FAIRFAX AFRICA
HOLDINGS CORPORATION

1

INTERIM REPORT

For the three months ended
March 31, 2018

Consolidated Balance Sheets
as at March 31, 2018 and December 31, 2017
(unaudited - US$ thousands)

	Notes	March 31, 2018	December 31, 2017
Assets			
Cash and cash equivalents	6, 14	**126,467**	13,012
Restricted cash	6, 7	**151,034**	313,000
Short term investments	6	**61,758**	32,968
Loans	5, 6	**27,851**	24,233
Bonds	5, 6	**19,855**	19,934
Common stocks	5, 6	**330,952**	261,917
Total cash and investments		**717,917**	665,064
Interest receivable		**1,537**	3,506
Other assets		**674**	541
Total assets		**720,128**	669,111
Liabilities			
Accounts payable and accrued liabilities		**990**	811
Payable to related parties	12	**11,116**	1,482
Income taxes payable		**413**	82
Term loan	7	**150,000**	150,000
Total liabilities		**162,519**	152,375
Equity			
Common shareholders' equity	8	**557,609**	516,736
		720,128	669,111

See accompanying notes.

Consolidated Statements of Earnings and Comprehensive Income
for the three months ended March 31, 2018 and 2017
(unaudited - US$ thousands except share and per share amounts)

	Notes	First quarter 2018	First quarter 2017
Income			
Interest	6	**3,148**	227
Net realized gains on investments	6	**1,802**	—
Net change in unrealized gains (losses) on investments	6	**42,235**	(334)
Net foreign exchange gains	6	**6,731**	2,608
		53,916	2,501
Expenses			
Investment and advisory fees	12	**1,559**	380
Performance fee	12	**9,049**	—
General and administration expenses	13	**1,063**	214
Interest expense	7	**1,064**	—
		12,735	594
Earnings before income taxes		**41,181**	1,907
Provision for income taxes	10	**331**	1,357
Net earnings and comprehensive income		**40,850**	550
Net earnings per share	9	**$ 0.81**	$ 0.02
Net earnings per diluted share	9	**$ 0.80**	$ 0.02
Shares outstanding (weighted average)	9	**50,620,189**	24,117,202

See accompanying notes.

Consolidated Statements of Changes in Equity
for the three months ended March 31, 2018 and 2017
(unaudited - US$ thousands)

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings (deficit)	Common shareholders' equity (deficit)
Balance as of January 1, 2018	**193,326**	**300,000**	**—**	**23,410**	**516,736**
Net earnings for the period	**—**	**—**	**—**	**40,850**	**40,850**
Amortization of share-based payment awards	**—**	**—**	**23**	**—**	**23**
Balance as of March 31, 2018	**193,326**	**300,000**	**23**	**64,260**	**557,609**

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings (deficit)	Common shareholders' equity (deficit)
Balance as of January 1, 2017	—	—	—	(74)	(74)
Net earnings for the period	—	—	—	550	550
Issuance of shares, net of issuance costs	193,326	300,000	—	—	493,326
Tax benefit on share issuance costs	208	—	—	—	208
Balance as of March 31, 2017	193,534	300,000	—	476	494,010

See accompanying notes.

Consolidated Statements of Cash Flow
for the three months ended March 31, 2018 and 2017
(unaudited - US$ thousands)

	Notes	First quarter 2018	First quarter 2017
Operating activities			
Net earnings		**40,850**	550
Items not affecting cash and cash equivalents:			
Net bond discount amortization		**(202)**	—
Amortization of share-based payment awards		**23**	—
Net realized gains on investments	6	**(1,802)**	—
Net change in unrealized gains on investments	6	**(42,235)**	334
Net foreign exchange gains	6	**(6,731)**	(2,608)
Net purchases of short term investments classified as FVTPL		**(28,589)**	(99,770)
Purchases of investments classified as FVTPL		**(46,504)**	(21,742)
Sales of investments classified as FVTPL		**25,399**	—
Decrease in restricted cash in support of investment	7	**162,519**	—
Changes in operating assets and liabilities:			
Interest receivable		**1,969**	(448)
Income taxes payable		**331**	1,149
Accounts payable and accrued liabilities		**179**	356
Payable to related parties		**9,634**	(463)
Other		**(832)**	836
Cash provided by (used in) operating activities		**114,009**	(121,806)
Financing activities			
Term loan:			
Increase in restricted cash in support of term loan	7	**(554)**	—
Subordinate voting shares:	8		
Issuances		**—**	204,080
Issuance costs		**—**	(10,104)
Multiple voting shares:	8		
Issuances		**—**	227,154
Cash provided by (used in) financing activities		**(554)**	421,130
Increase in cash and cash equivalents		**113,455**	299,324
Cash and cash equivalents - beginning of period		**13,012**	—
Cash and cash equivalents - end of period		**126,467**	299,324

See accompanying notes.

Index to Notes to Interim Consolidated Financial Statements

1. Business Operations

Fairfax Africa Holdings Corporation (the "company'' or "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 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'') and a Mauritius based subsidiary Fairfax Africa Holdings Investments Limited (''Mauritius Sub'').

Fairfax Financial Holdings Limited ("Fairfax") took the initiative in creating the company, 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 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.

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

Fairfax, through its subsidiaries, owns 30,000,000 multiple voting shares and 2,500,000 subordinate voting shares of Fairfax Africa. At March 31, 2018, Fairfax's holdings of multiple and subordinate voting shares represented 98.8% of the voting rights and 64.2% of the equity interest in Fairfax Africa (December 31, 2017 - 98.8% and 64.2% respectively).

The holding 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 interim consolidated financial statements for the three months ended March 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting*. Accordingly, certain information and disclosures normally included in annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with the company's annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS as issued by the IASB effective as at December 31, 2017.

These interim consolidated financial statements were approved for issue by the company's Board of Directors on May 3, 2018.

3. Summary of Significant Accounting Policies

The principal accounting policies applied to the preparation of these interim consolidated financial statements are as set out in the company's annual consolidated financial statements for the year ended December 31, 2017, prepared in accordance with IFRS as issued by the IASB. Those policies and methods of computation have been consistently applied to all periods presented except as described below.

Cash and Investments

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

Classification

Short term investments, loans, bonds and common stocks 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. The company has not elected to irrevocably designate any of its common stocks at fair value through other comprehensive income. The company classifies its short term investments, loans and bonds based on both the company's business model for managing those financial assets and their contractual cash flow characteristics. While the contractual cash flows of certain of the company's short term investments, loans and bonds are solely principal and interest, those investments are neither held for the purpose of collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to the company's business model of maximizing total investment return on a fair value basis.

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. Investments classified at FVTPL are initially recognized at fair value with transaction costs recorded within interest in the consolidated statements of earnings and comprehensive income.

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 and dividends and net gains (losses) on investments. Interest and dividends represent dividends received on holdings of common stocks, and interest income on short term investments and bonds calculated using the effective interest method, net of investment expenses. All other changes in fair value are reported in net gains (losses) on investments in the consolidated statements of earnings and comprehensive income, such that the sum of interest income and net gains (losses) on short term investments and bonds is equal to their total change in fair value for the reporting period.

Interest and dividends and net gains (losses) on investments are reported as operating activities in the consolidated statement of cash flows.

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 the risks and rewards of ownership.

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

Bonds are debt instruments with maturity dates greater than twelve months when purchased.

Share-based payments

The company has restricted share plans or equivalent for its directors and employees with vesting periods of up to fifteen 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.

New accounting pronouncements adopted in 2018

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 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 continue to be mandatorily classified at FVTPL, debt investments continue to be classified at FVTPL due to the company's business model for the management of those debt instruments, and financial liabilities continue to be classified as amortized cost. IFRS 9 was adopted effective January 1, 2018 in accordance with its retrospective transition provisions without restatement of comparative periods. The company has determined that adoption of IFRS 9 did not have an impact on the consolidated financial statements.

New accounting pronouncement issued but not yet effective

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. The company is currently evaluating the impact of the revised Conceptual Framework on its consolidated financial statements and does not expect to adopt it in advance of its effective date.

4. Critical Accounting Estimates and Judgments

In the preparation of the company's interim consolidated financial statements, management has made a number of critical estimates and judgments in the preparation of notes 5, 6 and 10 in a manner consistent with those as described in the company's annual consolidated financial statements for the year ended December 31, 2017.

5. African Investments

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 for the three months ended March 31, 2018 and 2017 were as follows:

	Public African Investments		Private African Investments				
	Common stock		Common stock	Loans		Bonds	
	Atlas Mara(1)	Other(2)	Indirect equity interest in AFGRI (3)	AFGRI Facility(4)	Philafrica Facility	Nova Pioneer Investment(5)	Total African Investments
Balance as of January 1, 2018	**168,671**	**4,932**	**88,314**	**24,233**	**—**	**19,934**	**306,084**
Purchases	**—**	**69**	**20,304**	**—**	**27,934**	**763**	**49,070**
Repayments	**—**	**—**	**—**	**(25,399)**	**—**	**—**	**(25,399)**
Net change in unrealized gains (losses) on investments	**32,094**	**(852)**	**11,835**	**—**	**—**	**(842)**	**42,235**
Net unrealized foreign exchange gains (losses)	**—**	**229**	**5,356**	**1,166**	**(83)**	**—**	**6,668**
Balance as of March 31, 2018	**200,765**	**4,378**	**125,809**	**—**	**27,851**	**19,855**	**378,658**
Balance as of January 1, 2017	—	—	—	—	—	—	—
Purchases	—	—	74,968	—	—	—	74,968
Net unrealized foreign exchange gains	—	—	2,560	—	—	—	2,560
Balance as of March 31, 2017	—	—	77,528	—	—	—	77,528

(1) Opening balance as of January 1, 2018 include a non-cash net realized gain on Atlas Mara Convertible Bond of $5,098 and Atlas Mara Equity Offering of $6,055.

(2) Comprised of common shares of various companies listed on the Johannesburg Stock Exchange.

(3) Acquired through the company's ownership in Joseph Holdings. On January 31, 2018, the company increased its indirect equity interest in AFGRI from 42.2% to 43.8%. Purchases comprised of $18,501 capital contribution to Joseph Holdings and $1,803 realized gain on AFGRI Rights Offer (see note 5).

(4) AFGRI Facility matured on January 31, 2018 and was repaid in cash.

(5) During the first quarter of 2018, $763 relating to interest accrued on the Nova Pioneer Bonds was capitalized to the principal amount owing. For the three months ended March 31, 2018, comprised of an unrealized loss of $894 on the Nova Pioneer Bonds, partially offset by a change in unrealized gain of $52 on the Nova Pioneer Warrants (see note 6).

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

Atlas Mara Limited ("Atlas Mara") is a Sub-Saharan African financial services group founded in 2013. Atlas Mara's vision is 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 banking operations across seven key Sub-Saharan African countries: Botswana, Mozambique, Nigeria, Rwanda, Tanzania, Zambia and Zimbabwe.

On July 17, 2017 the company invested $100,000 in Atlas Mara through the purchase of a mandatory convertible bond (the "Atlas Mara 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 Atlas Mara Convertible Bond (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.

On December 22, 2017 the company acquired an additional 1,200,000 ordinary shares of Atlas Mara for cash consideration of $2,436.

At March 31, 2018 the fair value of the company's investment in Atlas Mara was $200,765 (December 31, 2017 - $168,671), comprised of 71,958,670 ordinary shares representing a 43.3% equity interest (December 31, 2017 - 43.3%). The changes in fair value of the company's investment in Atlas Mara for the first quarter of 2018 and 2017 are presented in the table disclosed earlier in note 5.

Subsequent to March 31, 2018

On April 24, 2018 Fairfax Africa agreed to invest $16,000 in Atlas Mara through the purchase of secured convertible bonds maturing in 2020 (the "2020 Atlas Mara Convertible Bond"), as an anchor investment in connection with a targeted $37,500 debt fundraising by Atlas Mara (the "Debt Fundraising"). The proceeds of the Debt Fundraising will be used by Atlas Mara for general corporate purposes, including providing ongoing liquidity support for Atlas Mara's operations.

The 2020 Atlas Mara Convertible Bond is secured with a portion of Atlas Mara's equity interest in Union Bank of Nigeria Plc ("UBN"). Subject to Atlas Mara shareholder approval, which will be sought at Atlas Mara's next annual meeting, the 2020 Atlas Mara Convertible Bond will be convertible, at Fairfax Africa's option, into Atlas Mara shares at the lower of $2.475 per share and a 10% discount to the 30-day volume weighted average price prior to the maturity date. The 2020 Atlas Mara Convertible Bond bears interest at a rate of 7.5% per annum, payable semi-annually in cash. In the event shareholder approval for the conversion feature is not obtained, the interest rate will be increased retroactively to 9.0%. In connection with the investment, Fairfax Africa will earn a structuring fee equal to 3.0% of the aggregate proceeds of the Debt Fundraising (approximately $1,100) for its role in anchoring and structuring the Debt Fundraising.

Closing of the 2020 Atlas Mara Convertible Bond is subject to the finalization of security documentation relating to the UBN shares.

Other

During the first quarter of 2018 and the fourth quarter of 2017 the company acquired common shares of various public companies listed on the Johannesburg Stock Exchange ("Other Public African Investments") for aggregate cash consideration of $69 and $4,428 respectively. At March 31, 2018 the fair value of the company's investment in Other Public African Investments was $4,378 (December 31, 2017 -$4,932) and comprised less than a 5% equity interest for each investment. The changes in fair value of the company's investment in Other Public African Investments for the first quarter of 2018 and 2017 are presented in the table 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.

AFGRI Holdings Proprietary Limited

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

Indirect Equity Interest in AFGRI

Prior to Fairfax Africa's 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 AFGRI. 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 AFGRI and has no other assets, liabilities (contingent or otherwise) or operations, except minimal overhead expenses associated with administration.

On February 17, 2017, in conjunction with its IPO, Fairfax Africa purchased from AgriGroupe LP the beneficial equity interests held by Fairfax in Joseph Holdings, comprised of 156,055,775 ordinary shares and 49,942,549 class A shares for $25,001 and $49,967 respectively in exchange for 7,284,606 multiple voting shares at $10.00 per multiple voting share. The company also purchased additional equity interests in Joseph Holdings from certain limited partners of AgriGroupe LP in exchange for 212,189 subordinate voting shares at $9.50 per subordinate voting share (being $10.00 less a private placement fee of $0.50 per subordinate voting share). Subsequent to these transactions, the company owned 70.3% equity interest and 73.3% of the class A shares of Joseph Holdings and became the largest beneficial shareholder of AFGRI with a 42.2% indirect equity interest.

On January 31, 2018, AFGRI 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 "AFGRI Rights Offer"). Joseph Holdings maintained its 60.0% equity interest in AFGRI 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 AFGRI, 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 an additional 79,743,201 ordinary shares of Joseph Holdings for cash consideration of $18,501. Following the completion of the AFGRI Rights Offering, Fairfax Africa held 235,798,976 ordinary shares of Joseph Holdings representing a 72.9% equity interest and 49,942,549 class A shares representing a 73.3% equity interest. On a combined basis, Fairfax Africa held a 43.8% indirect equity interest in AFGRI through its ownership in Joseph Holdings.

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

At March 31, 2018 the company's estimated fair value of its indirect equity interest in AFGRI was based on an internal valuation model which consisted of a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.7% to 25.3% and a long term growth rate of 3.0% (December 31, 2017 - 11.6% to 25.1% and 3% respectively). Free cash flow projections were based on EBITDA derived from financial information for AFGRI's business units prepared in the first quarter of 2018 by AFGRI's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which AFGRI operates.

At March 31, 2018 the company's internal valuation model indicated that the fair value of its 43.8% indirect equity interest in AFGRI, acquired through the company's ownership in Joseph Holdings, was $125,809 (December 31, 2017 - $88,314, representing a 42.2% indirect equity interest). Given that the class A shares of Joseph Holdings are redeemable at a fixed price of $49,944, the $75,865 residual amount (2017 - $38,347) was allocated to the ordinary shares of Joseph Holdings.

The changes in fair value of the company's indirect equity interest in AFGRI for the first quarter of 2018 and 2017 are presented in the table disclosed earlier in note 5.

AFGRI Facility

On June 21, 2017 Fairfax Africa entered into a secured lending arrangement with AFGRI, pursuant to which Fairfax Africa provided $23,255 (300 million South African rand) of financing (the "AFGRI Facility"). The AFGRI Facility bears interest at a rate of South African Prime plus 2.0% per annum. Fairfax Africa is entitled to receive a fee equal to 2.0% of the AFGRI Facility loan proceeds payable at maturity or upon repayment of the AFGRI Facility. The company earns interest on the fee at the same rate as the AFGRI Facility.

The AFGRI Facility was initially scheduled to mature on December 23, 2017 with an option for AFGRI to repay the AFGRI Facility in shares, subject to certain conditions on maturity. On December 19, 2017, the AFGRI Facility maturity date was extended from December 23, 2017 to January 31, 2018. During the extension period, the AFGRI facility interest rate was increased to South African Prime plus 6.0% per annum.

On December 31, 2017 the estimated fair value of the company's investment in the AFGRI Facility was $24,233 which, due to the short term to maturity, approximated its amortized cost. The AFGRI Facility, including accrued interest, in the amount of $25,399, was fully repaid on January 31, 2018 and a realized foreign exchange gain of $1,166 was recorded in the consolidated statements of earnings and comprehensive income in the first quarter of 2018. The changes in the AFGRI Facility for the first quarter of 2018 are presented in the table disclosed earlier in note 5.

In the first quarter of 2018 the company recorded interest income of $383 in the consolidated statements of earnings and comprehensive income related to the AFGRI Facility.

Philafrica Facility

On February 28, 2018 Fairfax Africa entered into a secured lending arrangement with Philafrica Foods Proprietary Ltd. ("Philafrica"), a subsidiary of AFGRI, pursuant to which the company provided Philafrica with $27,934 (330 million South African rand) of financing (the "Philafrica Facility"). The Philafrica Facility was provided on an interim basis in advance of an expected future equity capital raise by Philafrica, in the form of a rights offering to AFGRI shareholders. The proceeds from the Philafrica Facility will be used by Philafrica to fund strategic acquisitions and for general corporate purposes.

The Philafrica Facility is guaranteed by AFGRI Operations Proprietary Limited, a wholly-owned subsidiary of AFGRI, and matures on October 4, 2018. Subject to AFGRI shareholder approval, the Philafrica Facility may be repaid through the issuance of Philafrica shares to Fairfax Africa. 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. Upon maturity, in the event AFGRI shareholder approval is not obtained to repay the credit facility in shares, the interest rate will be increased retroactively to South African Prime plus 4.0% per annum. Fairfax Africa earned a fee equal to 2.0% of the loan proceeds which is payable at maturity or upon repayment of the Philafrica Facility. The company earns interest on the fee at the same rate as the credit facility.

At March 31, 2018, the estimated fair value of its investment in the Philafrica Facility was $27,851 which, due to the short term to maturity, approximated its amortized cost. The changes in fair value of the Philafrica Facility for the first quarter of 2018 are presented in the table disclosed earlier in note 5.

In the first quarter of 2018 the company recorded interest income of $279 in the consolidated statements of earnings and comprehensive income related to the Philafrica Facility.

Nova Pioneer Education Group

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

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 Investment (discussed below).

On June 30, 2017 Fairfax Africa announced an investment in Nova Pioneer which consisted of $20,000 of secured debentures maturing on December 31, 2024 (the "Nova Pioneer Bonds") and 2,000,000 warrants (the "Nova Pioneer Warrants"), collectively the "Nova Pioneer Investment"), to be issued in tranches. At December 31, 2017, Ascendant had issued the full $20,000 of the "Nova Pioneer Bonds" and 2,000,000 Nova Pioneer Warrants.

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 to acquire one 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.

At March 31, 2018 the company estimated the fair value of its investment in the Nova Pioneer Investment (comprised of the Nova Pioneer Bonds and Nova Pioneer Warrants) using an industry accepted discounted cash flow and option pricing model that incorporated Nova Pioneer's estimated credit spread of 19.7% (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 March 31, 2018 the company's internal valuation model indicated that the fair value of the Nova Pioneer Investment was $19,855 (December 31, 2017 - $19,934), comprised of Nova Pioneer Bonds of $19,282 (December 31, 2017 - $19,414) and Nova Pioneer Warrants of $573 (December 31, 2017 - $520).

The changes in fair value of the Nova Pioneer Investment for the first quarter of 2018 are presented in the table disclosed earlier in note 5.

In the first quarter of 2018, the company recorded interest income of $1,024 in the consolidated statements of earnings and comprehensive income related to the Nova Pioneer Bonds.

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:

	March 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	**126,467**	—	—	**126,467**	13,012	—	—	13,012
Restricted cash[(1)]	**151,034**	—	—	**151,034**	313,000	—	—	313,000
	277,501	—	—	**277,501**	326,012	—	—	326,012
Short-term investments - U.S. treasury bills	**61,758**	—	—	**61,758**	32,968	—	—	32,968
Loans								
AFGRI Facility[(2)]	—	—	—	—	—	—	24,233	24,233
Philafrica Facility	—	—	**27,851**	**27,851**	—	—	—	—
	—	—	**27,851**	**27,851**	—	—	24,233	24,233
Bonds - Nova Pioneer Investment[(3)]	—	—	**19,855**	**19,855**	—	—	19,934	19,934
Common stocks:								
Atlas Mara	**200,765**	—	—	**200,765**	168,671	—	—	168,671
Other[(4)]	**4,378**	—	—	**4,378**	4,932	—	—	4,932
Indirect equity interest in AFGRI	—	—	**125,809**	**125,809**	—	—	88,314	88,314
	205,143	—	**125,809**	**330,952**	173,603	—	88,314	261,917
Total cash and investments	**544,402**	—	**173,515**	**717,917**	532,583	—	132,481	665,064
	75.8 %	—	**24.2 %**	**100.0 %**	80.1 %	—	19.9 %	100.0 %

(1) As of March 31, 2018, comprised of $150,000 cash collateral relating to the Term Loan and $1,034 of interest received on restricted cash. During the first quarter of 2018, $162,519 of cash collateral and accrued interest, relating to the LC Facility was released from restricted cash (see note 7). As of December 31, 2017, 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 received on restricted cash.

(2) AFGRI Facility matured on January 31, 2018 and was repaid in cash.

(3) As of March 31, 2018, comprised of Nova Pioneer Bonds of $19,282 (December 31, 2017 - $19,414) and Nova Pioneer Warrants of $573 (December 31, 2017 - $520) (see note 5).

(4) Comprised of common shares of various companies listed on the Johannesburg Stock Exchange.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the first quarter of 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 March 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 investment in the Philafrica Facility as the company determined that there were no significant unobservable inputs suited for a sensitivity analysis. In addition, the sensitivity analysis excludes the Nova Pioneer Warrants as there were no updates to its significant unobservable inputs from December 31, 2017.

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)]**
Nova Pioneer Bonds	$19,282	Discounted cash flow	Credit Spread	19.7%	693 / (658)	509 / (484)
Indirect equity interest in AFGRI	$125,809	Discounted cash flow	After-tax discount rate	11.7% to 25.3%	8,020 / (7,287)	6,957 / (6,321)
			Long term growth rate	3.0%	3,032 / (2,889)	2,630/ (2,506)

(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) 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, or credit spreads would result in a higher (lower) fair value of the company's Private African Investments.

Fixed Income Maturity Profile

Bonds and loans 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 features.

At March 31, 2018 bonds containing call features represented $19,282 (December 31, 2017 - $19,414) of the total fair value of bonds. At March 31, 2018 and December 31, 2017 there were no bonds containing put features.

	March 31, 2018		December 31, 2017	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Due in 1 year or less	**27,851**	**27,851**	24,233	24,233
Due after 1 year through 5 years	**20,763**	**19,282**	20,000	19,414
	48,614	**47,133**	44,233	43,647

Investment Income

An analysis of investment income for the three months ended March 31 is summarized in the tables that follow:

Interest

	First quarter	
	2018	2017
Interest:		
Cash and cash equivalents	**578**	209
Restricted cash	**681**	—
Short term investments - US treasury bills	**203**	17
Bonds:		
Government of South Africa	**—**	1
Nova Pioneer Bonds	**1,024**	—
Loans:		
AFGRI Facility	**383**	—
Philafrica Facility	**279**	—
Total interest income	**3,148**	227

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

	First quarter					
	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 - US treasury bills	**(1)**	**—**	**(1)**	—	—	—
Bonds:						
Government of South Africa	**—**	**—**	**—**	—	(334)	(334)
Nova Pioneer Investment(1)	**—**	**(842)**	**(842)**	—	—	—
Common stocks:						
Atlas Mara	**—**	**32,094**	**32,094**	—	—	—
Other(2)	**—**	**(852)**	**(852)**	—	—	—
Indirect equity interest in AFGRI(3)	**1,803**	**11,835**	**13,638**	—	—	—
	1,802	**42,235**	**44,037**	—	(334)	(334)
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**—**	**70**	**70**	—	(1)	(1)
Loans:						
AFGRI Facility	**1,166**	**—**	**1,166**	—	—	—
Philafrica Facility	**—**	**(83)**	**(83)**	—	—	—
Common stocks:						
Indirect equity interest in AFGRI	**—**	**5,356**	**5,356**	—	2,590	2,590
Other	**—**	**222**	**222**	—	19	19
	1,166	**5,565**	**6,731**	—	2,608	2,608

(1) Comprised of an unrealized loss of $894 from the Nova Pioneer Bonds, partially offset by an unrealized gain of $52 from the Nova Pioneer Warrants.

(2) Unrealized loss of $852 related to common shares of various companies listed on the Johannesburg Stock Exchange.

(3) Realized gain of $1,803 related to exercise of rights to purchase AFGRI ordinary shares (see note 5).

7. Borrowings

Term Loan

On August 31, 2017 the company completed a secured term loan (the ''Term Loan'') with a Canadian bank for a principal amount of $150,000, bearing interest at a rate of LIBOR plus 100 basis points. In connection with the Term Loan, the company was required to maintain cash collateral of $150,000, which together with interest received of $1,034, is classified as restricted cash in the consolidated balance sheet at March 31, 2018. On January 31, 2018, the company extended the maturity of the Term Loan to August 31, 2018.

Letter of Credit Facility

On August 31, 2017 the company entered into a non-revolving term letter of 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 Partial 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% 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

During the first quarter of 2018 the company earned interest of $681 on the cash collateral provided for the Term Loan and LC Facility which was recorded in interest in the company's consolidated statements of earnings and comprehensive income.

Interest Expense

During the first quarter of 2018 interest expense of $1,064 relating to the Term Loan was recorded in interest expense in the company's consolidated statements of earning and comprehensive income.

8. Common Shareholders' Equity

Common stock

The number of shares outstanding was as follows:

	First quarter	
	2018	2017
Subordinate voting shares - January 1	**20,620,189**	—
Issuance of shares	**—**	20,620,189
Subordinate voting shares - March 31	**20,620,189**	20,620,189
Multiple voting shares - January 1	**30,000,000**	1
Issuance of shares	**—**	29,999,999
Multiple voting shares - March 31	**30,000,000**	30,000,000
Common shares effectively outstanding - March 31	**50,620,189**	50,620,189

Capital transactions

In the first quarter of 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 AFGRI (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 "AFGRI Transaction").

The aggregate proceeds 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 AFGRI Transaction, (collectively "the Offerings").

Restricted Share Awards

Restricted Share Awards ("RSA's") entitle participants the conditional right to receive one common share of Fairfax Africa for each share unit. RSA's vest on the fifth anniversary of the grant date. On March 8, 2018, pursuant to the company's Share Option Plan, 43,611 RSA's with a total fair value of $600 were granted to the company's five independent directors and senior management. The fair value of RSA's on the grant date is amortized to compensation expense included in general and administration expenses in the consolidated statement of earnings and comprehensive income over five years with a corresponding increase in share-based payments, net, in the consolidated statements of changes in equity.

The share-based payments, net recognizes the value of equity-settled transactions provided to employees, directors and consultants (excluding the Chief Executive Officer, Chief Financial Officer and Corporate Secretary) of the company as part of their remuneration. Pursuant to the Investment Advisory Agreement, all compensation payable to the Chief Executive Officer, Chief Financial Officer and Corporate Secretary will be borne by Fairfax, so long as the agreement remains in effect (see note 12).

In the first quarter of 2018, $23 of share-based payment expense was recognized.

9. Net Earnings per Share

Net earnings per share for the three months ended March 31 are calculated based on the weighted average common shares outstanding:

	First quarter	
	2018	2017
Net earnings – basic and diluted	**40,850**	550
Weighted average shares outstanding – basic	**50,620,189**	24,117,202
Contingently issuable subordinate voting shares	**696,846**	—
Weighted average common shares outstanding – diluted	**51,317,035**	24,117,202
Net earnings per share - basic	**$ 0.81**	$ 0.02
Net earnings per share - diluted	**$ 0.80**	$ 0.02

At March 31, 2018 there were 696,846 contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax (March 31, 2017 - nil).

The performance fee is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019. If a performance fee is payable for the period ending on December 31, 2019, it will be paid in subordinate voting shares of the company unless the market price 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 volume weighted average trading price of the 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 ("VWAP"). Refer to note 12 for further details related to the calculation of the performance fee payable and the impact, if any, on contingently issuable subordinate voting shares.

10. Income Taxes

The company's provision for income taxes for the three months ended March 31 are summarized in the following table:

	First quarter	
	2018	2017
Current income tax:		
Current year expense	**331**	1,149
Deferred income tax:		
Origination and reversal of temporary differences	**—**	208
Provision for income taxes	**331**	1,357

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).

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for income taxes for the three months ended March 31 are summarized in the following table:

	First quarter							
	2018				2017			
	Canada	**Mauritius**	**South Africa**	**Total**	Canada	Mauritius	South Africa	Total
Earnings (loss) before income	**(5,926)**	**45,967**	**1,140**	**41,181**	(740)	2,647	—	1,907
Provision for income taxes	**129**	**26**	**176**	**331**	1,357	—	—	1,357
Net earnings (loss)	**(6,055)**	**45,941**	**964**	**40,850**	(2,097)	2,647	—	550

The increase in pre-tax profitability in Mauritius in the first quarter of 2018 compared to the first quarter of 2017 primarily reflected unrealized gains on the Atlas Mara ordinary shares and unrealized gains and net foreign exchange gains on the company's indirect equity interest in AFGRI. The increase in pre-tax profitability in South Africa in the first quarter of 2018 compared to the first quarter of 2017 primarily reflected net foreign exchange gains on the AFGRI Facility. The increase in pre-tax losses in Canada in the first quarter of 2018 compared to the first quarter of 2017 primarily reflected increased performance fees, investment and advisory fees, and interest expense on the Term Loan.

A reconciliation of the provision for 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 three months ended March 31 are summarized in the following table:

	First quarter	
	2018	2017
Canadian statutory income tax rate	**26.5%**	26.5%
Provision for income taxes at the Canadian statutory income tax rate	**10,913**	505
Tax rate differential on income earned outside of Canada	**(12,676)**	(701)
Change in unrecorded tax benefit of losses and temporary differences	**(367)**	1
Foreign exchange effect	**2,461**	1,552
Provision for income taxes	**331**	1,357

The tax rate differential on income earned outside of Canada of $12,676 in the first quarter of 2018 (2017 - $701) principally reflected the impact of net investment income taxed in Mauritius at lower rates.

The change in unrecorded tax benefit of losses and temporary differences of $367 in the first quarter of 2018 (2017 - $1) principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $1,030 (2017 - nil) with respect to the company's wholly-owned subsidiaries and utilization of net operating loss carryforwards in Canada of $1,397 (2017 - $40) that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS. At March 31, 2018 deferred tax assets in Canada of $5,748 (December 31, 2017 - $6,115) were not recorded by the company because it was not probable that those losses could be utilized by the company

Foreign exchange effect of $2,461 in the first quarter of 2018 (2017 - $1,552) 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.

11. Financial Risk Management

Overview

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 March 31, 2018 compared to those identified at December 31, 2017, and disclosed in the company's annual consolidated financial statements for the year ended 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. These may 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 March 31, 2018 the majority of assets were 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 not be significantly affected by foreign currency movements except for items denoted in the table that follows. The company has not hedged its foreign currency risk.

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

	March 31, 2018			December 31, 2017		
	Cash and cash equivalents	**Investments**	**Total exposure**	Cash and cash equivalents	Investments	Total exposure
Canadian dollars	**606**		**606**	1,024	—	1,024
South African rand[(1)]	**391**	**158,318**	**158,709**	139	119,593	119,732
Mauritian rupees	**5**		**5**	32	—	32
Total	**1,002**	**158,318**	**159,320**	1,195	119,593	120,788

(1) At March 31, 2018 and December 31, 2017, the company is exposed to the South African rand primarily due to its indirect equity interest in AFGRI and the AFGRI Facility, in addition to the Philafrica Facility at March 31, 2018. The AFGRI Facility matured on January 31, 2018 and was fully repaid in cash.

If the South African rand (the foreign currency to which the company has the most exposure) appreciated by 5% relative to the U.S. dollar, with all other variables held constant, against the South African rand (the foreign currency to which the company has the most exposure), the effect on pre-tax earnings and net earnings would be a hypothetical increase of $8,306 and $6,105 (December 31, 2017 - $6,058 and $4,453). The hypothetical impact relates principally to the company's indirect equity interest in AFGRI, the AFGRI Facility and Philafrica Facility. Certain shortcomings are inherent with this method of analysis, including the assumption that the 5% depreciation of 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 March 31, 2018 compared to December 31, 2017.

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. The impact of the hypothetical effect on net earnings relating to the Philafrica Facility and the AFGRI Facility (which expired on January 31, 2018) have not been included in the below sensitivity analysis due to the short duration to maturity.

	March 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 rise	**17,999**	**(943)**	**(6.7)%**	18,078	(982)	(6.9)%
100 basis point rise	**18,624**	**(484)**	**(3.4)%**	18,729	(504)	(3.5)%
No change	**19,282**	**—**	**—**	19,414	—	— %
100 basis point decline	**19,975**	**509**	**3.6 %**	20,126	524	3.7 %
200 basis point decline	**20,706**	**1,047**	**7.4 %**	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. Changes to the company's exposure to equity price risk through its equity instruments at March 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 during the first quarter of 2018 as a result of unrealized appreciation in Atlas Mara (Level 1 investment in the fair value hierarchy) and the company's indirect equity interest in AFGRI (Level 2 investment 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 (indirect equity interest in AFGRI and Nova Pioneer Bonds).

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 Level 1 equity investments in the fair value hierarchy (Atlas Mara and Other Public African Investments).

	March 31, 2018		December 31, 2017	
Change in equity markets	**+10.0%**	**-10.0%**	+10.0%	-10.0%
Level 1 equity investments, fair value at period end	**205,143**	**205,143**	173,603	173,603
Hypothetical $ change effect on pre-tax earnings (loss)	**20,514**	**(20,514)**	17,360	(17,360)
Hypothetical $ change effect on net earnings (loss)	**17,796**	**(17,796)**	15,060	(15,060)

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, loans and bonds. There were no significant changes to the company's exposure to credit risk (except as set out in the discussion which follows) or the framework used to monitor, evaluate and manage credit risk at March 31, 2018 compared to December 31, 2017.

Cash and Cash Equivalents and Short Term Investments

At March 31, 2018 the company's cash and cash equivalents of $126,467 (December 31, 2017 - $13,012) were primarily held in major financial institutions (principally in high credit quality Canadian financial institutions). At March 31, 2018 restricted cash of $151,034 (December 31, 2017 - $313,000) was held by Canadian financial institutions to support the Term Loan and LC Facility described in note 7.

At March 31, 2018 the company's short term investments in U.S. treasury bills of $61,758 (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").

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.

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 March 31, 2018 the company's debt instruments were all considered to be subject to credit risk with a fair value of $47,133 (December 31, 2017 - $43,647) representing 8.3% (December 31, 2017 - 12.4%) of the total cash and investment portfolio excluding restricted cash of $151,034 at March 31, 2018 (December 31, 2017 - $313,000).

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

	March 31, 2018	December 31, 2017
Loans - AFGRI Facility[(1)]	—	24,233
Philafrica Facility[(1)]	**27,851**	—
Bonds - Nova Pioneer[(1)]	**19,282**	19,414
Total loans and bonds	**47,133**	43,647

(1) The AFGRI Facility, Philafrica Facility and the Nova Pioneer Bonds are not rated.

The company's exposure to credit risk from its investment in fixed income securities increased at March 31, 2018 compared to December 31, 2017 reflecting the investment in the Philafrica Facility, partially offset by the AFGRI Facility maturing with the company receiving full cash settlement.

At March 31, 2018, S&P advised the outlook on both the foreign and local currency credit ratings to be stable at BB and BB+ respectively. Moody's foreign and local currency credit ratings remained unchanged at Baa3, with an upgrade in the outlook from negative to stable. In upgrading its outlook, Moody's stated that the previous weakening of national institutions was gradually reversing under a more transparent and predictable policy framework, which was supporting the economic recovery. Fitch's credit rating for South Africa remains unchanged at BB+ with a stable outlook. The foreign currency credit rating of 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.

Liquidity Risk

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

The company believes that cash and cash equivalents at March 31, 2018 provides adequate liquidity to meet the company's remaining known significant commitments in 2018, which are principally comprised of the 2020 Atlas Mara Convertible Bond, investment and advisory fees, general and administration expenses and corporate income taxes. The Term Loan matures in August 2018 and the company will use the cash collateral classified as restricted cash to repay the principal amount of the loan. 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 composition by the issuer's region of domicile was as follows:

	March 31, 2018			December 31, 2017		
	Africa	**North America**	**Total**	Africa	North America	Total
Cash and cash equivalents	**982**	**125,485**	**126,467**	657	12,355	13,012
Restricted cash	**—**	**151,034**	**151,034**	—	313,000	313,000
Short term investments	**—**	**61,758**	**61,758**	—	32,968	32,968
Loans:						
Philafrica Facility	**27,851**	**—**	**27,851**	—	—	—
AFGRI Facility	**—**	**—**	**—**	24,233	—	24,233
	27,851	**—**	**27,851**	24,233	—	24,233
Bonds:						
Nova Pioneer Investment	**19,855**	**—**	**19,855**	19,934	—	19,934
Common stocks:						
Atlas Mara(1)	**200,765**	**—**	**200,765**	168,671	—	168,671
Other(2)	**4,378**	**—**	**4,378**	4,932	—	4,932
Indirect equity interest in AFGRI(3)	**125,809**	**—**	**125,809**	88,314	—	88,314
	330,952	**—**	**330,952**	261,917	—	261,917
Total cash and investments	**379,640**	**338,277**	**717,917**	306,741	358,323	665,064

(1) Atlas Mara is listed on the London Stock Exchange with its business primarily conducted through its investments in Africa.

(2) Comprises common shares of various companies listed on the Johannesburg Stock Exchange.

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

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

	March 31, 2018	December 31, 2017
Financial services	**200,765**	168,671
Food and Agriculture	**153,660**	112,547
Education	**19,855**	19,934
Other	**4,378**	4,932
	378,658	306,084

During the first quarter of 2018 the company's concentration risk in the financial services and food and agriculture sectors increased primarily due to the unrealized appreciation in Atlas Mara and an unrealized gain from the increase in estimate of the fair value of the company's indirect equity interest in AFGRI (through its ownership of Joseph Holdings).

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 Concentration Restriction increased at March 31, 2018 from December 31, 2017 principally as a result of net change in unrealized gains on investments.

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 March 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 in order to provide returns for common shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital, comprised of the Term Loan and common shareholders' equity, increased from $666,736 at December 31, 2017 to $707,609 at March 31, 2018. The increase in total capital primarily reflected the impact of net earnings of $40,850 in first quarter of 2018.

On January 31, 2018 the maturity date of the $150,000 Term Loan was extended to August 31, 2018.

On January 12, 2018 cash collateral of $162,000 relating to the terminated LC Facility was released from restricted cash. See note 7 for details.

12. Related Party Transactions

Payable to Related Parties

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

	March 31, 2018	December 31, 2017
Performance fee	**9,368**	319
Investment and advisory fees	**1,559**	1,395
Other	**189**	(232)
	11,116	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% 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". The company determined that a performance fee payable of $9,368 should be accrued at March 31, 2018 as the book value per share of $11.20 (before factoring in the impact of the performance fee) at March 31, 2018 was greater than the hurdle per share at that date of $10.29 with an incremental $9,049 (2017 - nil) accrued in the first quarter of 2018 in the consolidated statements of earnings and comprehensive income.

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 price 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. At March 31, 2018 there were 696,846 contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax.

Investment and Advisory Fee

The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. In the first quarter of 2018 the company determined a significant portion of its assets were either invested in permitted investments or cash collateral related to the Term Loan. In the first quarter of 2018 the investment and advisory fees recorded in the consolidated statements of earnings and comprehensive income was $1,559 (2017 - $380).

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.

Other

Other payable of $189 at March 31, 2018 (December 31, 2017 - receivable of $232) was primarily comprised of amounts due to related party for expenses incurred by Fairfax and the Portfolio Advisor on behalf of the company.

13. General and Administration Expenses

General and administration expenses for the three months ended March 31 were comprised as follows:

	First quarter	
	2018	2017
Brokerage fees	**13**	—
Audit, legal and tax professional fees	**342**	152
Salaries and employee benefit expenses	**327**	33
Administrative expenses	**381**	29
	1,063	214

14. Supplementary Cash Flow Information

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

	March 31, 2018	December 31, 2017
Cash and balances with banks	**16,515**	13,012
U.S. treasury bills	**109,952**	—
	126,467	13,012

Details of certain cash flows included in the consolidated statements of cash flows for the three months ended March 31 were as follows:

	First quarter	
	2018	2017
(a) Purchases of investments classified as FVTPL		
Loans	**(27,934)**	—
Bonds	—	(21,742)
Common stocks	**(18,570)**	—
	(46,504)	(21,742)
(b) Sales of investments classified as FVTPL		
Loans	**25,399**	—
	25,399	—
(c) Net interest		
Interest received	**3,861**	—
Interest paid on term loan	**(1,055)**	—
	2,806	—

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

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

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the notes to the interim consolidated financial statements for the three months ended March 31, 2018 and the company's audited financial statements and accompanying notes for the year ended December 31, 2017.

(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 period, determined in accordance with IFRS, divided by the total number of common shares of the company outstanding on that date. Book value per share is a key performance measure of the company and is closely monitored as it is used to calculate the performance fee payable, if any, to Fairfax Financial Holdings Limited ("Fairfax").

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 trade on the Toronto Stock Exchange ("TSX") under the symbol FAH.U. The multiple voting shares of the company are not traded.

Capital Transactions

On January 31, 2018 the maturity date of the $150,000 Term Loan was extended to August 31, 2018.

On January 12, 2018 cash collateral of $162,000 relating to the terminated LC Facility was released from restricted cash. See note 7 (Borrowings) to the interim consolidated financial statements for the three months ended March 31, 2018.

African Investments

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

Operating Environment

Improved Political Stability and Governance

In February 2018 Cyril Ramaphosa was elected as the new president of South Africa by ruling party politicians after the resignation of Jacob Zuma. The country's 400-member parliament, dominated by the ruling African National Congress Party, elected Ramaphosa to finish Zuma's term, which ends with elections in 2019. The South African economy has been heading in a stronger direction riding a wave of positive sentiment following the election of Ramaphosa as president. The National Treasury is predicting that South Africa's economy could expand 1.5% this year, with growth likely to accelerate to 2.1% in 2020. The South African Rand strengthened substantially following Ramaphosa's election.

South African Foreign and Local Currency Credit Ratings

At March 31, 2018, S&P advised the outlook on both the foreign and local currency credit ratings to be stable at BB and BB+ respectively. Moody's foreign and local currency credit ratings remained unchanged at Baa3, with an upgrade in the outlook from negative to stable. In upgrading its outlook, Moody's stated that the previous weakening of national institutions was gradually reversing under a more transparent and predictable policy framework, which was supporting the economic recovery. Fitch's credit rating for South Africa remains unchanged at BB+ with a stable outlook. The foreign currency credit rating of 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.

Business Objectives

Investment Objective

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 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'') and a Mauritius based subsidiary Fairfax Africa Holdings Investments Limited (''Mauritius Sub'').

Investment Strategy

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

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

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

Investment Restrictions

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

The company's Investment Concentration Restriction increased at March 31, 2018 from December 31, 2017 principally as a result of net change in unrealized gains on investments. African Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders.

The company intends to make multiple different investments as part of its prudent investment strategy in a manner that complies with Investment Concentration Restriction.

At March 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.* AFGRI Holdings Proprietary Limited ("AFGRI") prepares its financial statements in accordance with IFRS as issued by IASB and are presented in U.S.dollars. Atlas Mara Limited, a listed entity on London Stock Exchange, prepares in accordance with IFRS as adopted by the European Union and are presented in U.S. dollars. Fairfax Africa is limited in respect to the amount of independent verification it is able to perform with respect to the financial statements of AFGRI and Atlas Mara. Such financial information is the responsibility of the respective managements.

The unaudited summarized financial information for AFGRI and Atlas Mara included in this MD&A are the latest information available to Fairfax Africa's management and should be read in conjunction with Fairfax Africa's historical interim and annual consolidated financial statements including the notes thereto and the related MD&A as well as Fairfax Africa's other public filings, including the company IPO prospectus filed on February 8, 2017. Fairfax Africa has no knowledge that would indicate that the unaudited summarized financial information of AFGRI and Atlas Mara contained herein requires material modifications. However, readers are cautioned that the AFGRI and Atlas Mara unaudited 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 Public and Private African Investments as at March 31, 2018:

	March 31, 2018					December 31, 2017			
	Date Acquired	Ownership %	Cost	Fair value	Net change	Ownership %	Cost	Fair value	Net change
Public African Investments:									
Atlas Mara[(1)]	August and December 2017	43.3%	159,335	200,765	41,430	43.3%	159,335	168,671	9,336
Other[(2)]	Various	<5%	4,497	4,378	(119)	<5%	4,428	4,932	504
			163,832	205,143	41,311		163,763	173,603	9,840
Private African Investments:									
Indirect Investment in AFGRI[(3)]	February 2017 and January 2018	43.8%	93,469	125,809	32,340	42.2%	74,968	88,314	13,346
AFGRI Facility	June 2017	—	—	—	—	—	23,255	24,233	978
Philafrica Facility	February 2018	—	27,934	27,851	(83)	—	—	—	—
Nova Pioneer Investment[(4)]	August 2017	—	20,763	19,855	(908)	—	20,000	19,934	(66)
			142,166	173,515	31,349		118,223	132,481	14,258
Total African Investments			305,998	378,658	72,660		281,986	306,084	24,098

(1) Transaction price excludes a non-cash net realized gain on Atlas Mara Convertible Bond of $5,098 and Atlas Mara Equity Offering of $6,055. See note 5 (African Investments) to the interim consolidated financial statements for the three months ended March 31, 2018 for details.

(2) Comprises common shares of various companies listed on the Johannesburg Stock Exchange.

(3) Transaction price excludes a non-cash net realized gain on the indirect investment in AFGRI of $1,803. See note 5 (African Investments) to the interim consolidated financial statements for the three months ended March 31, 2018 for details.

(4) Transaction price includes $763 of capitalized interest on the principal of the Nova Pioneer Bond.

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 for the three months ended March 31, 2018 and 2017 were as follows:

	Public African Investments		Private African Investments				
	Common stock		Common stock	Loans		Bonds	
	Atlas Mara[(1)]	Other[(2)]	Indirect equity interest in AFGRI [(3)]	AFGRI Facility[(4)]	Philafrica Facility	Nova Pioneer Investment[(5)]	Total African Investments
Balance as of January 1, 2018	**168,671**	**4,932**	**88,314**	**24,233**	**—**	**19,934**	**306,084**
Purchases	**—**	**69**	**20,304**	**—**	**27,934**	**763**	**49,070**
Repayments	**—**	**—**	**—**	**(25,399)**	**—**	**—**	**(25,399)**
Net change in unrealized gains (losses) on investments	**32,094**	**(852)**	**11,835**	**—**	**—**	**(842)**	**42,235**
Net unrealized foreign exchange gains (losses)	**—**	**229**	**5,356**	**1,166**	**(83)**	**—**	**6,668**
Balance as of March 31, 2018	**200,765**	**4,378**	**125,809**	**—**	**27,851**	**19,855**	**378,658**
Balance as of January 1, 2017	—	—	—	—	—	—	—
Purchases	—	—	74,968	—	—	—	74,968
Net unrealized foreign exchange gains	—	—	2,560	—	—	—	2,560
Balance as of March 31, 2017	—	—	77,528	—	—	—	77,528

(1) Opening balance as of January 1, 2018 include a non-cash net realized gain on Atlas Mara Convertible Bond of $5,098 and Atlas Mara Equity Offering of $6,055.

(2) Comprised of common shares of various companies listed on the Johannesburg Stock Exchange.

(3) Acquired through the company's ownership in Joseph Holdings. On January 31, 2018, the company increased its indirect equity interest in AFGRI from 42.2% to 43.8%. Purchases comprised of $18,501 capital contribution to Joseph Holdings and $1,803 realized gain on AFGRI Rights Offer. See note 5 (African Investments) to the interim consolidated financial statements for the three months ended March 31, 2018.

(4) AFGRI Facility matured on January 31, 2018 and was repaid in cash.

(5) During the first quarter of 2018, $763 relating to interest accrued on the Nova Pioneer Bonds was capitalized to the principal amount owing. For the three months ended March 31, 2018, comprised of an unrealized loss of $894 on the Nova Pioneer Bonds, partially offset by a change in unrealized gain of $52 on the Nova Pioneer Warrants. See note 6 (Cash and Investments) to the interim consolidated financial statements for the three months ended March 31, 2018.

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.

Atlas Mara Limited

Business Overview

Atlas Mara Limited ("Atlas Mara") is a Sub-Saharan African financial services group founded in 2013. Atlas Mara's vision is to establish itself as a premier financial institution across key markets in Sub-Saharan Africa. Since its inception, Atlas Mara has acquired control or a significant stake in banking operations across seven key Sub-Saharan African countries: Botswana, Mozambique, Nigeria, Rwanda, Tanzania, Zambia and Zimbabwe. Atlas Mara focuses on execution across three business lines: Retail and Commercial Banking, Markets and Treasury and Fintech.

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

Transaction Description

On July 17, 2017 the company invested $100,000 in Atlas Mara through the purchase of a mandatory convertible bond (the "Atlas Mara 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 Atlas Mara Convertible Bond (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.

On December 22, 2017 the company acquired an additional 1,200,000 ordinary shares of Atlas Mara for cash consideration of $2,436.

At March 31, 2018 the company held 71,958,670 ordinary shares of Atlas Mara representing a 43.3% equity interest.

Subsequent to March 31, 2018

On April 24, 2018 Fairfax Africa agreed to invest $16,000 in Atlas Mara through the purchase of secured convertible bonds maturing in 2020 (the "2020 Atlas Mara Convertible Bond"), as an anchor investment in connection with a targeted $37,500 debt fundraising by Atlas Mara (the "Debt Fundraising"). The proceeds of the Debt Fundraising will be used by Atlas Mara for general corporate purposes, including providing ongoing liquidity support for Atlas Mara's operations.

The 2020 Atlas Mara Convertible Bond is secured with a portion of Atlas Mara's equity interest in Union Bank of Nigeria Plc ("UBN"). Subject to Atlas Mara shareholder approval, which will be sought at Atlas Mara's next annual meeting, the 2020 Atlas Mara Convertible Bond will be convertible, at Fairfax Africa's option, into Atlas Mara shares at the lower of $2.475 per share and a 10% discount to the 30-day volume weighted average price prior to the maturity date. The 2020 Atlas Mara Convertible Bond bears interest at a rate of 7.5% per annum, payable semi-annually in cash. In the event shareholder approval for the conversion feature is not obtained, the interest rate will be increased retroactively to 9.0%. In connection with the investment, Fairfax Africa will earn a structuring fee equal to 3.0% equal to the aggregate proceeds of the Debt Fundraising (approximately $1,100) for its role in in anchoring and structuring the Debt Fundraising.

Closing of the 2020 Atlas Mara Convertible Bond is subject to the finalization of security documentation relating to the UBN shares.

Key Business Drivers, Events, and Risks

In April 2018 Atlas Mara announced the appointment of John Staley as Chief Executive Officer effective May 1, 2018. Atlas Mara also announced effective April 24, 2018, the appointment of Simon Lee to the Board of Directors, replacing Quinn McLean.

Valuation and Interim Consolidated Financial Statement Impact

At March 31, 2018 the fair value of the company's investment in Atlas Mara was $200,765 comprised of 71,958,670 ordinary shares representing a 43.3% equity interest (fair value of $168,671 at December 31, 2017). The changes in fair value of the company's investment in Atlas Mara for the three months ended March 31, 2018 were due to the increase in Atlas Mara's share price from $2.34 per share at December 31, 2017 to $2.79 per share at March 29, 2018 (last trading day of the month).

The changes in fair value of the company's investment in Atlas Mara for the three months ended March 31, 2018 and 2017 are presented in the table disclosed earlier in the African Investments section of this MD&A.

Atlas Mara's Summarized Financial Information

Atlas Mara and the company's fiscal years both end on December 31. However, Atlas Mara has not yet released its March 31, 2018 interim consolidated financial statements. Summarized below are Atlas Mara's balance sheets at December 31, 2017 and 2016.

Balance Sheets
(unaudited - US$ thousands)

	December 31, 2017	December 31, 2016
Current assets	**2,436,336**	2,168,075
Non-current assets	**704,051**	587,917
Current liabilities	**1,962,694**	1,884,275
Non-current liabilities	**364,470**	345,662
Shareholders' equity	**813,223**	526,055

Current assets increased primarily due to an increase in cash as a result of the completion of the Atlas Mara Equity Offering, investment securities, prepayments and other receivables, partially offset by a decline in financial assets held for trading and loans and advances arising from slower growth in the face of challenging macro conditions.

Non-current assets increased primarily due to a higher investment in associate balance due to share of profits recorded from Atlas Mara's equity accounted investment in UBN and related goodwill.

Current liabilities increased primarily due to higher deposits, partially offset by lower accruals and payables.

Non-current liabilities increased primarily due to an increase in borrowed funds.

Shareholders' equity increased primarily due to foreign exchange translation gains, share issuances including a private placement in February 2017, the Atlas Mara Equity Offering and net earnings during the period.

Summarized below are Atlas Mara's statements of earnings for the fiscal years ended December 31, 2017 and 2016.

Statements of Earnings
(unaudited - US$ thousands)

	Twelve months ended December 31, 2017	Twelve months ended December 31, 2016
Revenue	**260,500**	241,700
Earnings before taxes	**53,056**	9,367
Net earnings	**45,432**	8,402

Revenues increased primarily due to higher net interest income from FBZ and higher non-interest income from Zimbabwe, partially offset by lower non-interest income from Botswana and Mozambique, which experienced a decline in trading revenue. Net earnings increased primarily due to a $20.6 million one-time gain on the purchase of additional shares of UBN (due to the fair value of shares acquired exceeding the purchase consideration paid) and $27.0 million in cost savings arising from a reduction in cost of funds, operating, transaction, restructuring and reorganization expenses.

Other

During the first quarter of 2018 and the fourth quarter of 2017 the company acquired common shares of various public companies listed on the Johannesburg Stock Exchange ("Other Public African Investments") for aggregate cash consideration of $69 and $4,428 respectively. At March 31, 2018 the fair value of the company's investment in Other Public African Investments was $4,378 (December 31, 2017 -$4,932) and comprised less than a 5% equity interest for each investment. The changes in fair value of the company's investment in Other Public African Investments for the first quarter of 2018 and 2017 are presented in the table disclosed earlier in the African Investments section of this MD&A.

Private African Investments

Cautionary Statement Regarding the Valuation of Private African Investments

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

AFGRI Holdings Proprietary Limited

Business Overview

AFGRI Group Proprietary Limited ("AFGRI") is a leading agricultural services and food processing company with a core focus on grain commodities. It provides services across the entire grain production and storage cycle, offering financial support and solutions as well as inputs and high-tech equipment through the John Deere brand supported by a large retail footprint and is one of the largest John Deere distributors outside of the United States, with a presence in several markets in Africa and Western Australia.

AFGRI's long-term growth strategy is based on a vision to drive food security across Africa. AFGRI currently has operational activities aimed at supporting agriculture in Zambia, Zimbabwe, Mozambique, Ghana, Congo-Brazzaville, Botswana and Uganda with plans to expand into additional African countries. AFGRI also has a John Deere operation in Australia, an animal feeds research and development venture in the United Kingdom and an investment in animal feeds in the United States of America. AFGRI's current strategic initiatives also includes 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. AFGRI focuses on execution across four principal lines of business: AFGRI Agricultural Services, Philafrica Foods, AFGRI Investment Services and AFGRI International.

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

Transaction Description

Indirect Equity Interest in AFGRI

On February 17, 2017, in conjunction with its IPO, Fairfax Africa purchased from AgriGroupe LP the beneficial equity interests held by Fairfax in Joseph Holdings, comprised of 156,055,775 ordinary shares and 49,942,549 class A shares for $25,001 and $49,967 respectively in exchange for 7,284,606 multiple voting shares at $10.00 per multiple voting share. The company also purchased additional equity interests in Joseph Holdings from certain limited partners of AgriGroupe LP in exchange for 212,189 subordinate voting shares at $9.50 per subordinate voting share (being $10.00 less a private placement fee of $0.50 per subordinate voting share). Subsequent to these transactions, the company owned 70.3% equity interest and 73.3% of the class A shares of Joseph Holdings and became the largest beneficial shareholder of AFGRI with a 42.2% indirect equity interest.

On January 31, 2018, AFGRI 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 "AFGRI Rights Offer"). Joseph Holdings maintained its 60.0% equity interest in AFGRI 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 AFGRI, 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 an additional 79,743,201 ordinary shares of Joseph Holdings for cash consideration of $18,501. Following the completion of the AFGRI Rights Offering, Fairfax Africa held 235,798,976 ordinary shares of Joseph Holdings representing a 72.9% equity interest and 49,942,549 class A shares representing a 73.3% equity interest. On a combined basis, Fairfax Africa held a 43.8% indirect equity interest in AFGRI through its ownership in Joseph Holdings.

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

AFGRI Facility

On June 21, 2017 Fairfax Africa entered into a secured lending arrangement with AFGRI, pursuant to which Fairfax Africa provided $23,255 (300 million South African rand) of financing (the "AFGRI Facility"). The AFGRI Facility bears interest at a rate of South African Prime plus 2.0% per annum. Fairfax Africa is entitled to receive a fee equal to 2.0% of the AFGRI Facility loan proceeds payable at maturity or upon repayment of the AFGRI Facility. The company earns interest on the fee at the same rate as the AFGRI Facility.

The AFGRI Facility was initially scheduled to mature on December 23, 2017 with an option for AFGRI to repay the AFGRI Facility in shares, subject to certain conditions on maturity. On December 19, 2017, the AFGRI Facility maturity date was extended from December 23, 2017 to January 31, 2018. During the extension period, the AFGRI facility interest rate was increased to South African Prime plus 6.0% per annum.

Philafrica Facility

On February 28, 2018 Fairfax Africa entered into a secured lending arrangement with Philafrica Foods Proprietary Ltd. ("Philafrica"), a subsidiary of AFGRI, pursuant to which the company provided Philafrica with $27,934 (330 million South African rand) of financing (the "Philafrica Facility"). The Philafrica Facility was provided on an interim basis in advance of an expected future equity capital raise by Philafrica, in the form of a rights offering to AFGRI shareholders. The proceeds from the Philafrica Facility will be used by Philafrica to fund strategic acquisitions and for general corporate purposes.

The Philafrica Facility is guaranteed by AFGRI Operations Proprietary Limited, a wholly-owned subsidiary of AFGRI, and matures on October 4, 2018. Subject to AFGRI shareholder approval, the Philafrica Facility may be repaid through the issuance of Philafrica shares to Fairfax Africa. 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. Upon maturity, in the event AFGRI shareholder approval is not obtained to repay the credit facility in shares, the interest rate will be increased retroactively to South African Prime plus 4.0% per annum. Fairfax Africa earned a fee equal to 2.0% of the loan proceeds which is payable at maturity or upon repayment of the Philafrica Facility. The company earns interest on the fee at the same rate as the credit facility.

Key Business Drivers, Events, and Risks

Despite a brief recession and bleak predictions for 2017, the South African economy pulled out some surprises and posted a higher than expected GDP growth rate for the year, Stats SA reported on in March 2018. The economy grew by 1.3% in 2017, exceeding National Treasury's expectation of 1.0% growth announced during the National Budget Speech in February of last year. After a wobbly start to 2017, which saw economic activity contract in the first quarter, the economy saw sustained growth for the remainder of the year. The fourth quarter experienced the highest growth rate of 2017, with the economy expanding by 3.1% quarter-on-quarter. The strengthening in economic activity over 2017 was partly driven by an agriculture industry bouncing back from one of the worst droughts in recent history. A bumper maize crop and recovery in other agricultural commodities saw agriculture production rise by 17.7% in 2017 compared with 2016.

The South African economy has been heading in a stronger direction riding a wave of positive sentiment following the election of Ramaphosa as president. The National Treasury is predicting that South Africa's economy could expand 1.5% this year, with growth likely to accelerate to 2.1% in 2020.

The South African Rand strengthened substantially following Ramaphosa's election and ahead of the anticipated announcement upgrade in ratings outlook by Moody's, and seems to have found a new level of c. 12 South African rand:USD (vs. c. 14 through much of 2017).

In March of 2018, AFGRI's previously announced acquisition of National Bank of Greece Group's ("NBG's") 99.8% stake in the South African Bank of Athens ("SABA") was approved by the Ministry of Finance. AFGRI had previously received approval for the acquisition in 2017 by the competition authorities and the South African Reserve Bank. The SABA acquisition is expected to close during the second half of 2018 pending follow up queries by the Competition Committee. The acquisition of SABA will provide AFGRI with a retail and alliance banking platform for current and prospective customers and allow it to continue its focus on innovation and enabling food security.

Valuation and Interim Consolidated Financial Statement Impact

Indirect Equity Interest in AFGRI

At March 31, 2018 the company's estimated fair value of its indirect equity interest in AFGRI was based on an internal valuation model which consisted of a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.7% to 25.3% and a long term growth rate of 3.0% (December 31, 2017 - 11.6% to 25.1% and 3% respectively). Free cash flow projections were based on EBITDA derived from financial information for AFGRI's business units prepared in the first quarter of 2018 by AFGRI's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which AFGRI operates.

At March 31, 2018 the company's internal valuation model indicated that the fair value of its 43.8% indirect equity interest in AFGRI, acquired through the company's ownership in Joseph Holdings, was $125,809 (December 31, 2017 - $88,314, representing a 42.2% interest). Given that the class A shares of Joseph Holdings are redeemable at a fixed price of $49,944, the $75,865 residual amount (2017 - $38,347) was allocated to the ordinary shares of Joseph Holdings. The change in the fair value of the company's indirect equity interest in AFGRI was primarily related to the rights issue investment made on January 31, 2018, unrealized gains of $11,835 due to a higher value for the silo business, partly offset by decreases in value of the retail, Zambia, non-South African grain management and Nedan operations in addition to foreign exchange gains of $5,356.

The changes in fair value of the company's indirect equity interest in AFGRI for the first quarter of 2018 and 2017 are presented in the table disclosed earlier in the African Investments section of this MD&A.

AFGRI Facility

On December 31, 2017 the estimated fair value of the company's investment in the AFGRI Facility was $24,233 which, due to the short term to maturity, approximated its amortized cost. The AFGRI Facility, including accrued interest, in the amount of $25,399, was fully repaid on January 31, 2018 and a realized foreign exchange gain of $1,166 was recorded in the consolidated statements of earnings and comprehensive income in the first quarter of 2018. The changes in the AFGRI Facility for the first quarter of 2018 are presented in the table disclosed earlier in the African Investments section of this MD&A.

In the first quarter of 2018 the company recorded interest income of $383 in the consolidated statements of earnings and comprehensive income related to the AFGRI Facility.

Philafrica Facility

At March 31, 2018, the estimated fair value of its investment in the Philafrica Facility was $27,851 which, due to the short term to maturity, approximated its amortized cost. The changes in fair value of the Philafrica Facility for the first quarter of 2018 are presented in the table disclosed earlier in the African Investments section of this MD&A.

In the first quarter of 2018 the company recorded interest income of $279 in the consolidated statements of earnings and comprehensive income related to the Philafrica Facility.

AFGRI's Summarized Financial Information

The company's fiscal year ends on December 31 and AFGRI's fiscal year ends on March 31. Summarized below are AFGRI's balance sheets at December 31, 2017 (its latest financial statement date) and its most recent fiscal year end March 31, 2017.

Balance Sheets
(unaudited - US$ thousands)

	December 31, 2017	March 31, 2017
Current assets	**489,932**	400,236
Non-current assets	**391,860**	334,342
Current liabilities	**436,976**	339,121
Non-current liabilities	**281,717**	253,071
Shareholders' equity	**163,099**	142,386

The increase in current assets primarily reflected an increase in inventories due to i) the drought conditions in the Western Cape province of South Africa, which impacted volumes within the equipment business, and ii) the recently acquired equipment business Ratten & Slater in Australia, trade and other receivables, cash and cash equivalents, partially offset by a reduction in derivative financial instruments. The increase in non-current assets primarily related to capital expenditures, financial receivables, goodwill (relating to the acquisition of Ratten & Slater), investment and joint ventures and deferred tax assets, partially offset by a decrease in other intangible assets and loans to joint ventures. The increase in current liabilities primarily related to increases in trade and other payables, the short-term portion of long-term borrowings, commodity finance and borrowings from banks to finance trade receivables, partially offset by a reduction in derivative financial instruments. Non-current liabilities primarily comprised long-term loans and borrowings.

Summarized below are AFGRI's statements of earnings for the nine months ended December 31, 2017 and 2016.

Statements of Earnings
(unaudited - US$ thousands)

	Nine months ended December 31, 2017	Nine months ended December 31, 2016
Revenue	**696,835**	588,396
Earnings before taxes	**14,048**	(1,471)
Net earnings	**5,220**	(3,244)

AFGRI's revenue and earnings were impacted better by rainfall substantially above historical averages and the acquisition of Ratten & Slater, partially offset by the depreciation of the South African Rand and high volatility of agricultural commodity prices.

Nova Pioneer Education Group

Business Overview

Nova Pioneer Education Group ("Nova Pioneer") is an African independent school network offering preschool through secondary education for students from ages 3 through 19. Nova Pioneer was started in 2014, and launched its first campus in 2015 in South Africa, and in 2017 operated 6 schools across 5 campuses with a combined approximately 2,200 students: approximately 950 in Kenya across 2 schools and approximately 1,250 in South Africa across 4 schools. Average tuition per student is approximately $3,250 per year (2017 - $3,000) and is priced to target emerging middle to upper-middle income families.

Transaction Description

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 Investment (discussed below).

On June 30, 2017 Fairfax Africa announced an investment in Nova Pioneer which consisted of $20,000 of secured debentures maturing on December 31, 2024 (the "Nova Pioneer Bonds") and 2,000,000 warrants (the "Nova Pioneer Warrants"), collectively the "Nova Pioneer Investment"), to be issued in tranches. At December 31, 2017, Ascendant had issued the full $20,000 of the "Nova Pioneer Bonds" and 2,000,000 Nova Pioneer Warrants.

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 to acquire one 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.

Key Business Drivers, Events, and Risks

Nova Pioneer's projected enrollment for 2018 represents a 74% increase over 2017 and the company will have its first high school graduates in 2019.

Valuation and Interim Consolidated Financial Statement Impact

At March 31, 2018 the company estimated the fair value of its investment in the Nova Pioneer Investment (comprised of the Nova Pioneer Bonds and Nova Pioneer Warrants) using an industry accepted discounted cash flow and option pricing model that incorporated Nova Pioneer's estimated credit spread of 19.7% (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 March 31, 2018 the company's internal valuation model indicated that the fair value of the Nova Pioneer Investment was $19,855 (December 31, 2017 - $19,934), comprised of Nova Pioneer Bonds of $19,282 (December 31, 2017 - $19,414) and Nova Pioneer Warrants of $573 (December 31, 2017 - $520).

The changes in fair value of the Nova Pioneer Investment for the first quarter of 2018 are presented in the table disclosed earlier in the African Investments section of this MD&A.

In the first quarter of 2018, the company recorded interest income of $1,024 in the consolidated statements of earnings and comprehensive income related to the Nova Pioneer Bonds.

Results of Operations

Fairfax Africa's consolidated statements of earnings and comprehensive income for the three months ended March 31, 2018 and 2017 are shown in the following table:

	First quarter	
Income	**2018**	2017
Interest	**3,148**	227
Net realized gains on investments	**1,802**	—
Net change in unrealized gains (losses) on investments	**42,235**	(334)
Net foreign exchange gains	**6,731**	2,608
	53,916	2,501
Expenses		
Investment and advisory fees	**1,559**	380
Performance fee	**9,049**	—
General and administration expenses	**1,063**	214
Interest expense	**1,064**	—
	12,735	594
Earnings before income taxes	**41,181**	1,907
Provision for income taxes	**331**	1,357
Net earnings and comprehensive income	**40,850**	550
Net earnings per share	**$0.81**	$0.02
Net earnings per diluted share	**$0.80**	$0.02

Total income of $53,916 in the first quarter of 2018 increased from $2,501 in the first quarter of 2017 primarily as a result of increased net change in unrealized gains on investments and, to a lesser extent, increased net foreign exchange gains.

The net change in unrealized gains on investments of $42,235 in the first quarter of 2018 primarily related to increases in the fair values of the company's investment in Atlas Mara of $32,094 and its indirect equity interest in AFGRI (through Joseph Holdings) of $11,835. The net change in unrealized losses on investments of $334 in the first quarter of 2017 primarily related to a net change unrealized loss on Government of South Africa bonds.

The net foreign exchange gains of $6,731 in the first quarter of 2018 primarily related to foreign exchange rate changes in the company's indirect equity interest in AFGRI and the AFGRI Facility. Net foreign exchange gains of $2,608 in the first quarter of 2017 primarily related to foreign exchange rate changes in the company's indirect equity interest in AFGRI.

Net realized gains on investments of $1,802 in the first quarter of 2018 related to the recognition of a forward derivative as a result of the company's participation in the AFGRI rights offering through its investment in Joseph Holdings (see AFGRI Holdings Proprietary Limited within African Investments section of this MD&A for further details).

Net gains (losses) on investments and net foreign exchange gains (losses) in the first quarter of 2018 were comprised as follows:

	First quarter					
	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 - US treasury bills	**(1)**	**—**	**(1)**	—	—	—
Bonds:						
Government of South Africa	**—**	**—**	**—**	—	(334)	(334)
Nova Pioneer Investment[1]	**—**	**(842)**	**(842)**	—	—	—
Common stocks:						
Atlas Mara	**—**	**32,094**	**32,094**	—	—	—
Other[2]	**—**	**(852)**	**(852)**	—	—	—
Indirect equity interest in AFGRI[3]	**1,803**	**11,835**	**13,638**	—	—	—
	1,802	**42,235**	**44,037**	—	(334)	(334)
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**—**	**70**	**70**	—	(1)	(1)
Loans:						
AFGRI Facility	**1,166**	**—**	**1,166**	—	—	—
Philafrica Facility	**—**	**(83)**	**(83)**	—	—	—
Common stocks:						
Indirect equity interest in AFGRI	**—**	**5,356**	**5,356**	—	2,590	2,590
Other	**—**	**222**	**222**	—	19	19
	1,166	**5,565**	**6,731**	—	2,608	2,608

(1) Comprised of an unrealized loss of $894 from the Nova Pioneer Bonds, partially offset by an unrealized gain of $52 from the Nova Pioneer Warrants.

(2) Unrealized loss of $852 related to common shares of various companies listed on the Johannesburg Stock Exchange.

(3) Realized gain of $1,803 related to exercise of rights to purchase AFGRI ordinary shares. See note 5 (African Investments) to the interim consolidated financial statements for the three months ended March 31, 2018.

Total expenses of $12,735 in the first quarter of 2018 increased from $594 in the first quarter of 2017 primarily due to performance fees and investment and advisory fees (which reflected the increase in fair values of the company's investments in the first quarter of 2018), interest expense and general and administration expenses.

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% 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". For the three months ended March 31, 2018 the company recorded performance fees in the consolidated statement of earnings of $9,049 (2017 - nil).

The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. In the first quarter of 2018 the company recorded investment and advisory fees in the consolidated statement of earnings of $1,559 (2017 - $380).

Interest expense of $1,064 for the first quarter of 2018 related to the company's term loan. General and administration expenses of $1,063 and $214 for the first quarter of 2018 and 2017 primarily related to wages and salaries (excluding the Chief Executive Officer and Chief Financial Officer who are paid by Fairfax), directors' fees, legal and professional fees.

The provision for income taxes of $331 and $1,357 for the first quarter of 2018 and 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 income earned outside the local jurisdiction, foreign exchange fluctuations and the unrecorded benefit of Canadian deferred tax assets.

The company reported net earnings of $40,850 (net earnings of $0.81 per basic share) in the first quarter of 2018 compared to net earnings of $550 in the first quarter of 2017 (net earnings of $0.02 per basic share). The increase in profitability in the first quarter of 2018 primarily reflected net unrealized gains on investments and net foreign exchange gains on the company's common stock.

Consolidated Balance Sheet Summary

Total Assets

Total assets at March 31, 2018 of $720,128 (December 31, 2017 - $669,111) were principally comprised of total cash and investments as follows:

Total cash and investments increased to $717,917 at March 31, 2018 from $665,064 at December 31, 2017. The company's cash and investments composition by the issuer's country of domicile was as follows:

	March 31, 2018			December 31, 2017		
	Africa	**North America**	**Total**	Africa	North America	Total
Cash and cash equivalents	**982**	**125,485**	**126,467**	657	12,355	13,012
Restricted cash	**—**	**151,034**	**151,034**	—	313,000	313,000
Short term investments	**—**	**61,758**	**61,758**	—	32,968	32,968
Loans:						
Philafrica Facility	**27,851**	**—**	**27,851**	—	—	—
AFGRI Facility	**—**	**—**	**—**	24,233	—	24,233
	27,851	**—**	**27,851**	24,233	—	24,233
Bonds:						
Nova Pioneer Investment	**19,855**	**—**	**19,855**	19,934	—	19,934
Common stocks:						
Atlas Mara[(1)]	**200,765**	**—**	**200,765**	168,671	—	168,671
Other[(2)]	**4,378**	**—**	**4,378**	4,932	—	4,932
Indirect equity interest in AFGRI[(3)]	**125,809**	**—**	**125,809**	88,314	—	88,314
	330,952	**—**	**330,952**	261,917	—	261,917
Total cash and investments	**379,640**	**338,277**	**717,917**	306,741	358,323	665,064

(1) Atlas Mara is listed on the London Stock Exchange with its business primarily conducted through its investments in Africa.
(2) Comprises common shares of various companies listed on the Johannesburg Stock Exchange.
(3) Acquired through the company's ownership in Joseph Holdings.

Cash and cash equivalents increased to $126,467 at March 31, 2018 from $13,012 at December 31, 2017 primarily due to the release of $162,000 cash collateral from restricted cash which was partially offset by net purchases of short term investments and the company's participation in the AFGRI Rights Offering, through its ownership in Joseph Holdings. See note 5 (African Investments) to the interim consolidated financial statements for the three months ended March 31, 2018.

Restricted cash decreased to $151,034 at March 31, 2018 from $313,000 at December 31, 2017 due to the release of cash collateral, including accrued interest, related to the company's LC Facility in the first quarter of 2018. See note 7 (Borrowings) to the interim consolidated financial statements for the three months ended March 31, 2018.

Short term investments increased to $61,758 at March 31, 2018 from $32,968 at December 31, 2017 reflecting net purchases of U.S. Treasury bills with maturities greater than 3 months from the investment date.

Loans, Bonds and Common Stocks - The company is actively seeking investment opportunities in Africa and will continue to redirect capital from its cash and cash equivalents, loan and bond portfolio 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. For more information on the company's total cash and investment holdings of $717,917 at March 31, 2018 (December 31, 2017 - $665,064). See note 6 (Cash and Investments) to the interim consolidated financial statements for the three months ended March 31, 2018.

Interest receivable decreased to $1,537 at March 31, 2018 from $3,506 at December 31, 2017 primarily reflecting interest received on the maturity of the AFGRI Facility on January 31, 2018.

Total Liabilities

Total liabilities at March 31, 2018 of $162,519 (December 31, 2017 - $152,375) were principally comprised as follows:

Accounts payable and accrued liabilities increased to $990 at March 31, 2018 from $811 at December 31, 2017 primarily relating to increased accrued legal and professional fees.

Payable to related parties increased to $11,116 at March 31, 2018 from $1,482 at December 31, 2017 which principally reflected the increase in performance and investment advisory fees in the first quarter of 2018 (see note 12 - Related Party Transactions to the interim consolidated financial statements for the three months ended March 31, 2018).

Income taxes payable increased to $413 at March 31, 2018 from $82 at December 31, 2017 and reflected the company's provision for income taxes in the first quarter of 2018.

Term loan of $150,000 at March 31, 2018 and December 31, 2017 related to the Term Loan which matures on August 31, 2018. See note 7 (Borrowings) to the interim consolidated financial statements for the three months ended March 31, 2018.

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 March 31, 2018 compared to those identified at December 31, 2017 and disclosed in the company's 2017 Annual Report, other than as outlined in note 11 (Financial Risk Management) to the interim consolidated financial statements for the three months ended March 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 in order to provide returns for common shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital, comprised of the Term Loan and common shareholders' equity, increased from $666,736 at December 31, 2017 to $707,609 at March 31, 2018. The increase in total capital primarily reflected the impact of net earnings of $40,850 in the three months ended March 31, 2018.

On January 31, 2018 the maturity date of the $150,000 Term Loan was extended to August 31, 2018.

On January 12, 2018 cash collateral of $162,000 relating to the terminated LC Facility was released from restricted cash. See note 7 (Borrowings) to the interim consolidated financial statements for the three months ended March 31, 2018.

Book Value per Share

Common shareholders' equity at March 31, 2018 was $557,609 (December 31, 2017 - $516,736). The book value per share at March 31, 2018 was $11.02 compared to $10.21 at December 31, 2017 representing an increase of 7.9% in the first quarter of 2018, reflecting net earnings of $40,850.

	March 31, 2018	December 31, 2017
Common shareholders' equity	**557,609**	516,736
Number of common shares outstanding	**50,620,189**	50,620,189
Book value per share	**$11.02**	$10.21

Liquidity

The company believes that cash and cash equivalents at March 31, 2018 provides adequate liquidity to meet the company's remaining known significant commitments in 2018, which are principally comprised of the 2020 Atlas Mara Convertible Bond, investment and advisory fees, general and administration expenses and corporate income taxes. The Term Loan matures in August 2018 and the company will use the cash collateral classified as restricted cash to repay the principal amount of the loan. The company expects to continue to receive investment income on its holdings of fixed income securities to supplement its cash and cash equivalents. The company has adequate working capital to support its operations.

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 the first quarter of 2018 (with comparisons to the first quarter of 2017 except as otherwise noted) of major components of cash flow are presented in the following table:

	First quarter	
	2018	2017
Operating activities		
Cash provided by (used in) operating activities before the undernoted	**1,184**	(294)
Net purchases of short term investments classified as FVTPL	**(28,589)**	(99,770)
Purchases of investments classified as FVTPL	**(46,504)**	(21,742)
Sales of investments classified as FVTPL	**25,399**	—
Decrease in restricted cash in support of investment	**162,519**	—
Financing activities		
Increase in restricted cash in support of term loan	**(554)**	—
Issuance of subordinate voting shares, net of issuance costs	—	193,976
Issuance of multiple voting shares	—	227,154
Increase in cash and cash equivalents during the period	**113,455**	299,324

Cash provided by (used in) operating activities before the undernoted is comprised of net earnings adjusted for items not affecting cash and cash equivalents and changes in operating assets and liabilities. Cash provided by operating activities before the undernoted of $1,184 in the first quarter of 2018 compared to cash used by operating activities before the undernoted of $294 in the first quarter of 2017, principally reflected an increase in interest income, partially offset by increased investment and advisory fees and general and administrative expenses.

Net purchases of short term investments classified as FVTPL of $28,589 and $99,770 in the first quarters of 2018 and 2017 related to net purchases of U.S. treasury bills.

Purchases of investments classified as FVTPL of $46,504 in the first quarter of 2018 primarily related to the company's investment in the AFGRI rights offering through its ownership in Joseph Holdings and investment in the Philafrica Facility. Purchases of investments classified as FVTPL of $21,742 in the first quarter of 2017 related to the purchase of Government of South Africa bonds.

Sales investments classified as FVTPL of $25,399 in the first quarter of 2018 related to the proceeds received on the maturity of the AFGRI Facility on January 31, 2018.

Decrease in restricted cash in support of investment of $162,519 in the first quarter of 2018 reflected the release of cash collateral related to the company's LC Facility. Refer to note 7 (Borrowings) to the interim consolidated financial statements for the three months ended March 31, 2018 for details.

Issuance of subordinate voting shares, net of issuance costs of $193,976 and issuance of multiple voting shares of $227,154 in the first quarter of 2017 related to the net proceeds received from the Offerings. Issuance costs of $10,104 were primarily comprised of fees paid to underwriters of the subordinate voting shares.

Contractual Obligations

Under the terms of the Investment Advisory Agreement, 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 fee recorded in the consolidated statements of earnings and comprehensive income for the first quarter of 2018 was $1,559 (2017 - $380).

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% 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".

The company determined that a performance fee payable of $9,368 should be accrued at March 31, 2018 as the book value per share of $11.20 (before factoring in the impact of the performance fee) at March 31, 2018 was greater than the hurdle per share at that date of $10.29 with an incremental $9,049 (2017 - nil) accrued in the first quarter of 2018 in the consolidated statements of earnings and comprehensive income.

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 price 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 volume weighted average trading price of the 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.

Related Party Transactions

The company's related party transactions are disclosed in note 12 (Related Party Transactions) to the interim consolidated financial statements for the three months ended March 31, 2018.

Other

Quarterly Data (unaudited)

	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Income (loss)	**53,916**	(16,429)	41,640	4,139	2,501
Expenses (recovery)	**12,735**	(2,088)	8,189	1,187	594
Provision for (recovery of) income taxes	**331**	(492)	432	(812)	1,357
Net earnings (loss)	**40,850**	(13,849)	33,019	3,764	550
Net earnings (loss) per share	**$ 0.81**	$ (0.27)	$ 0.65	$ 0.07	$ 0.02
Net earnings (loss) per diluted share	**$ 0.80**	$ (0.27)	$ 0.65	$ 0.07	$ 0.02

Income continues to be primarily comprised of net change in unrealized gains (losses) on investments, net foreign exchange gains, net realized gains on investments and interest income. Total income in the first quarter of 2018 was primarily impacted by the net change in unrealized gains relating to the company's investment in Atlas Mara and its indirect equity interest in AFGRI, the timing of which are not predictable

Individual quarterly results have been (and may in the future be) affected by increased expenses impacted by the change in fair value of the company's African Investments which result in higher performance fees, if applicable, and investment and advisory fees.

Forward-Looking Statements

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

Forward-looking statements are based on the opinions and estimates of the company as of the date of this interim report, and they are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, including but not limited to the following factors: taxation of the company and its subsidiaries; substantial loss of capital; long-term nature of investment; limited number of investments; geographic concentration of investments; potential lack of diversification; financial market fluctuations; pace of completing investments; control or significant influence position risk; minority investments; ranking of company investments and structural subordination; follow-on investments; prepayments of debt investments; risks upon dispositions of investments; bridge financings; reliance on key personnel; effect of fees; performance fee could induce Fairfax to make speculative investments; operating and financial risks of investments; allocation of personnel; potential conflicts of interest; employee misconduct at the portfolio advisor could harm the company; valuation methodologies involve subjective judgments; lawsuits; foreign currency fluctuation; derivative risks; unknown merits and risks of future investments; resources could be wasted in researching investment opportunities that are not ultimately completed; investments may be made in foreign private businesses where information is unreliable or unavailable; illiquidity of investments; competitive market for investment opportunities; use of leverage; investing in leveraged businesses; regulation; investment and repatriation restrictions; aggregation restrictions; restrictions relating to debt securities; pricing guidelines; emerging markets; corporate disclosure, governance and regulatory requirements; legal and regulatory risks; volatility of the African securities markets; political, economic, social and other factors; governance issues risk; African tax law; changes in law; exposure to permanent establishment; enforcement of rights; smaller company risk; due diligence and conduct of potential investment entities; African economic risk; reliance on trading partners risk; natural disaster risks; government debt risk; and economic risk. Additional risks and uncertainties are described in the company's annual information form dated March 9, 2018 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.

FAIRFAX AFRICA
HOLDINGS CORPORATION