate of South African prime plus 4.0% per annum, payable monthly in cash. On August 29, 2018 at a CIG Extraordinary General Meeting, shareholder approval was received for the conversion features contained in the CIG Loan (described below), and as a result the term of the CIG Loan was increased to five years and the interest rate was reduced to South African prime plus 2.0% per annum.

Fairfax Africa has the option at any time during the five year term to convert all or a portion of the CIG Loan into a maximum of 57,692,308 ordinary shares of CIG at a price of 5.20 South African rand per share. CIG has the option after June 4, 2021 to convert the CIG Loan into ordinary shares at a price of 5.20 South African rand per share, provided that the CIG ordinary shares have traded at more than 6.24 South African rand per share for at least 90 consecutive days at the time of conversion.

Fairfax Africa received a fee of $597 (7.5 million South African rand) for its involvement in structuring the transaction that initially reduced the cost of the company's investment and is amortized over the term of the CIG Loan.

Valuation and Consolidated Financial Statement Impact

CIG Loan

At December 31, 2018 the company estimated the fair value of its investment in the CIG Loan using an industry accepted discounted cash flow and option pricing model that incorporated the security's estimated credit spread of 7.8% (December 31, 2017 – nil) and estimated historical share price volatility of 60.9% (December 31, 2017 – nil). The estimated credit spread was based on a peer group of comparable companies adjusted for credit risk specific to CIG. At December 31, 2018 the company's internal valuation model indicated that the estimated fair value of the CIG Loan was $21,068 (December 31, 2017 – nil). The changes in fair value of the CIG Loan in 2018 are presented in the table at the outset of the African Investments section of this MD&A.

In 2018 the company recorded interest income of $1,630 (2017 – nil) within interest in the consolidated statements of earnings and comprehensive income related to the CIG Loan.

CIG Rights Offer (Derivative Obligation)

The company's obligation to subscribe for 178,995,353 ordinary shares of CIG as part of the CIG Rights Offer (as previously discussed in the Public African Investments section under the heading Investment in Consolidated Infrastructure Group (Common Shares) earlier in this MD&A) gave rise to a forward derivative liability. At December 31, 2018 the company estimated the fair value of the derivative obligation using an estimated forward price of the CIG ordinary shares on the closing date of January 4, 2019 compared to the Offer Price, which was multiplied by the take-up of the CIG Rights Offer by Fairfax Africa. At December 31, 2018 the company's internal valuation model indicated that the estimated fair value of the derivative obligation was $5,724 (December 31, 2017 – nil). The changes in fair value of the derivative obligation for CIG's Rights Offer in 2018 are presented in the table at the outset of the African Investments section of this MD&A.

Subsequent to December 31, 2018

On January 4, 2019 upon closing of the CIG Rights Offer the company settled the derivative obligation and will record a realized gain of $5,724 in the consolidated statements of earnings and comprehensive income in the first quarter of 2019.

Investment in the PGR2 Loan (Debt Instrument)

Transaction Description

On May 18, 2018, in conjunction with the CIG Loan, Fairfax Africa entered into a secured lending agreement with PGR2 Investments Proprietary Limited ("PGR2"), the largest shareholder of CIG at the time of the transaction, pursuant to which the company provided PGR2 with $19,969 (260 million South African rand) of secured financing

(the ''PGR2 Loan''). The PGR2 Loan is secured by ordinary shares of CIG held by PGR2 and associated parties and bears interest at a rate of 15.0% per annum, payable semi-annually in cash, with a maturity date of May 24, 2021. The PGR2 Loan is repayable in full if the ordinary shares of CIG trade above 6.50 South African rand for 30 consecutive days. Within six months after the closing date of the CIG Rights Offer, either party may elect to buy or sell shares from the other to the extent necessary to ensure both parties hold an equal number of shares. In 2018 the company's investment in the PGR2 Loan of $20,996 was comprised of a principal draw down of $19,969 (260 million South African rand) and capitalized interest of $1,027 (14.4 million South African rand).

Valuation and Consolidated Financial Statement Impact

At December 31, 2018 the company estimated the fair value of its investment in the PGR2 Loan using an industry accepted discounted cash flow and option pricing model that incorporated PGR2's estimated credit spread of 11.9% (December 31, 2017 – nil). The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to PGR2. At December 31, 2018 the company's internal valuation model indicated that the estimated fair value its investment in the PGR2 Loan was $17,527 (December 31, 2017 – nil). The changes in fair value of the PGR2 Loan in 2018 are presented in the table at the outset of the African Investments section of this MD&A.

In 2018 the company recorded interest income of $1,222 (2017 – nil) within interest in the consolidated statements of earnings and comprehensive income related to the PGR2 Loan.

Investment in Atlas Mara Limited (Debt Instruments and Warrants)

The company's investment in Atlas Mara is comprised of common shares, debt instruments and warrants. The common shares are discussed in the Public African Investments section under the heading Investment in Atlas Mara Limited (Common Shares) earlier in this MD&A. The Atlas Mara bonds discussed below are not rated.

Transaction Description

Atlas Mara 5.0% Convertible Bond (Converted into Common Shares)

On July 17, 2017 the company invested $100,000 in Atlas Mara through the purchase of a mandatory convertible bond with an interest rate of 5.0% per annum (the ''Atlas Mara 5.0% Convertible Bond'') which increased to 10.0% per annum on August 31, 2017. On August 31, 2017, concurrent with the closing of the Atlas Mara Equity Offering (described in the Public African Investments section as noted above), the Atlas Mara 5.0% Convertible Bond (including accrued interest) was converted into 44,722,222 ordinary shares of Atlas Mara.

Atlas Mara 7.5% Convertible Bonds (Extinguished for Atlas Mara 7.5% Bonds plus Warrants, and Atlas Mara 11.0% Convertible Bonds)

On April 24, 2018 Fairfax Africa and Atlas Mara entered into a placing agreement pursuant to which the company purchased $16,000 par value convertible bonds maturing on April 24, 2020. The terms of the convertible bonds included a two year tenor, original issue discount of 5.0% and a 1.0% upfront origination fee with interest at a rate of 7.5% per annum. The bonds were convertible at maturity at the option of Fairfax Africa into ordinary shares of Atlas Mara (the ''Atlas Mara 7.5% Convertible Bonds'').

On July 5, 2018 the company amended the terms of the placing agreement (the ''Amended Placing Agreement'') to provide an additional $20,000 in funding to Atlas Mara. Upon completion of this transaction, the company held $36,000 par value convertible bonds with an interest rate of 7.5% maturing on April 24, 2020 for total aggregate cash consideration of $33,840 (net of the fees). In the fourth quarter of 2018 the terms of the Atlas Mara 7.5% Convertible Bonds were amended resulting in the company for accounting purposes treating it as an extinguishment, as described below.

Atlas Mara 7.5% Bonds plus Warrants

On November 6, 2018 the company amended the terms of the Amended Placing Agreement on the $20,000 par value convertible bonds as follows: (i) replaced the conversion feature of the bonds with 6,200,000 of Atlas Mara warrants, that can be exercised by the company at a price of $3.20 per ordinary share of Atlas Mara; and, (ii) amended maturity date of the bonds to November 6, 2021, with the option by Atlas Mara to extend the maturity by an additional year to

November 6, 2022. The interest rate on the bonds remained at 7.5% per annum, with interest payable semi-annually (''Atlas Mara 7.5% Bonds'').

Atlas Mara 11.0% Convertible Bonds

On December 11, 2018 the company amended the terms of the Amended Placing Agreement for the $16,000 par value convertible bonds as follows: (i) an increase in the interest rate to 11.0% per annum accrued quarterly and in lieu of cash, the interest is payable in kind in the form of additional Atlas Mara bonds (''Atlas Mara 11.0% Convertible Bonds''); and, (ii) amended the maturity date to December 11, 2019 with the option by Atlas Mara to extend the maturity by an additional year to December 11, 2020.

Valuation and Consolidated Financial Statement Impact

Atlas Mara 5.0% Convertible Bond (Converted into Common Shares)

The change in the fair value of the Atlas Mara 5.0% Convertible Bond between the date of initial recognition and the conversion into Atlas Mara ordinary shares resulted in the recognition of a realized gain on investment of $5,098 recorded in the consolidated statements of earnings and comprehensive income in 2017.

Atlas Mara 7.5% Bonds plus Warrants

Under IFRS the changes to the terms of the bonds were deemed as substantial and accounted for as a non-cash extinguishment for the $20,000 par value convertible bonds that were exchanged for $20,000 par value non-convertible bonds and 6,200,000 warrants with fair values of $17,676 and $2,324 on the date of amendment. In 2018 the company recognized a realized gain on investment of $993 on the extinguishment of the $20,000 par value convertible bond in the consolidated statements of earnings and comprehensive income.

At December 31, 2018 the company estimated the fair value of its investment in the Atlas Mara 7.5% Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Atlas Mara's estimated credit spread of 10.3% (December 31, 2017 – nil) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Atlas Mara. At December 31, 2018 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara 7.5% Bonds was $17,499 (December 31, 2017 – nil).

At December 31, 2018 the company estimated the fair value of its investment in the Atlas Mara warrants using an industry accepted discounted cash flow and option pricing model that incorporated estimated historical share price volatility of 34.5% (December 31, 2017 – nil). At December 31, 2018 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara warrants was $1,016 (December 31, 2017 – nil).

Atlas Mara 11.0% Convertible Bonds

Under IFRS the changes to the terms of the convertible bonds were deemed substantial and accounted for as a non-cash extinguishment for the original $16,000 par value convertible bonds that were exchanged for 11.0% Convertible Bonds with a fair value of $16,182 on date of amendment. In 2018 the company recognized a realized gain of $885 on extinguishment of the $16,000 par value convertible bonds in the consolidated statements of earnings and comprehensive income.

At December 31, 2018 the company estimated the fair value of its investment in the Atlas Mara 11.0% Convertible Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Atlas Mara's estimated credit spread of 10.3% (December 31, 2017 – nil) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Atlas Mara. At December 31, 2018 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara 11.0% Convertible Bonds was $16,334 (December 31, 2017 – nil).

The changes in fair value of the company's bond and warrant investments in Atlas Mara in 2018 and 2017 are presented in the tables at the outset of the African Investments section of this MD&A. In 2018 the company recorded interest income of $2,441 (2017 – $1,117) within interest in the consolidated statements of earnings and comprehensive income related to the Atlas Mara bonds.

Investment in 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 2013 with its first school opening in South Africa in 2014. Since then, the company has expanded across South Africa and launched its first campus in Kenya in 2015. Nova Pioneer currently operates ten schools with a combined enrollment of 3,830 students.

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. Average annual tuition per student is approximately $3,250 (2017 – $3,000) and is priced to target emerging middle to upper-middle income families.

Additional information can be accessed from Nova Pioneer's website www.novapioneer.com.

Transaction Description

Nova Pioneer Facility (Converted in 2017 for Nova Pioneer Bond and Warrants)

On June 8, 2017 Fairfax Africa entered into a secured lending arrangement with Ascendant Learning Limited (''Ascendant''), the Mauritius based parent entity of Nova Pioneer. In advance of the secured lending arrangement, Ascendant was permitted to borrow up to $4,000 (the ''Nova Pioneer Facility'') for the benefit of Nova Pioneer. The Nova Pioneer Facility had an initial interest rate of 5.0% per annum, which increased to 18.0% per annum on June 30, 2017. The Nova Pioneer Facility was secured against certain assets of Ascendant and its subsidiaries. On June 8, 2017 and August 10, 2017, Ascendant borrowed $3,000 and $1,000, respectively, on the Nova Pioneer Facility. On August 22, 2017 the Nova Pioneer Facility was converted into the Nova Pioneer securities (discussed below).

Nova Pioneer Bonds and Warrants

On June 30, 2017 Fairfax Africa announced a $20,000 investment in Nova Pioneer which consisted of secured debentures maturing on December 31, 2024 (the ''Nova Pioneer Bonds'') and 2,000,000 warrants (the ''Nova Pioneer Warrants'') to be issued in tranches. At December 31, 2017 the $20,000 investment was completed, consisting of securities with fair values on the date of the investment of Nova Pioneer Bonds of $19,545 and 2,000,000 Nova Pioneer Warrants of $455.

The Nova Pioneer Bonds bear interest at a rate of 20.0% per annum and are redeemable by Ascendant at par at any time after June 30, 2021, except in circumstances relating to a change of control or a value realization event. Each Nova Pioneer Warrant can be exercised by the company at a price of $2.06 per ordinary share of Ascendant. Other than in circumstances relating to a change of control or a value realization event, the Nova Pioneer Warrants may be exercised after June 30, 2021. The Nova Pioneer Bonds are not rated.

On August 30, 2018 on the same terms as the initial investment in Nova Pioneer as described above, the company entered into an Amending Agreement and completed an additional $4,000 investment in Nova Pioneer, comprised of secured debentures and 400,000 Nova Pioneer Warrants, with fair values on the date of the investment of $3,705 and $295. On December 31, 2018 the company entered into a Second Amending Agreement, under the same terms as the prior investment, to provide an additional $10,000 investment in Nova Pioneer and invested $773 relating to the incremental investment in Nova Pioneer, comprised of secured debentures and 77,293 Nova Pioneer Warrants, with fair values on the date of the investment of $742 and $31 (''tranche 1''). Upon completion of this transaction, the company had invested $26,242 in Nova Pioneer Bonds and $781 in Nova Pioneer Warrants, with a remaining investment commitment of $9,227 at December 31, 2018 (partially completed on January 11, 2019 for an additional $3,500 investment, as described below).

At December 31, 2018 the company did not have any board representation in Nova Pioneer.

Subsequent to December 31, 2018

On January 11, 2019 the company completed an additional $3,500 investment in Nova Pioneer as part of the Second Amending Agreement, comprised of secured debentures and 350,000 Nova Pioneer Warrants, with fair values on the date of investment of $3,333 and $167 (''tranche 2'').

Key Business Drivers, Events, and Risks

Nova Pioneer's key business drivers relate to its success in meeting its enrollment targets, and scaling and expanding its operations across multiple campuses in Kenya and South Africa. Nova Pioneer's current student enrollment represents a 75% increase over the prior year and they will produce their first high school graduates in 2019.

Nova Pioneer's operations in Kenya continue to outperform, while the South African market remains competitive. As a result, in the near term Nova Pioneer's management intends to pursue more growth opportunities in Kenya, mitigating the impact of the market dynamics in South Africa.

Valuation and Consolidated Financial Statement Impact

Nova Pioneer Bonds and Warrants

At December 31, 2018 the company estimated the fair value of its investment in the Nova Pioneer Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Nova Pioneer's estimated credit spread of 18.5% (December 31, 2017 – 18.9%). The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Nova Pioneer and assumptions related to certain redemption options embedded in the bonds. At December 31, 2018 the company's internal valuation model indicated that the fair value of the investment in Nova Pioneer Bonds was $26,023 (December 31, 2017 – $19,414). The changes in fair value of the Nova Pioneer Bonds in 2018 and 2017 are presented in the tables at the outset of the African Investments section of this MD&A.

In 2018 the company recorded interest income of $4,772 (2017 – $1,016) within interest in the consolidated statements of earnings and comprehensive income related to the Nova Pioneer Bonds.

At December 31, 2018 the company estimated the fair value of its investment in the Nova Pioneer Warrants using an industry accepted discounted cash flow and option pricing model that incorporated an estimated share price of $1.46 (December 31, 2017 – $1.15). At December 31, 2018 the company's internal valuation model indicated that the fair value of the investment in the Nova Pioneer Warrants was $1,001 (December 31, 2017 – $520). The changes in fair value of the Nova Pioneer Warrants in 2018 and 2017 are presented in the tables at the outset of the African Investments section of this MD&A.

Results of Operations

Fairfax Africa's consolidated statements of earnings for the years ended December 31, 2018 and 2017, and for the period April 28, 2016 (date of incorporation) to December 31, 2016 are shown in the following table:

	2018	2017	April 28-December 31, 2016
Income			
Interest	20,848	7,589	–
Net realized gains on investments	3,661	11,274	–
Net change in unrealized gains (losses) on investments	(40,690)	2,362	–
Net foreign exchange gains (losses)	(25,927)	10,626	–
	(42,108)	31,851	–
Expenses			
Investment and advisory fees	6,440	3,400	–
Performance fee	(319)	319	–
General and administration expenses	4,281	2,076	74
Interest expense	3,200	2,087	–
	13,602	7,882	74
Earnings (loss) before income taxes	(55,710)	23,969	(74)
Provision for income taxes	4,870	485	–
Net earnings (loss)	(60,580)	23,484	(74)
Net earnings (loss) per share (basic and diluted)	$ (1.06)	$ 0.54	–

Total loss from income of $42,108 in 2018 decreased from total income of $31,851 in 2017 principally as a result of a decreased net change in unrealized gains on investments (primarily related to unrealized losses on the company's investment in Atlas Mara common shares), and net foreign exchange gains (net foreign exchange losses in 2018 from the weakening of the South African rand relative to the U.S. dollar), partially offset by increased interest (primarily relating to the Private African Investment loans and bonds investments completed in 2018).

Net realized gains on investments of $3,661 in 2018 primarily related to the extinguishment of the Atlas Mara bonds ($1,878) and recognition of a forward derivative liability as a result of the company's participation in the AGH Rights Offer through its investment in Joseph Holdings ($1,803) (refer to the Private African Investments section under the heading Investment in AFGRI Holdings Proprietary Limited of this MD&A for further details). Net realized gains on investments of $11,274 in 2017 primarily related to the recognition of realized gains on the Atlas Mara Commitment derivative ($6,055) and the conversion of the Atlas Mara 5.0% Convertible Bond ($5,098) (see Investment in Atlas Mara Limited (Debt Instruments and Warrants) within Private African Investments section of this MD&A for further details).

The net change in unrealized losses on investments of $40,690 in 2018 was principally comprised of unrealized losses on the company's investment in Atlas Mara common shares ($49,579), a derivative obligation relating to the CIG Rights Offer ($5,724), unrealized losses on Other African Investment ($2,100), the PGR2 loan ($1,545) and the Atlas Mara warrants ($1,308), partially offset by unrealized gains on the company's investment in the indirect equity interest in AGH ($18,082). The net change in unrealized gains on investments of $2,362 in 2017 was principally comprised of unrealized gains on the company's indirect equity interest in AGH ($4,200), partially offset by unrealized losses on the company's investment in Atlas Mara ($1,817).

Net foreign exchange losses of $25,927 in 2018 was primarily a result of the weakening of the South African rand relative to the U.S. dollar principally related to the company's investments in the indirect equity interest in AGH ($16,220), Philafrica Facility ($6,130), CIG Loan ($2,942) and PGR2 Loan ($1,924), partially offset by net foreign exchange gains on cash and cash equivalents. The net foreign exchange gain of $10,626 in 2017 primarily related to the company's investment in the indirect equity interest in AGH ($9,146) arising from the strengthening of the South African rand relative to the U.S. dollar.

Net gains (losses) on investments and net foreign currency gains (losses) in 2018 and 2017 were comprised as follows:

	2018			2017		
	Net realized gains (losses)	**Net change in unrealized gains (losses)**	**Net gains (losses)**	**Net realized gains (losses)**	**Net change in unrealized gains (losses)**	**Net gains (losses)**
Net gains (losses) on investments:						
Short term investments – U.S. treasury bills	(20)	–	(20)	–	–	–
Loans	–	(851)	(851)	–	–	–
Bonds	1,878	(333)	1,545	5,219	(131)	5,088
Common stocks	1,803	(32,629)	(30,826)	–	2,428	2,428
Derivatives	–	(6,877)	(6,877)	6,055	65	6,120
	3,661	(40,690)	(37,029)	11,274	2,362	13,636
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	1,620	–	1,620	(16)	–	(16)
Loans	(4,964)	(4,866)	(9,830)	–	978	978
Common stocks	–	(17,779)	(17,779)	–	9,605	9,605
Other	–	62	62	–	59	59
	(3,344)	(22,583)	(25,927)	(16)	10,642	10,626

Total expenses of $13,602 in 2018 increased from total expenses of $7,882 in 2017 primarily as a result of increased investment and advisory fees as a result of the increased holdings of African Investments, increased general and administration expenses and interest expense incurred on the secured term loan, partially offset by recovery of performance fee as a result of the company determining that there was no performance fee accrual at December 31, 2018.

The investment and advisory fees are 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. In 2018 the company determined a significant portion of its assets were invested in African investments, which are considered deployed capital. In 2018 the investment and advisory fee recorded in the consolidated statements of earnings and comprehensive income was $6,440 (2017 – $3,400).

The performance fee, if applicable, is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 (the ''first calculation period'') and for each consecutive three-year period thereafter. It is calculated on a cumulative basis, as 20.0% of any increase in common shareholders' equity per share (including distributions) above a 5.0% 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''. At December 31, 2018 the company determined that there was no performance fee accrual (December 31, 2017 – $319) as the book value per share of $9.60 (before factoring in the impact of the performance fee) at December 31, 2018 was less than the hurdle per share at that date of $11.00. In 2018 the company recorded a performance fee recovery of $319 (2017 – performance fee of $319) in performance fee in the consolidated statements of earnings and comprehensive income. Refer to the Related Party Transactions section of this MD&A for additional discussion on performance fee.

Interest expense of $3,200 in 2018 primarily related to the company's Term Loan and, to a lesser extent, the funds drawn on the company's Credit Facility. On August 29, 2018 the proceeds from the cash collateral, including interest received, was released from restricted cash and used to fully repay the Term Loan. Interest expense of $2,087 in 2017 primarily related to the company's Term Loan and the LC Facility.

The provision for income taxes of $4,870 in 2018 differed from the recovery of income taxes determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's loss before income taxes primarily due to tax rate differential on losses incurred outside of Canada and foreign exchange fluctuations, partially offset by changes in unrecorded tax benefit of losses and temporary differences. The provision for income taxes of $485 in 2017 differed from the provision for income taxes 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 tax rate differential on income earned outside of Canada and foreign exchange fluctuations, partially offset by changes in unrecorded tax benefit of losses and temporary differences.

The company reported a net loss of $60,580 (net loss of $1.06 per basic and diluted share) in 2018 compared to net earnings of $23,484 (net earnings of $0.54 per basic and diluted share) in 2017. The year-over-year decrease in profitability primarily reflected decreased net change in unrealized gains on investments and net foreign exchange gains, and increased provision for income taxes, investment and advisory fees, interest expense and general and administration expenses, partially offset by increased interest.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at December 31, 2018 were impacted by the African Investments, repayment of the Term Loan, and draw on the Credit Facility.

Total Assets

Total assets at December 31, 2018 of $643,830 (December 31, 2017 – $669,111) were principally comprised as follows:

Total cash and investments, net of derivative obligation decreased to $634,609 at December 31, 2018 from $665,064 at December 31, 2017. The company's total cash and investments, net of the derivative obligation, by the issuer's country of domicile was as follows:

	December 31, 2018				December 31, 2017			
	South Africa	Sub-Saharan Africa(1)	Canada	Total	South Africa	Sub-Saharan Africa(1)	Canada	Total
Cash and cash equivalents	55,139	6,321	169,398	230,858	657	–	12,355	13,012
Restricted cash	–	–	–	–	–	–	313,000	313,000
Short term investments – U.S. treasury bills	–	–	38,723	38,723	–	–	32,968	32,968
Loans:								
AGH Facility	–	–	–	–	24,233	–	–	24,233
CIG(2)	–	21,068	–	21,068	–	–	–	–
PGR2	17,527	–	–	17,527	–	–	–	–
	17,527	21,068	–	38,595	24,233	–	–	24,233
Bonds:								
Atlas Mara 11.0% Convertible Bonds(3)	–	16,334	–	16,334	–	–	–	–
Atlas Mara 7.5% Bonds(3)	–	17,499	–	17,499	–	–	–	–
Nova Pioneer Bond(4)	26,023	–	–	26,023	19,414	–	–	19,414
	26,023	33,833	–	59,856	19,414	–	–	19,414
Common stocks:								
Atlas Mara(3)	–	119,092	–	119,092	–	168,671	–	168,671
CIG(2)	–	3,886	–	3,886	–	2,563	–	2,563
Other(5)	28	–	–	28	2,369	–	–	2,369
Indirect equity interest in AGH(6)	111,888	–	–	111,888	88,314	–	–	88,314
Philafrica(7)	23,463	–	–	23,463	–	–	–	–
GroCapital Holdings	11,927	–	–	11,927	–	–	–	–
	147,306	122,978	–	270,284	90,683	171,234	–	261,917
Derivatives:								
Atlas Mara Warrants(3)	–	1,016	–	1,016	–	–	–	–
Nova Pioneer Warrants(4)	1,001	–	–	1,001	520	–	–	520
	1,001	1,016	–	2,017	520	–	–	520
Total cash and investments	246,996	185,216	208,121	640,333	135,507	171,234	358,323	665,064
Derivative obligation(8)	–	(5,724)	–	(5,724)	–	–	–	–
Total cash and investments, net of derivative obligation	246,996	179,492	208,121	634,609	135,507	171,234	358,323	665,064

(1) Sub-Saharan Africa is geographically, the area of the continent of Africa that lies south of the Sahara Desert. It encompasses 46 of Africa's 54 countries including: Angola, Botswana, Congo-Brazzaville, Côte d'Ivoire, Ethiopia, Kenya, Mauritius, Mozambique, Nigeria, Rwanda, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. For the purposes of assessing concentration risk, Fairfax Africa's investments in South Africa are disclosed separately.

(2) CIG's footprint extends across 20 African countries and the Middle East. Key countries include South Africa, Angola, Ethiopia and Kenya.

(3) Atlas Mara is listed on the London Stock Exchange and has acquired control or significant influence positions in banking operations across seven countries in Sub-Saharan Africa: Botswana, Nigeria, Zimbabwe, Zambia, Mozambique, Rwanda and Tanzania.

(4) In addition to South Africa, Nova Pioneer also has school campuses in Kenya.

(5) Comprised of common shares of a public company listed on the Johannesburg Stock Exchange.

(6) Acquired through the company's ownership in the investment holding company Joseph Holdings. In addition to South Africa, AGH currently has operational activities in Zambia, Zimbabwe, Mozambique, Congo-Brazzaville, Botswana, Côte d'Ivoire and Uganda. AGH also has an equipment operation in Australia under the John Deere brand, an animal feeds research development venture in the United Kingdom and an investment in animal feeds in the United States.

(7) Philafrica also has food-related businesses outside of South Africa, consisting mainly of a cassava processing business in Cote d'Ivoire and Mozambique and a poultry joint venture in Mozambique. Philafrica recently completed the acquisition of Pakworks, a snack manufacturing company which produces dry snacks exclusively for PepsiCo in SSA.

(8) Relates to the company's obligation to subscribe for 178,995,353 CIG ordinary shares as part of the CIG Rights Offer.

Cash and cash equivalents increased to $230,858 at December 31, 2018 from $13,012 at December 31, 2017 primarily as a result of the release of cash collateral, including accrued interest, related to the company's LC Facility ($162,519), net proceeds received from the Secondary Offering ($148,316) and proceeds received from the Credit Facility ($30,000), partially offset by the use of those funds primarily to finance the company's African Investments (Philafrica Facility, Atlas Mara Bonds, CIG and PGR2 loans, the company's participation in the AGH Rights Offering and the investment in GroCapital Holdings).

Restricted cash decreased to nil at December 31, 2018 from $313,000 at December 31, 2017 primarily as a result of the release of cash collateral, including accrued interest, related to the company's LC Facility and the company's Term Loan in 2018. See note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2018.

Short term investments increased to $38,723 at December 31, 2018 from $32,968 at December 31, 2017 reflecting net purchases of U.S. treasury bills.

Loans, Bonds, Common stocks and Derivatives – The company is actively seeking investment opportunities in Africa and will continue to redirect capital from its cash and cash equivalents, and short term investments into African Investments as and when those opportunities are identified. For more information about recent African Investments, see the African Investments section of this MD&A.

Interest Receivable of $2,472 at December 31, 2018 primarily related to interest receivable on the Nova Pioneer Bonds, CIG and PGR2 Loans. Interest receivable of $3,506 at December 31, 2017 primarily related to interest receivable on the company's investments in the AGH Facility and Nova Pioneer Bonds.

Total Liabilities

Total liabilities at December 31, 2018 of $40,703 (December 31, 2017 – $152,375) were principally comprised as follows:

Derivative obligation of $5,724 at December 31, 2018 (December 31, 2017 – nil) related to the company's commitment to purchase any ordinary shares from the CIG Rights Offer not acquired by other shareholders. The CIG Rights Offer closed on January 4, 2019 and the company acquired 178,995,353 ordinary shares of CIG for net cash consideration of $49,744 (696 million South African rand).

Payable to related parties increased to $1,658 at December 31, 2018 from $1,482 at December 31, 2017 principally as a result of increased investment and advisory fees, partially offset by decreased performance fee. See note 12 Related Party Transactions to the consolidated financial statements for the year ended December 31, 2018.

Income taxes payable increased to $3,263 at December 31, 2018 from $82 at December 31, 2017 primarily as a result of the company computing 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 is the U.S. dollar, which resulted in an income tax liability on the realized foreign exchange gains from holdings of U.S treasury bills.

Borrowings decreased to $29,527 at December 31, 2018 from $150,000 at December 31, 2017 principally as a result of repayment of the Term Loan, partially offset by a draw from the Credit Facility of $30,000 to partially finance the CIG Rights Offer.

Comparison of 2017 to 2016 – Total assets and liabilities of $786 and $860, respectively, at December 31, 2016 increased to $669,111 and $152,375, respectively, at December 31, 2017 primarily due to the completion of the company's IPO on February 17, 2017 and completion of the Term Loan, enabling the commencement of the company's objective to achieve long term capital appreciation, while preserving capital, by investing in African Investments.

Financial Risk Management

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 December 31, 2018 compared to those identified at December 31, 2017, other than as outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2018.

Capital Resources and Management

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern, and to maintain an optimal capital structure to reduce the cost of capital in order to optimize returns for common shareholders. 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 comprised of common shareholders' equity and drawn funds from the Credit Facility at December 31, 2018 decreased from $666,736 at December 31, 2017 (comprised of the Term Loan and common shareholders' equity) to $632,654 at December 31, 2018, principally reflecting a decrease in the Term Loan, partially offset by an increase in common shareholders' equity, as described below, and funds drawn from the Credit Facility.

On January 31, 2018 the company extended the maturity of the Term Loan to August 31, 2018. On August 29, 2018 the proceeds from the cash collateral, including interest received, was released from restricted cash and used to fully repay the Term Loan. See note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2018 for details.

On September 7, 2018 the company entered into a $90,000 secured, revolving demand credit facility with a syndicate of Canadian lenders, bearing interest at a rate of LIBOR plus 400 basis points which is payable in arrears on the applicable interest payment date. The Credit Facility has a maturity date of September 7, 2019 with an option to extend for an additional year on an annual basis. On December 21, 2018 the company drew $30,000 from the Credit Facility with a 3-month term that will be repaid on March 21, 2019 along with accrued interest of $509. At December 31, 2018 the company was in compliance with the financial covenant requirement to maintain common shareholders' equity of not less than $600,000 (see note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2018 for details).

Common shareholders' equity increased to $603,127 at December 31, 2018 from $516,736 at December 31, 2017 primarily reflecting the net proceeds received from the Secondary Offering of $148,316, partially offset by a net loss of $60,580 in 2018.

Book Value per Share

Common shareholders' equity at December 31, 2018 was $603,127 (December 31, 2017 – $516,736). The company's book value per share at December 31, 2018 was $9.60 compared to $10.21 at December 31, 2017 representing a decrease in 2018 of 6.0%, primarily due to a net loss of $60,580 in 2018 (principally related to unrealized losses on the company's investment in Atlas Mara and the weakening of the South African rand relative to the U.S. dollar, partially offset by unrealized gains on the company's investment in the indirect equity investment in AGH), partially offset by the Secondary Offering in the second quarter of 2018 where the company issued subordinate voting shares at a price of $12.25 per share.

The table below presents the book value per share before and after the performance fee, if any, for the period from the company's IPO date of February 17, 2017 to December 31, 2018, and the annual growth rate and the compound annual growth rate in book value per share before and after the performance fee. The performance fee, if any, is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 in accordance with the Investment Advisory Agreement (defined in the Related Party Transactions section later in this MD&A) and for each consecutive three-year period thereafter.

	Book value per share after Performance Fee	Annual growth in book value per share after Performance Fee	Book value per share before Performance Fee	Annual growth in book value per share before Performance Fee
February 17, 2017(1)	$10.00	–	$10.00	–
December 31, 2017	$10.21	2.1%	$10.21	2.1%
December 31, 2018	$ 9.60	(6.0)%	$ 9.60	(6.0)%
Compound annual decline in book value per share(2)		(2.2)%		(2.2)%

(1) On February 17, 2017 Fairfax Africa completed its IPO at an offering price of $10.00 per share.

(2) The company's book value per share, before and after performance fee, of $9.60 at December 31, 2018 represented a compound annual decline rate from the initial public offering price of $10.00 per share of 2.2%.

Fairfax Africa's compound annual decline in book value per share to $9.60 at December 31, 2018 was reflective of the broader African macroeconomic environment. Political and economic uncertainty in Africa's macroeconomic environment led to a significant sell-off of equities in the market during the second half of 2018, as reflected in the unrealized losses recorded on the company's investment in Atlas Mara common shares. Fairfax Africa's book value per share of $9.60 at December 31, 2018 represented a compound annual decline during that period of 2.2% from the initial public offering price of $10.00 per share, marginally outperforming the compound annual decline of the MSCI Emerging Frontier Markets Africa Index of 3.9% during the same period.

During 2018 the total number of shares effectively outstanding increased primarily as a result of 12,300,000 subordinate voting shares issued in the Secondary Offering, partially offset by purchases of 108,224 subordinate voting shares for cancellation under the normal course issuer bid. At December 31, 2018 there were 62,811,965 common shares effectively outstanding.

The company has issued and purchased common shares since it was federally incorporated on April 28, 2016 as follows:

Date	Number of subordinate voting shares	Number of multiple voting shares[1]	Total number of shares	Average issue / purchase price per share	Net proceeds (purchase cost)
2016 – issuance of shares	–	1	1	$10.00	–
2017 – issuance of shares	20,620,189	29,999,999	50,620,188	$ 9.75	493,326
	20,620,189	30,000,000	50,620,189		
2018 – issuance of shares	12,300,000	–	12,300,000	$12.06	148,316
2018 – purchase of shares	(108,224)	–	(108,224)	$ 9.06	(981)
	32,811,965	30,000,000	62,811,965		

(1) Multiple voting shares that may only be issued to Fairfax or its affiliates and are not publicly traded.

On July 3, 2018 the company received acceptance from the TSX of a notice filed by Fairfax Africa of its intention to commence a normal course issuer bid for its subordinate voting shares by which it is authorized, until expiry of the bid on July 5, 2019, to acquire up to 2,536,996 subordinate voting shares representing at that date approximately 10% of the public float in respect of the subordinate voting shares. Decisions regarding any future purchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth. The Notice of Intention to Make a Normal Course Issuer Bid is available, without charge, by contacting the Corporate Secretary of the company.

During 2018, under the terms of the normal course issuer bid, the company purchased for cancellation 108,224 subordinate voting shares (2017 – nil) for a net cost of $981 (2017 – nil), of which $143 was recorded as a benefit in retained earnings (2017 – nil).

Subsequent to December 31, 2018

Subsequent to December 31, 2018 and up to March 8, 2019, the company purchased for cancellation 1,671,937 subordinate voting shares at a net cost of $14,623.

Liquidity

The undeployed cash and investments at December 31, 2018 provides adequate liquidity to meet the company's known significant commitments in 2019, which are principally comprised of the CIG Rights Offer (closed on January 4, 2019), Second AGH Facility, the additional investment in Nova Pioneer, investment and advisory fees, general and administration expenses and corporate income taxes. On August 29, 2018 the company used the cash collateral classified as restricted cash to repay the principal amount of the Term Loan. To further augment its liquidity, on June 18, 2018 the company raised net proceeds of $148,316 from the Secondary Offering and the holding company can draw upon its revolving credit facility. On December 21, 2018 the company drew $30,000 from the Credit Facility with a 3-month term that will be repaid on March 21, 2019 along with accrued interest of $509. 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. Refer to the contractual obligations section of this MD&A for details on the settlement of the performance fees, if any, at the end of the first calculation period, December 31, 2019.

Highlights in 2018 (with comparisons to 2017) of major components of the statements of cash flows are presented in the following table:

	2018	**2017**
Operating activities		
Cash used in operating activities before the undernoted	(1,842)	(2,904)
Net purchases of short term investments classified as FVTPL	(3,613)	(32,659)
Purchases of investments classified as FVTPL	(155,950)	(255,515)
Sales of investments classified as FVTPL	37,986	48,973
Decrease (increase) in restricted cash in support of investments	162,519	(162,519)
Financing activities		
Net proceeds from the Term Loan	–	149,775
Net proceeds from the Credit Facility	29,310	–
Repayment of the Term Loan	(150,000)	–
Decrease (Increase) in restricted cash in support of Term Loan	150,481	(150,481)
Issuance of subordinate voting shares, net of issuance costs	148,316	191,204
Issuance of multiple voting shares	–	227,154
Purchase of subordinate voting shares	(981)	–
Increase in cash and cash equivalents during the year	216,226	13,028

Cash used in operating activities before the undernoted is comprised of net earnings (loss) adjusted for items not affecting cash and cash equivalents and changes in operating assets and liabilities. Cash used in operating activities before the undernoted of $1,842 in 2018 decreased from cash used in operating activities before the undernoted of $2,904 primarily due to increased interest income, partially offset by higher investment and advisory fees paid to Fairfax, interest paid on borrowings, and income taxes.

Net purchases of short term investments classified as FVTPL of $3,613 in 2018 and $32,659 in 2017 related to net purchases of U.S. treasury bills. Purchases of investments classified as FVTPL of $155,950 in 2018 primarily related to the company's investments in the Philafrica Facility, Atlas Mara and Nova Pioneer bonds, and the CIG and PGR2 loans, additional investment in the company's indirect equity interest in AGH (primarily related to the participation in the AGH rights offering through its ownership in Joseph Holdings), and an investment in GroCapital Holdings. Purchases of investments classified as FVTPL of $255,515 in 2017 primarily related to the company's investments in Atlas Mara, the AGH Facility, purchases of Government of South Africa bonds and the Nova Pioneer Bonds. Sales of investments classified as FVTPL of $37,986 in 2018 related to the proceeds received on the maturity of the AGH Facility (January 31, 2018) and the Philafrica Facility (cash proceeds received on December 24, 2018 that were not converted into common shares of Philafrica). Sales of investments classified as FVTPL of $48,973 in 2017 related to net proceeds from the sale of Government of South Africa bonds to support the company's purchases of African Investments as described above.

Decrease in restricted cash in support of investment of $162,519 in 2018 reflected the release of cash collateral from restricted cash related to the termination of the company's LC Facility. Increase in restricted cash in support of investment of $162,519 in 2017 reflected the cash collateral provided as part of the company's LC facility, including accrued interest, which was entered into in on August 31, 2017. Refer to note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2018 for additional details.

Net proceeds from the Credit Facility of $29,310 in 2018 related to proceeds of $30,000 ($29,310 net of issuance costs of $690), where the company drew $30,000 from the facility to supplement the financing requirements for the investment in the CIG Rights Offer (closed on January 4, 2019). Refer to note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2018 for additional details.

Decrease in restricted cash in support of the Term Loan of $150,481 and repayment of the Term Loan of $150,000 in 2018 related to proceeds from the cash collateral, including interest received, which was released from restricted cash and used to fully repay the Term Loan. Net proceeds from the Term Loan of $149,775 and increase in restricted cash in support of the Term Loan of $150,481 in 2017 related to the net proceeds received from the Term Loan and the cash collateral provided, including accrued interest, in connection with the Term Loan. Refer to note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2018 for details.

Issuance of subordinate voting shares, net of issuance costs, of $148,316 in 2018 related to the net proceeds received from the Secondary Offering. Issuance costs of $2,359 in 2018 relating to the Secondary Offering were primarily comprised of fees paid to underwriters of the subordinate voting shares. Issuance of subordinate voting shares, net of issuance costs, of $191,204 and issuance of multiple voting shares of $227,154 in 2017 related to the net proceeds received from the Offerings. Issuance costs of $12,876 in 2017 relating to the Offerings were primarily comprised of fees paid to underwriters of the subordinate voting shares. Purchases of subordinate voting shares of $981 in 2018 related to the company's purchases for cancellation of 108,224 subordinate voting shares under the terms of the normal course issuer bid. Refer to note 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2018 for details.

Contractual Obligations

On December 13, 2018 the company entered into a second secured lending arrangement with AGH pursuant to which Fairfax Africa provided $13,074 (180 million South African rand) of financing. The facility will earn interest at a rate of South African prime plus 2.0%, payable on maturity and will mature six months from the date of last issuance. At December 31, 2018 the facility was not drawn down by AGH. On January 21, 2019 the full $13,074 (180 million South African rand) was advanced to AGH. The facility including accrued interest matures on July 19, 2019.

On December 31, 2018 the company entered into a Second Amending Agreement, under the same terms as the prior investment, to provide an additional $10,000 investment in Nova Pioneer and invested $773 relating to the incremental investment in Nova Pioneer, comprised of secured debentures and 77,293 Nova Pioneer Warrants, with fair values on the date of the investment of $742 and $31 ("tranche 1"). On January 11, 2019 the company completed an additional $3,500 investment in Nova Pioneer as part of the Second Amending Agreement, comprised of secured debentures and 350,000 Nova Pioneer Warrants, with fair values on the date of investment of $3,333 and $167 ("tranche 2").

As part of the CIG Rights Offer, Fairfax Africa agreed to acquire any shares not taken up by existing CIG shareholders. The company's obligation to subscribe for any shares not taken up by existing CIG shareholders gave rise to a forward derivative liability of $5,724 at December 31, 2018 (December 31, 2017 – nil). On January 4, 2019 upon closing of the CIG Rights Offer (as previously discussed in the Private African Investments section under the heading Investment in Consolidated Infrastructure Group (Debt Instrument and Derivative Obligation) earlier in this MD&A) the company settled the derivative obligation and will record a realized gain of $5,724 in the consolidated statements of earnings and comprehensive income in the first quarter of 2019.

On December 21, 2018 the company drew $30,000 from the Credit Facility with a 3-month term that will be repaid on March 21, 2019 along with accrued interest of $509.

Under the terms of the Investment Advisory Agreement (defined in the Related Party Transactions section later in this MD&A), the company and its subsidiaries are contractually obligated to pay Fairfax an investment and advisory fee and, if applicable, a performance fee. These fees will vary based on the company's common shareholders' equity and book value per share.

The investment and advisory fees recorded in the consolidated statements of earnings and comprehensive income in 2018 was $6,440 (2017 – $3,400).

At December 31, 2018 the company determined that there was no performance fee accrual (December 31, 2017 – $319) as the book value per share of $9.60 (before factoring in the impact of the performance fee) at December 31, 2018 was less than the hurdle per share at that date of $11.00. In 2018 the company recorded a performance fee recovery of $319 (2017 – performance fee of $319) in performance fee in the consolidated statements of earnings and comprehensive income. Refer to the Related Party Transactions section of this MD&A that follows for discussion on the performance fee.

Related Party Transactions

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.

Performance Fee

The performance fee, if applicable, is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 (the ''first calculation period'') and for each consecutive three-year period thereafter. It is calculated on a cumulative basis, as 20.0% of any increase in common shareholders' equity per share (including distributions) above a 5.0% 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''. At December 31, 2018 the company determined that there was no performance fee accrual (December 31, 2017 – $319) as the book value per share of $9.60 (before factoring in the impact of the performance fee) at December 31, 2018 was less than the hurdle per share at that date of $11.00.

If a performance fee is payable for the first calculation period, it will be paid within 30 days after the company issues its annual audited consolidated financial statements, in subordinate voting shares of the company unless the market prices per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash. The number of subordinate voting shares to be issued would be calculated based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including December 31, 2019 (''VWAP''). At December 31, 2018 there were no contingently issuable shares subordinate voting shares relating to the performance fee payable to Fairfax (December 31, 2017 – 22,294).

In 2018 the company recorded a performance fee recovery of $319 (2017 – performance fee of $319) in performance fee in the consolidated statements of earnings and comprehensive income.

Investment and Advisory Fees

The investment and advisory fees are 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. In 2018 the company determined a significant portion of its assets were invested in African investments, which are considered deployed capital. In 2018 the investment and advisory fee recorded in the consolidated statements of earnings and comprehensive income was $6,440 (2017 – $3,400).

Fairfax's Voting Rights and Equity Interest

On February 17, 2017, upon closing of the IPO, Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 2,500,000 subordinate voting shares of Fairfax Africa.

Upon closing of the Secondary Offering on June 18, 2018 and through open market purchases, Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 6,885,421 subordinate voting shares (December 31, 2017 – 30,000,000 and 2,500,000 respectively) of Fairfax Africa.

At December 31, 2018 Fairfax's holdings of multiple and subordinate voting shares represented 98.3% of the voting rights and 58.7% of the equity interest in Fairfax Africa (December 31, 2017 – 98.8% and 64.2%).

For additional details on the company's related party transactions, see note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2018.

Accounting and Disclosure Matters

Management's Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the company's management, including the company's CEO and CFO, the company conducted an evaluation of the effectiveness of its disclosure controls and procedures as of December 31, 2018, as required by the Canadian securities legislation. Disclosure controls and procedures are

designed to ensure that the information required to be disclosed by the company in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the company's CEO and CFO, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the CEO and CFO have concluded that as of December 31, 2018, the company's disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

The company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined under National Instrument 52-109). The company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS as issued by the IASB, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The company's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2018. In making this assessment, the company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control – Integrated Framework (2013)*. Based on this assessment the company's management, including the CEO and CFO, concluded that, as of December 31, 2018, the company's internal control over financial reporting was effective based on the criteria in *Internal Control – Integrated Framework (2013)* issued by COSO.

Critical Accounting Estimates and Judgments

Please refer to note 4 (Critical Accounting Estimates and Judgments) to the consolidated financial statements for the year ended December 31, 2018.

Significant Accounting Policy Changes

There were no significant accounting policy changes during 2018. Please refer to note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2018 for a detailed discussion of the company's accounting policies.

Future Accounting Changes

Certain new IFRS may have a significant impact on the company's consolidated financial reporting in the future. Each of those standards will require a moderate degree of implementation effort. The company does not expect to adopt any of these new standards in advance of their respective effective dates. New standards and amendments that have been issued but are not yet effective are described in note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2018.

Risk Management

Overview

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 December 31, 2018 compared to those identified at December 31, 2017, other than as outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2018.

Risks

The following risks, among others, should be considered in evaluating the outlook for the company. Additional risks not currently known to the company or that are currently deemed immaterial may also impair business operations. The company, its consolidated subsidiaries, Fairfax, the Portfolio Advisor and Pactorum monitor these risks on an on-going basis and take actions as needed to mitigate their impact. For further detail about the risks relating to the company, please see Risk Factors in Fairfax Africa's most recent annual information form, which are available on SEDAR at www.sedar.com.

Geographic Concentration of Investments

Substantially all of the company's investments will be made in Africa and in African businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, Africa. As a result, the company's performance will be particularly sensitive to economic changes in 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 and regulatory environment in the countries in Africa. Adverse changes in the economic condition or regulatory environment of the countries in Africa in which it invests may have a material adverse effect on the company's business, cash flows, financial condition and net earnings.

Financial Market Fluctuations

The company invests in both private businesses and publicly traded businesses. With respect to publicly traded businesses, as disclosed in note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2018, fluctuations in the market prices of such securities may negatively affect the value of such investments. In addition, general instability in the public debt market and other securities markets may impede the ability of businesses to refinance their debt through selling new securities, thereby limiting the company's investment options with regard to a particular portfolio investment.

Global capital markets have experienced extreme volatility and disruption in recent years as evidenced by the failure of major financial institutions, significant write-offs suffered by the financial services sector, the re-pricing of credit risk, the unavailability of credit or the downgrading and the possibility of default by sovereign issuers, forced exit or voluntary withdrawal of countries from a common currency and/or devaluation. Despite actions of government authorities, these events have contributed to a worsening of general economic conditions, high levels of unemployment in certain Western economies and the introduction of austerity measures by certain governments.

Such worsening of financial market and economic conditions may have a negative effect on the valuations of, and the ability of the company to exit or partially divest from, investment positions. Adverse economic conditions may also decrease the value of collateral securing some of its positions, and require the company to contribute additional collateral.

Depending on market conditions, the company may incur substantial realized and unrealized losses in future periods, all of which may materially adversely affect its results of operations and the value of any investment in the company.

Pace of Completing Investments

The company's business is to identify, with the assistance of the Portfolio Advisor, suitable investment opportunities, pursuing such opportunities and consummating such investment opportunities. If the company is unable to source and manage its investments effectively, it would adversely impact the company's financial position and earnings.

There can be no assurance as to the pace of finding and implementing investment opportunities. Conversely, there may only be a limited number of suitable investment opportunities at any given time. This may cause the company, while it deploys cash proceeds not yet invested, to hold significant levels of cash, cash equivalents, short term U.S. treasury bills or Government of South Africa bonds. A lengthy period prior to which capital is deployed may adversely affect the company's overall performance.

Minority Investments

The company may make minority equity investments in businesses in which the company does not participate in the management or otherwise influence the business or affairs of such businesses. The company will monitor the performance of each investment and maintain an ongoing dialogue with each business management team. However, day-to-day operations will primarily be the responsibility of each business' management and the company may not have the right to influence such operations.

Reliance on Key Personnel and Risks Associated with the Investment Advisory Agreement

The management and governance of the company depends on the services of certain key personnel, including the Portfolio Advisor, Fairfax, as administrator, and certain executive officers of the company. The loss of the services of any key personnel, particularly V. Prem Watsa, Paul Rivett and Michael Wilkerson, could have a material adverse effect on the company and materially adversely affect the company's financial condition and results of operations.

The company relies on the Portfolio Advisor and any of its sub-advisors or consultants, from time to time, including Pactorum, with respect to the sourcing and advising, as applicable, with respect to their investments. Consequently, the company's ability to achieve its investment objectives depends in large part on the Portfolio Advisor and its ability to identify and advise the company on attractive investment opportunities. This means that the company's investments are dependent upon the Portfolio Advisor's business contacts, its ability to successfully hire, train, supervise and manage its personnel and its ability to maintain its operating systems. If the company were to lose the services provided by the Portfolio Advisor or its key personnel or if the Portfolio Advisor fails to satisfactorily perform its obligations under the Investment Advisory Agreement, the company's investments and growth prospects may decline.

The company may be unable to duplicate the quality and depth of management from the Portfolio Advisor if the company were to source and manage its own investments or if it were to hire another investment advisor. Prospective investors should not purchase any securities of the company unless they are prepared to rely on the Directors, the Sub Directors, each of their respective executive officers and the Portfolio Advisor. The Investment Advisory Agreement may be terminated in certain circumstances and is only renewable on certain conditions. Accordingly, there can be no assurance that the company will continue to have the benefit of the Portfolio Advisor's services, or Fairfax's services, including their respective executive officers, that the Portfolio Advisor will continue to be the company's investment advisor or that Fairfax will continue to provide investment administration services. If the Portfolio Advisor should cease for whatever reason to be the investment advisor of the company or if Fairfax should cease to provide investment administration services to the company, the cost of obtaining substitute services may be greater than the fees the company will pay the Portfolio Advisor and Fairfax under the Investment Advisory Agreement. Such increased fees may adversely affect the company's ability to meet its objectives and execute its strategy which could materially and adversely affect the company's cash flows, net earnings and financial condition.

Operating and Financial Risks of African Investments

Businesses in which the company invests could deteriorate as a result of, among other factors, an adverse development in their business operations, a change in the competitive environment or an economic downturn. As a result, businesses that the company expects to be stable may operate at a loss or have significant variations in operating results, may require substantial additional capital to support their operations or to maintain their competitive position, or may otherwise have a weak financial condition or experience financial distress. In some cases, the success of the company's investment strategy will depend, in part, on the ability of the company to restructure and effect improvements in the operations of a business in which it has invested. The activity of identifying and implementing restructuring programs and operating improvements at businesses entails a high degree of uncertainty. There can be no assurance that the company will be able to successfully identify and implement such restructuring programs and improvements.

Valuation Methodologies Involve Subjective Judgments

The company's financial assets and liabilities are valued in accordance with IFRS. Accordingly, the company is required to follow a specific framework for measuring the fair value of its assets and liabilities and, in its consolidated financial statements, to provide certain disclosures regarding the use of fair value measurements.

The fair value measurement accounting guidance establishes a hierarchal disclosure framework that ranks the observability of market inputs used in measuring financial instruments at fair value. The observability of inputs depends on a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily quoted prices, or for which fair value can be measured from quoted prices in active markets, generally will have a high degree of market price observability and less judgment applied in determining fair value.

A portion of the company's portfolio investments are in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. The company will value these securities quarterly at fair value as determined in good faith by the company and in accordance with the valuation policies and procedures under IFRS. The company may utilize the services of an independent valuation firm to aid it in determining the fair value of these securities. The types of factors that may be considered in fair value pricing of the company's investments include the nature and realizable value of any collateral, the portfolio business' ability to make payments and its earnings, the markets in which the portfolio investment does business, comparison to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, such valuations may fluctuate over short periods of time and may be based on estimates, and the company's determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. The value of the company's total assets could be materially adversely affected if the company's determinations regarding the fair value of its investments were materially higher than the values that it ultimately realizes upon the disposition of such securities.

The value of the company's investment portfolio may also be affected by changes in accounting standards, policies or practices. From time to time, the company will be required to adopt new or revised accounting standards or guidance. It is possible that future accounting standards that the company is required to adopt could change the valuation of the company's assets and liabilities.

Due to a wide variety of market factors and the nature of certain securities to be held by the company, there is no guarantee that the value determined by the company or any third-party valuation agents will represent the value that will be realized by the company on the eventual disposition of the investment or that would, in fact, be realized upon an immediate disposition of the investment. Moreover, the valuations to be performed by the company or any third-party valuation agents are inherently different from the valuation of the company's securities that would be performed if the company were forced to liquidate all or a significant portion of its securities, which liquidation valuation could be materially lower.

Lawsuits

The company may, from time to time, become party to a variety of legal claims and regulatory proceedings in Canada, Africa (including Mauritius) or elsewhere. The existence of such claims against the company or its affiliates, directors or officers could have various adverse effects, including the incurrence of significant legal expenses defending such claims, even those claims without merit. The company manages day-to-day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls. Internal and external legal counsel also work closely with the company to identify and mitigate areas of potential regulatory and legal risk.

Use of Leverage

The company may rely on the use of leverage when making its investments. As such, the ability to achieve attractive rates of return on such investments will significantly depend on the company's continued ability to access sources of debt financing on attractive terms. An increase in either market interest rates or in the risk spreads demanded by lenders would make it more expensive for the company to finance its investments and, in turn, would reduce net returns therein. Increases in interest rates could also make it more difficult for the company to locate and consummate investments because other potential buyers, including operating companies acting as strategic buyers, may be able to bid for an asset at a higher price due to a lower overall cost of capital. Availability of capital from debt capital markets is subject to significant volatility and the company may not be able to access those markets on attractive terms, or at all, when completing an investment. Any of the foregoing circumstances could have a material adverse effect on the financial condition and results of operations of the company.

Foreign Currency Fluctuation

All of the company's portfolio investments have been and will be made in Africa and in African businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, Africa, and the financial position and results for certain investments are denominated in currencies other than the United States dollar. The company's functional and reporting currency is the United States dollar. Accordingly, the income and expenses of such African Investments will be translated at average rates of exchange in effect during the applicable reporting period. Assets and liabilities will be translated at the exchange rates in effect at the balance sheet date. As a result, the company's consolidated financial position is subject to foreign currency fluctuation risk, which could materially adversely impact its operating results and cash flows. Although the company may enter into currency hedging arrangements in respect of its foreign currency cash flows, there can be no assurance that the company will do so or, if they do, that the full amount of the foreign currency exposure will be hedged at any time.

Investments May Be Made in Foreign Private Businesses Where Information Is Unreliable or Unavailable

In pursuing the company's investment strategy, the company may seek to make one or more investments in privately-held African businesses as disclosed in note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2018. As minimal public information exists about private African businesses, the company could be required to make investment decisions on whether to pursue a potential investment in a private business on the basis of limited information, which may result in an investment in a business that is not as profitable as the company initially suspected, if at all.

Investments in private African businesses pose certain incremental risks as compared to investments in public businesses, including that they:

- have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress;
- may have limited financial resources and may be unable to meet their obligations under their debt securities that the company may hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the company realizing any guarantees that it may have obtained in connection with its investment;
- may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on a portfolio investment and, as a result, the company; and
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position.

Significant Ownership by Fairfax May Adversely Affect the Market Price of the Subordinate Voting Shares

As of March 8, 2019, Fairfax and its affiliates hold a 98.4% and 60.3% voting and equity interest, respectively, in the company through ownership of all of the 30,000,000 issued and outstanding multiple voting shares and 6,885,421 subordinate voting shares.

For so long as Fairfax, either directly or through one or more subsidiaries, maintains a significant voting interest in the company, Fairfax will have the ability to exercise substantial influence with respect to the company's affairs and significantly affect the outcome of shareholder votes, and may have the ability to prevent certain fundamental transactions.

Accordingly, the subordinate voting shares may be less liquid and trade at a relative discount compared to such subordinate voting shares in circumstances where Fairfax did not have the ability to significantly influence or determine matters affecting the company. Additionally, Fairfax's significant voting interest in the company may discourage transactions involving a change of control of the company, including transactions in which an investor, as a holder of subordinate voting shares, might otherwise receive a premium for its subordinate voting shares over the then-current market price.

Emerging Markets

The company's investment objective is to achieve long term capital appreciation, while preserving capital, by investing in African Investments. Foreign investment risk is particularly high given that the company invests in securities of issuers based in or doing business in emerging market countries.

The economies of emerging market countries have been and may continue to be adversely affected by economic conditions in the countries with which they trade. The economies of emerging market countries may also be predominantly based on only a few industries or dependent on revenues from particular commodities. In addition, custodial services and other investment-related costs may be more expensive in emerging markets than in many developed markets, which could reduce the company's income from securities or debt instruments of emerging market country issuers.

Certain African countries still have some form of exchange control regulation that can lead to additional costs, delays and/or restrictions/requirements on the repatriation of profits for the company. There is a heightened possibility of imposition of withholding taxes on interest or dividend income generated from emerging market securities. It is also possible that certain African revenue authorities will apply a withholding tax in breach of the relevant tax treaty and the company may be unable to reclaim this undue tax in the form of a tax credit. Governments of emerging market countries may engage in confiscatory taxation or expropriation of income and/or assets to raise revenues or to pursue a domestic political agenda. In the past, emerging market countries have nationalized assets, companies and even entire sectors, including the assets of foreign investors, with inadequate or no compensation to the prior owners. Certain governments in African countries may also restrict or control the ability of foreign investors to invest in securities by varying degrees. These restrictions and controls may limit or preclude foreign investment, require governmental approval, special licences, impose certain costs and expenses, and/or limit the amount of foreign investment, or limit such investment to certain classes of securities that may be less advantageous than the classes available for purchase by domestic investors. There can be no assurance that the company will not suffer a loss of any or all of its investments or, interest or dividends thereon, due to adverse fiscal or other policy changes in emerging market countries.

Governments of many emerging market countries have exercised and continue to exercise substantial influence over many aspects of the private sector. In some cases, the government owns or controls many companies, including some of the largest in the country. Crime, corruption and fraud in certain African countries, as well as ties between government, agencies or officials and the private sector, have resulted, and could in the future result, in preferential treatment for local competitors, inefficient resource allocation, arbitrary decisions and other practices or policies. Accordingly, government actions could have a significant effect on economic conditions in an emerging country and on market conditions, prices and yields of securities in the company's portfolio.

Bankruptcy law and creditor reorganization processes in the African countries in which the company may invest may differ substantially from those in Canada, resulting in greater uncertainty as to the rights of creditors, the enforceability of such rights, reorganization timing and the classification, seniority and treatment of claims. In certain emerging market countries, although bankruptcy laws have been enacted, the process for reorganization remains highly uncertain. In addition, it may be impossible to seek legal redress against an issuer that is a sovereign state.

Also, because publicly traded debt instruments of emerging market issuers represent a relatively recent innovation in the world debt markets, there is little historical data or related market experience concerning the attributes of such instruments under all economic, market and political conditions.

Other heightened risks associated with emerging markets investments include without limitation: (i) risks due to less social, political and economic stability, including the risk of war, terrorism, nationalization, limitations on the removal of funds or other assets, or diplomatic developments that affect investments in these countries; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in a lack of liquidity and in price

volatility; (iii) certain national policies which may restrict the company's investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests and requirements that government approval be obtained prior to investment by foreign persons; (iv) certain national policies that may restrict the company's repatriation of investment income, capital or the proceeds of sales of securities, including temporary restrictions on foreign capital remittances; (v) the lack of uniform accounting and auditing standards and/or standards that may be significantly different from the standards required in Canada; (vi) less publicly available financial and other information regarding issuers; (vii) potential difficulties in enforcing contractual obligations; (viii) higher rates of inflation, higher interest rates and other economic concerns; and (ix) less development and/or obsolescence in banking systems and practices, postal systems, communications and information technology and transportation networks. The company may invest to a substantial extent in emerging market securities that are denominated in currencies other than the United States dollar, subjecting the company to a greater degree of foreign currency risk. Also, investing in emerging market countries may entail purchases of securities of issuers that are insolvent, bankrupt or otherwise of questionable ability to satisfy their payment obligations as they become due, subjecting the company to a greater amount of credit risk and/or high yield risk.

As reflected in the above discussion, investments in emerging market securities involve a greater degree of risk than, and special risks in addition to the risks associated with, investments in domestic securities or in securities of foreign developed countries.

South African Black Economic Empowerment

As a company that has invested, and will seek to complete further investment, in South Africa, the entities in which the company has and may invest could be required to comply with the South African government's policy and legal framework relating to black economic empowerment in respect of any South African investments. Black economic empowerment is governed generally by the Broad-Based Black Economic Empowerment Act of 2003 and the Codes of Good Practice, promulgated under that Act. The relevant South African entities will be required to comply with local procurement, employment equity, ownership and other regulations which are designated to address social and economic transformation issues, redress social and economic inequalities and ensure socio-economic stability from time to time. Compliance with the said legislation and policies, including the need to meet minimum equity ownership targets depending on the sector of the proposed investment, may result in the dilution of the company's indirect interest in its South African investments whilst non-compliance with the said legislation and policies may result in financial penalties, the loss of key customer contacts with state owned entities and parastatals or the suspension or revocation of any underlying licenses that the relevant entity requires in order to conduct its business which, in either case, could have an adverse effect on the company's business, financial condition and results of operations.

Economic Risk

The economies of certain African countries have grown rapidly during the past several years and there is no assurance that this growth rate will be maintained. Certain countries in Africa may experience substantial (and, in some cases, extremely high) rates of inflation or economic recessions causing a negative effect on such economies. Certain countries in Africa may also impose restrictions on the exchange or export of currency, institute adverse currency exchange rates or experience a lack of available currency hedging instruments. Any of these events could have a material adverse effect on their respective economies.

Weather Risk

Certain African Investments are operating in industries exposed to weather risk. The revenues of these portfolio companies may be adversely affected during a period of severe weather conditions in Africa. Because weather events are by their nature unpredictable, historical results of operations of certain African Investments may not be indicative of their future results of operations. As a result of the occurrence of one or more major weather catastrophes in any given period, the expected returns from African Investments impacted by weather risk may fall short of the company's expectations.

Taxation Risks

The company structures its business according to prevailing taxation law and practice in Canada, Mauritius and South Africa. Any change in tax policy, tax legislation (including in relation to taxation rates), the interpretation of

tax policy or legislation or practice could adversely affect the company's return earned on investments and on the capital available to be invested. Further, taxes and other constraints that would apply to the company and its consolidated subsidiaries in such jurisdictions may not apply to other parties, and such parties may therefore have a significantly lower effective cost of capital and a corresponding competitive advantage in pursuing investments. A number of other factors may increase the effective tax rates, which would have a negative impact on net earnings. These include, but are not limited to, changes in the valuation of our deferred tax assets and liabilities, and any reassessment of taxes by a taxation authority. The company utilizes Fairfax's tax specialist personnel for assessing the income tax consequences of planned transactions and events and undertaking the appropriate tax planning. The company also consults with external tax professionals as needed. Tax legislation of each jurisdiction in which the company operates is interpreted to determine income taxes and expected timing of the reversal of deferred income tax assets and liabilities.

Tax Laws in African Jurisdictions

In February 2013 the South African Minister of Finance, when tabling the 2013/14 Budget, announced that the South African Government will initiate a tax review ''to assess our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability''. The committee set up to conduct the review is known as The Davis Tax Committee (''DTC''). The terms of reference of the DTC (the ''Terms of Reference'') are to inquire into the role of the tax system in the promotion of inclusive economic growth, employment creation, development and fiscal sustainability. Aspects that are to receive specific attention from the DTC include a review of the corporate tax system, whether the current mining tax regime is appropriate and the efficiency and effectiveness of the VAT system (sub committees have been set up to deal with specific items in the terms of reference). The DTC will make recommendations to the Minister of Finance and any tax proposals arising from these recommendations will be announced as part of the usual budget and legislative processes. In April 2018 the DTC announced its conclusion based on the Terms of Reference. It is important to note that in the Terms of Reference, ''the Committee is advisory in nature, and will make recommendations to the Minister of Finance. The Minister will take into account the report and recommendations and will make any appropriate announcements as part of the normal budget and legislative processes. As with all tax policy proposals, these will be subject to the normal consultative processes and Parliamentary oversight once announced by the Minister.'' Accordingly, it is possible that SA Sub and its investments in South Africa could become subject to taxation outlined in the reports that is not currently anticipated, or it may become subject to a higher rate of taxation, which could have a materially adverse effect on its business, financial condition and results of operations in South Africa.

Changes in Law

The Republic of Mauritius or South African legal framework under which Mauritius Sub and SA Sub, respectively, invest in Africa may undergo changes in the future, which could impose additional costs or burdens on the Company's operations. Future changes to Mauritian or South African law, or the relevant tax treaties, or the interpretations given to them by regulatory authorities, could impose additional costs or obligations on Mauritius Sub's and SA Sub's activities in Mauritius or South Africa. Significant adverse tax consequences could result if Mauritius Sub or SA Sub do not qualify for benefits under the relevant tax treaties. There can be no assurance that Mauritius Sub or SA Sub will continue to qualify for or receive the benefits of the relevant tax treaties or that the terms of the relevant tax treaties will not be modified. It is possible that provisions of the relevant tax treaties will be overridden by local legislation in a way that materially adversely affects the Company, Mauritius Sub and SA Sub. Further, there can be no assurance that changes in the law or government policies of Mauritius or South Africa that may limit or eliminate a non-Mauritian or non-South African investor's ability to make investments into other countries in Africa via Mauritius or South Africa will not occur.

Trading Price of Common Shares Relative to Book Value per Share

The company is neither a mutual fund nor an investment fund, and due to the nature of its business and investment strategy, and the composition of its investment portfolio, the market price of its common shares, at any time, may vary significantly from its book value per share. This risk is separate and distinct from the risk that the market price of the common shares may decrease.

Other

Quarterly Data (unaudited)

Years ended December 31

US$ thousands, except per share amounts	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Full Year**
2018					
Income (loss)	53,916	(46,823)	(8,165)	(41,036)	(42,108)
Expenses (recovery)	12,735	(5,327)	3,392	2,802	13,602
Provision for income taxes	331	337	470	3,732	4,870
Net earnings (loss)	40,850	(41,833)	(12,027)	(47,570)	(60,580)
Net earnings (loss) per share (basic)	$ 0.81	$ (0.80)	$ (0.19)	$ (0.76)	$ (1.06)
Net earnings (loss) per share (diluted)	$ 0.80	$ (0.80)	$ (0.19)	$ (0.76)	$ (1.06)
2017					
Income (loss)	2,501	4,139	41,640	(16,429)	31,851
Expenses (recovery)	594	1,187	8,189	(2,088)	7,882
Provision for (recovery of) income taxes	1,357	(812)	432	(492)	485
Net earnings (loss)	550	3,764	33,019	(13,849)	23,484
Net earnings (loss) per share (basic)	$ 0.02	$ 0.07	$ 0.65	$ (0.27)	$ 0.54
Net earnings (loss) per share (diluted)	$ 0.02	$ 0.07	$ 0.65	$ (0.27)	$ 0.54

Total loss from income of $41,036 in the fourth quarter of 2018 increased from total loss from income of $16,429 in the fourth quarter of 2017 primarily as a result of increased net change in unrealized losses on investments and increased net foreign exchange losses (arising from the weakening of the South African rand relative to the U.S. dollar during the fourth quarter of 2018), partially offset by increased interest income (primarily relating to the Philafrica Facility, the Nova Pioneer Bonds, the CIG and PGR2 loans, and increased interest income from U.S. treasury bills).

The net change in unrealized losses on investments of $45,524 in the fourth quarter of 2018 primarily related to unrealized losses on the company's investment in Atlas Mara ($48,572) and the reversal of the prior period unrealized gain on the extinguishment of the Atlas Mara 7.5% Convertible Bonds ($5,332), partially offset by unrealized gains on the company's investment in the indirect equity interest in AGH ($9,890). The net change in unrealized losses on investments of $28,912 in the fourth quarter of 2017 primarily related to unrealized losses on the company's investments in Atlas Mara ($26,866) and its indirect equity interest in AGH ($1,794).

The net foreign exchange loss of $3,996 in the fourth quarter of 2018 was primarily a result of the weakening of the South African rand relative to the U.S. dollar during the period (principally related to the company's investments in an indirect equity interest in AGH ($1,846)). The net foreign exchange gain of $9,684 in the fourth quarter of 2017 was primarily a result of the strengthening of the South African rand relative to the U.S. dollar during the period (principally related to the company's indirect equity interest in AGH ($7,047) and the AGH Facility ($2,001)).

Total expenses of $2,802 in the fourth quarter of 2018 increased from a total recovery of expenses of $2,088 in the fourth quarter of 2017 primarily related a recovery of performance fee of $5,314 recorded in the fourth quarter of 2017 compared to no performance fee recorded in the fourth quarter of 2018.

The company reported a net loss of $47,570 (a net loss of $0.76 per basic and diluted share) in the fourth quarter of 2018 compared to a net loss of $13,849 (a net loss of $0.27 per basic and diluted share) in the fourth quarter of 2017. The increase in the net loss in the fourth quarter of 2018 primarily reflected increased net unrealized losses on investments (principally related to unrealized losses on the company's investment in Atlas Mara ($48,572)), and decreased net foreign exchange gains, partially offset by the recovery of performance fee recorded in fourth quarter of 2017.

Individual quarterly results have been (and are expected to continue to be) significantly impacted by net unrealized gains or losses on the company's African Investments and net foreign exchange gains (losses), the timing of which is not predictable. Individual quarterly results have been (and may in the future be) affected by increased expenses impacted by the change in fair value of the company's African Investments which would result in higher performance fee, if applicable, and investment and advisory fees.

Stock Prices and Share Information

At March 8, 2019 the company had 31,140,028 subordinate voting shares and 30,000,000 multiple voting shares outstanding (an aggregate of 61,140,028 common shares effectively outstanding). Each subordinate voting share carries one vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax Africa's subordinate voting shares trade on the TSX under the symbol FAH.U. Each multiple voting share carries fifty votes per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax, through its subsidiaries, owns all the issued and outstanding multiple voting shares, which are not publicly traded.

The table that follows presents the TSX high, low and closing U.S. dollar prices of the subordinate voting shares of Fairfax Africa, trading under the symbol FAH.U, for each quarter of 2018 and 2017.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		($US)		
2018				
High	15.75	13.10	11.99	11.59
Low	12.90	11.00	11.02	7.25
Close	13.16	11.39	11.50	8.11
2017				
High	10.05	10.75	14.70	15.90
Low	9.65	9.90	10.45	14.05
Close	10.00	10.75	14.20	14.16

Compliance with Corporate Governance Rules

Fairfax Africa is a Canadian reporting issuer with securities listed on the TSX and trading in U.S. dollars under the symbol FAH.U. It has in place corporate governance practices that comply with all applicable rules and substantially comply with all applicable guidelines and policies of the Canadian Securities Administrators and the practices set out therein.

The company's Board of Directors has adopted a set of Corporate Governance Guidelines (which include a written mandate of the Board), established an Audit Committee and Governance, Compensation and Nominating Committee, approved written charters for all of its committees, approved a Code of Business Conduct and Ethics applicable to all directors, officers and employees of the company and established, in conjunction with the Audit Committee, a Whistleblower Policy. The company continues to monitor developments in the area of corporate governance as well as its own procedures.

Forward-Looking Statements

This annual report may contain forward-looking statements 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 our opinions and estimates as of the date of this annual 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 that are described in greater detail elsewhere in this annual report: geographic concentration of investments; financial market fluctuations; pace of completing investments; minority investments; reliance on key personnel and risks associated with the Investment Advisory Agreement; operating and financial risks of African investments; valuation methodologies involve subjective judgments; lawsuits; use of leverage; foreign currency fluctuation; investments may be made in foreign private businesses where information is unreliable or unavailable; significant ownership by Fairfax may adversely affect the market price of the subordinate voting shares; emerging markets; South African black economic empowerment; economic risk; weather risk; taxation risks; and trading price of common shares relative to book value per share. 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.

Directors of the Company

Hisham Ezz Al-Arab
Chairman and Managing Director
Commercial International Bank

Lieutenant-General (ret.) Roméo Dallaire
Founder of the Roméo Dallaire Child Soldiers Initiative

Christopher D. Hodgson
President
Ontario Mining Association

Quinn McLean
Managing Director, Middle East and Africa
Hamblin Watsa Investment Counsel

Ndidi Okonkwo Nwuneli
Managing Partner
Sahel Consulting Agriculture and Nutrition Ltd.

Richard Okello
Co-Founder and Partner
Sango Capital Management

Paul C. Rivett
Vice Chairman of the Company

V. Prem Watsa
Chairman of the Company

Michael Wilkerson
Chief Executive Officer of the Company

Operating Management

Fairfax Africa Investments Proprietary Limited

Fairfax Africa Holdings Investments Limited

Dylan Buttrick
Managing Director, South Africa and Mauritius

Officers of the Company

Jennifer Allen
Chief Financial Officer

Keir Hunt
General Counsel and Corporate Secretary

Paul C. Rivett
Vice Chairman

V. Prem Watsa
Chairman

Michael Wilkerson
Chief Executive Officer

Head Office

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Toronto, Ontario, Canada M5J 2N7
Telephone: (416) 646-4180
Website: www.fairfaxafrica.ca

Auditor

PricewaterhouseCoopers LLP

Transfer Agents and Registrars

Computershare Trust Company of Canada, Toronto

Share Listing

Toronto Stock Exchange
Stock Symbol: FAH.U

Annual Meeting

The annual meeting of the shareholders of Fairfax Africa Holdings Corporation will be held on Wednesday, April 10, 2019 at 2:30 p.m. (Toronto time) at The Ritz-Carlton, Toronto
181 Wellington Street West, Toronto, Canada M5V 3G7