FAIRFAX AFRICA
HOLDINGS CORPORATION

2

# INTERIM REPORT

**For the six months ended**
**June 30, 2018**

**Consolidated Balance Sheets**
*as at June 30, 2018 and December 31, 2017*
*(unaudited - US$ thousands)*

| | Notes | **June 30, 2018** | December 31, 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6, 14 | **103,163** | 13,012 |
| Restricted cash | 6, 7 | **151,761** | 313,000 |
| Short term investments | 6 | **163,853** | 32,968 |
| Loans | 5, 6 | **73,555** | 24,233 |
| Bonds | 5, 6 | **35,474** | 19,934 |
| Common stocks | 5, 6 | **285,289** | 261,917 |
| Total cash and investments | | **813,095** | 665,064 |
| Interest receivable | | **3,505** | 3,506 |
| Other assets | | **783** | 541 |
| Total assets | | **817,383** | 669,111 |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | | **1,440** | 811 |
| Payable to related parties | 12 | **1,769** | 1,482 |
| Income taxes payable | | **14** | 82 |
| Term loan | 7 | **150,000** | 150,000 |
| Total liabilities | | **153,223** | 152,375 |
| **Equity** | | | |
| Common shareholders' equity | 8 | **664,160** | 516,736 |
| | | **817,383** | 669,111 |

*See accompanying notes.*

**Consolidated Statements of Earnings and Comprehensive Income**
*for the three and six months ended June 30, 2018 and 2017*
*(unaudited - US$ thousands except share and per share amounts)*

| | | Second quarter | | First six months | |
|---|---|---|---|---|---|
| | Notes | **2018** | 2017 | **2018** | 2017 |
| **Income** | | | | | |
| Interest | 6 | **4,587** | 962 | **7,735** | 1,189 |
| Net realized gains (losses) on investments | 6 | **(17)** | — | **1,785** | — |
| Net change in unrealized gains (losses) on investments | 6 | **(26,276)** | 2,009 | **15,959** | 1,675 |
| Net foreign exchange gains (losses) | 6 | **(25,117)** | 1,168 | **(18,386)** | 3,776 |
| | | **(46,823)** | 4,139 | **7,093** | 6,640 |
| **Expenses** | | | | | |
| Investment and advisory fees | 12 | **1,589** | 800 | **3,148** | 1,180 |
| Performance fee | 12 | **(9,368)** | — | **(319)** | — |
| General and administration expenses | 13 | **1,315** | 387 | **2,378** | 601 |
| Interest expense | 7 | **1,137** | — | **2,201** | — |
| | | **(5,327)** | 1,187 | **7,408** | 1,781 |
| **Earnings (loss) before income taxes** | | **(41,496)** | 2,952 | **(315)** | 4,859 |
| Provision for (recovery of) income taxes | 10 | **337** | (812) | **668** | 545 |
| **Net earnings (loss) and comprehensive income (loss)** | | **(41,833)** | 3,764 | **(983)** | 4,314 |
| **Net earnings (loss) per share** (basic and diluted) | 9 | **$ (0.80)** | $ 0.07 | **$ (0.02)** | $ 0.12 |
| **Shares outstanding** (weighted average) | 9 | **52,377,332** | 50,620,189 | **51,503,614** | 35,751,558 |

*See accompanying notes.*

**Consolidated Statements of Changes in Equity**
*for the six months ended June 30, 2018 and 2017*
*(unaudited - US$ thousands)*

| | Subordinate voting shares | Multiple voting shares | Share-based payments | Retained earnings (deficit) | Common shareholders' equity (deficit) |
|---|---|---|---|---|---|
| **Balance as of January 1, 2018** | **193,326** | **300,000** | **—** | **23,410** | **516,736** |
| Net loss for the period | — | — | — | **(983)** | **(983)** |
| Issuance of shares, net of issuance costs (note 8) | **148,316** | — | — | — | **148,316** |
| Amortization of share-based payment awards | — | — | **91** | — | **91** |
| **Balance as of June 30, 2018** | **341,642** | **300,000** | **91** | **22,427** | **664,160** |

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

*See accompanying notes.*

**Consolidated Statements of Cash Flow**
*for the three and six months ended June 30, 2018 and 2017*
*(unaudited - US$ thousands)*

| | Notes | Second quarter 2018 | Second quarter 2017 | First six months 2018 | First six months 2017 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net earnings (loss) | | **(41,833)** | 3,764 | **(983)** | 4,314 |
| Items not affecting cash and cash equivalents: | | | | | |
| Net bond discount amortization | | **(1,146)** | — | **(1,348)** | — |
| Amortization of share-based payment awards | | **68** | — | **91** | — |
| Net realized (gains) losses on investments | 6 | **17** | — | **(1,785)** | — |
| Net change in unrealized (gains) losses on investments | 6 | **26,276** | (2,009) | **(15,959)** | (1,675) |
| Net foreign exchange (gains) losses | 6 | **25,117** | (1,168) | **18,386** | (3,776) |
| Net purchases of short term investments classified as FVTPL | | **(101,496)** | — | **(130,085)** | (99,770) |
| Purchases of investments classified as FVTPL | 14 | **(66,604)** | (53,787) | **(113,108)** | (75,529) |
| 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 | | **(1,968)** | (190) | **1** | (638) |
| Income taxes payable | | **(399)** | (1,012) | **(68)** | 137 |
| Accounts payable and accrued liabilities | | **450** | 533 | **629** | 889 |
| Payable to related parties | | **(9,347)** | 427 | **287** | (36) |
| Other | | **(28)** | (1,010) | **(860)** | (174) |
| Cash used in operating activities | | **(170,893)** | (54,452) | **(56,884)** | (176,258) |
| **Financing activities** | | | | | |
| Term loan: | | | | | |
| Increase in restricted cash in support of term loan | 7 | **(727)** | — | **(1,281)** | — |
| Subordinate voting shares: | 8 | | | | |
| Issuances | | **150,675** | — | **150,675** | 204,080 |
| Issuance costs | | **(2,359)** | (2,148) | **(2,359)** | (12,252) |
| Multiple voting shares: | 8 | | | | |
| Issuances | | **—** | — | **—** | 227,154 |
| Cash provided by (used in) financing activities | | **147,589** | (2,148) | **147,035** | 418,982 |
| **Increase (decrease) in cash and cash equivalents** | | **(23,304)** | (56,600) | **90,151** | 242,724 |
| Cash and cash equivalents - beginning of period | | **126,467** | 299,324 | **13,012** | — |
| **Cash and cash equivalents - end of period** | | **103,163** | 242,724 | **103,163** | 242,724 |

*See accompanying notes.*

**Index to Notes to Interim Consolidated Financial Statements**


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## 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") 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. Fairfax, through its subsidiaries, owns 30,000,000 multiple voting shares and 7,245,421 subordinate voting shares of Fairfax Africa. The multiple voting shares of the company are not traded. At June 30, 2018, Fairfax's holdings of multiple and subordinate voting shares represented 98.3% of the voting rights and 59.2% of the equity interest in Fairfax Africa (December 31, 2017 - 98.8% and 64.2% respectively). See note 8 for additional details on Fairfax's equity interest in the company.

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 and six months ended June 30, 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 August 2, 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.

***Total cash and investments***

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

Transaction costs related to investments classified as FVTPL are expensed as incurred. An investment is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the company has transferred substantially the risks and rewards of ownership.

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

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

**Bonds** are debt instruments with maturity dates greater than twelve months when purchased. The fair value of bonds excludes the debt instrument's accrued interest receivable at the stated rate of interest.

***Term loans***

Term loans are recognized initially at fair value and subsequently measured at amortized cost. Interest expense on term loans are recognized in the consolidated statements of earnings using the effective interest method. Term loans are derecognized when extinguished, with any gain or loss on extinguishment recognized in other expenses in the consolidated statements of earnings.

***Other financial assets and financial liabilities***

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

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

Net realized gains (losses) arising on the disposition of investments and net change in unrealized gains (losses) arising on the re-measurement of investments at fair value are included in net realized gains (losses) on investments and net change in unrealized gains (losses) on investments in the consolidated statements of earnings, respectively.

***Interest Income***

Interest income is recognized on an accrual basis using the effective interest method and includes bank interest and interest from investments in debt instruments. Calculation of a debt instrument’s effective interest rate does not consider expected credit losses and requires estimates of future cash flows considering all contractual terms of the financial instrument including the stated interest rate, discount or premium, and any origination or structuring fees. Interest receivable is shown separately on the consolidated balance sheet based on the debt instrument's stated rate of interest.

***Share-based payments***

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

Throughout this interim consolidated financial statements for the three and six months ended June 30, 2018, the term “African Investments" refers to deployed capital invested in Public and Private African Investments as disclosed within this note.

### *Summary of Changes in 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 second quarters of 2018 and 2017 were as follows:

| | Second quarter | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Public African Investments | | | | Private African Investments | | | | | | | | | |
| | Common stock | | | | Common stock | Loans | | | | | Bonds | | | |
| | Atlas Mara | CIG | Other[1] | Total | Indirect equity interest in AFGRI [2] | AFGRI Facility | Philafrica Facility | Nova Pioneer Facility | CIG | PGR2 | Atlas Mara | Nova Pioneer Investment[3] | Total | Total African Investments |
| **Balance as of March 31, 2018** | **200,765** | **2,819** | **1,559** | **205,143** | **125,809** | **—** | **27,851** | **—** | **—** | **—** | **—** | **19,855** | **173,515** | **378,658** |
| Purchases | **—** | **—** | **—** | **—** | **—** | **—** | **13,219** | **—** | **23,270** | **15,074** | **15,040** | **—** | **66,603** | **66,603** |
| Amortization of discount | **—** | **—** | **—** | **—** | **—** | **—** | **472** | **—** | **10** | **—** | **47** | **—** | **529** | **529** |
| Net change in unrealized gains (losses) on investments [4] | **(23,747)** | **(237)** | **(1,003)** | **(24,987)** | **(3,536)** | **—** | **—** | **—** | **1,880** | **(165)** | **19** | **513** | **(1,289)** | **(26,276)** |
| Net foreign exchange losses on investments | **—** | **(382)** | **(322)** | **(704)** | **(16,436)** | **—** | **(4,914)** | **—** | **(1,930)** | **(1,212)** | **—** | **—** | **(24,492)** | **(25,196)** |
| **Balance as of June 30, 2018** | **177,018** | **2,200** | **234** | **179,452** | **105,837** | **—** | **36,628** | **—** | **23,230** | **13,697** | **15,106** | **20,368** | **214,866** | **394,318** |
| | | | | | | | | | | | | | | |
| **Balance as of March 31, 2017** | — | — | — | — | 77,558 | — | — | — | — | — | — | — | 77,558 | 77,558 |
| Purchases | — | — | — | — | — | 23,255 | — | 3,000 | — | — | — | — | 26,255 | 26,255 |
| Net change in unrealized gains (losses) on investments [4] | — | — | — | — | 1,899 | — | — | — | — | — | — | — | 1,899 | 1,899 |
| Net foreign exchange gains (losses) on investments | — | — | — | — | 1,765 | (326) | — | — | — | — | — | — | 1,439 | 1,439 |
| **Balance as of June 30, 2017** | — | — | — | — | 81,222 | 22,929 | — | 3,000 | — | — | — | — | 107,151 | 107,151 |

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

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

*(3)* Net change in unrealized gains on investments of $513 in the second quarter of 2018 was comprised of unrealized gains on the Nova Pioneer Bonds of $213 and Nova Pioneer Warrants of $300.

*(4)* For all Private African Investments classified as Level 3 in the fair value hierarchy net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at June 30, 2018 and June 30, 2017.

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

| | First six months | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Public African Investments | | | | Private African Investments | | | | | | | | | |
| | Common stock | | | | Common stock | Loans | | | | | Bonds | | | |
| | Atlas Mara | CIG | Other[1] | Total | Indirect equity interest in AFGRI[2] | AFGRI Facility | Philafrica Facility | Nova Pioneer Facility | CIG | PGR2 | Atlas Mara | Nova Pioneer Investment[3] | Total | Total African Investments |
| **Balance as of January 1, 2018** | **168,671** | **2,563** | **2,369** | **173,603** | **88,314** | **24,233** | **—** | **—** | **—** | **—** | **—** | **19,934** | **132,481** | **306,084** |
| Purchases | **—** | **—** | **69** | **69** | **20,304** | **—** | **41,153** | **—** | **23,270** | **15,074** | **15,040** | **763** | **115,604** | **115,673** |
| Amortization of discount | **—** | **—** | **—** | **—** | **—** | **—** | **472** | **—** | **10** | **—** | **47** | **—** | **529** | **529** |
| Repayments | **—** | **—** | **—** | | **—** | **(25,399)** | **—** | **—** | **—** | **—** | **—** | **—** | **(25,399)** | **(25,399)** |
| Net change in unrealized gains (losses) on investments[4] | **8,347** | **(102)** | **(1,990)** | **6,255** | **8,299** | **—** | **—** | **—** | **1,880** | **(165)** | **19** | **(329)** | **9,704** | **15,959** |
| Net foreign exchange gains (losses) on investments | **—** | **(261)** | **(214)** | **(475)** | **(11,080)** | **1,166** | **(4,997)** | **—** | **(1,930)** | **(1,212)** | **—** | **—** | **(18,053)** | **(18,528)** |
| **Balance as of June 30, 2018** | **177,018** | **2,200** | **234** | **179,452** | **105,837** | **—** | **36,628** | **—** | **23,230** | **13,697** | **15,106** | **20,368** | **214,866** | **394,318** |
| **Balance as of January 1, 2017** | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Purchases | — | — | — | — | 74,968 | 23,255 | — | 3,000 | — | — | — | — | 101,223 | 101,223 |
| Net change in unrealized gains (losses) on investments[4] | — | — | — | — | 1,899 | — | — | — | — | — | — | — | 1,899 | 1,899 |
| Net foreign exchange gains (losses) on investments | — | — | — | — | 4,355 | (326) | — | — | — | — | — | — | 4,029 | 4,029 |
| **Balance as of June 30, 2017** | — | — | — | — | 81,222 | 22,929 | — | 3,000 | — | — | — | — | 107,151 | 107,151 |

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

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

*(3)* During the first quarter of 2018, $763 relating to interest accrued on the Nova Pioneer Bonds was capitalized to the principal amount owing. Net change in unrealized losses on investments of $329 in the first six months of 2018 was comprised of an unrealized loss on the Nova Pioneer Bonds of $681 partially offset by an unrealized gain of $352 on the Nova Pioneer Warrants.

*(4)* For all Private African Investments classified as Level 3 in the fair value hierarchy net change in unrealized gains (losses) on investments related to unrealized gains (losses) on investments held at June 30, 2018 and June 30, 2017.

***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 (Equity Interest)***

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

The company's investment in Atlas Mara is comprised of an equity interest and a debt instrument. The debt instrument is classified as a Level 3 investment in the fair value hierarchy and is discussed in the Private African Investments under the heading Investment in Atlas Mara (Debt Instrument) section later in note 5.

*Atlas Mara Common Shares*

On July 17, 2017 the company invested $100,000 in Atlas Mara through the purchase of a mandatory convertible bond with an interest rate of 5.0% per annum. On August 31, 2017, concurrent with the closing of the Atlas Mara Equity Offering (described below), the convertible bond (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 June 30, 2018 the fair value of the company's equity interest in Atlas Mara was $177,018 (December 31, 2017 - $168,671), comprised of 71,958,670 ordinary shares representing a 42.4% equity interest (December 31, 2017 - 43.3%). The changes in fair value of the company's equity interest in Atlas Mara for the second quarters and first six months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

***Investment in Consolidated Infrastructure Group (Equity Interest)***

Consolidated Infrastructure Group Limited ("CIG") is a pan-African engineering infrastructure company listed on the Johannesburg Stock Exchange under the symbol CIL. CIG has a diversified portfolio of operations including services and materials in power and electrical, oil and gas, building materials and the railway sector. The group’s footprint spans over 20 African countries and the Middle East, with over 70% of profit derived outside of South Africa.

The company's investment in CIG is comprised of an equity interest and a debt instrument. The debt instrument is classified as a Level 3 investment in the fair value hierarchy and are discussed in the Private African Investments section under the heading Investment in Consolidated Infrastructure Group (Debt Instrument) later in note 5.

*CIG Common Shares*

In the fourth quarter of 2017 Fairfax Africa acquired 8,789,282 shares or a 4.5% equity interest in CIG at a cost of $2,442. At June 30, 2018 the fair value of the company's equity interest in CIG was $2,200 (December 31, 2017 - $2,563). The changes in fair value of the company's equity interest in CIG for the second quarters and first six months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

*CIG Rights Offer*

On May 18, 2018 the company entered into an agreement with CIG regarding a $62,794 (800 million South African rand) rights offer to CIG shareholders (the "CIG Rights Offer"), at the exchange rate on that date. Subject to CIG shareholder approval of the CIG Rights Offer, existing CIG shareholders will be invited to participate on a pro rata basis in the non-renounceable CIG Rights Offer for 200,000,000 CIG ordinary shares at a price of 4.00 South African rand. Fairfax Africa will acquire any shares not taken up by existing CIG shareholders and as a result Fairfax Africa will earn a fee equal to 2.5% of the CIG Rights Offer or $1,570 at the exchange rate on that date (20 million South African rand).

The company's obligation to subscribe for any shares not taken by existing CIG shareholders as part of the CIG Rights Offer gives rise to a forward derivative.

***Investment in Other Common Shares***

During the first quarter of 2018 and the fourth quarter of 2017 the company acquired common shares of a public company listed on the Johannesburg Stock Exchange ("Other Public African Investment") for aggregate cash consideration of $2,055. At June 30, 2018 the fair value of the company's investment in Other Public African Investment was $234 (December 31, 2017 - $2,369) and comprised less than a 5% equity interest. The changes in fair value of the company's investment in Other Public African Investment for the second quarter and first six months of 2018 are presented in the tables disclosed earlier in note 5.

***Private African Investments***

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

***Investment in AFGRI Holdings Proprietary Limited***

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 other than cash, has no other assets, liabilities (contingent or otherwise) or operations, except minimal administrative overhead.

On February 17, 2017 in conjunction with its IPO, Fairfax Africa 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.

At June 30, 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 12.0% to 25.6% 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 estimates derived from financial information for AFGRI's business units prepared in the second 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 June 30, 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 $105,837 (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 $49,967, the $55,870 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 second quarters and first six months of 2018 and 2017 are presented in the tables 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 January 31, 2018 the AFGRI Facility, including accrued interest, in the amount of $25,399, was fully repaid and a realized foreign exchange gain of $1,166 was recorded in the consolidated statements of earnings and comprehensive income in the first six months of 2018. The changes in the AFGRI Facility for the second quarters and first six months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of nil and $383 for the second quarter and first six months of 2018 (2017 - $42 for both periods) 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 wholly-owned subsidiary of AFGRI, pursuant to which the company provided Philafrica with $27,934 (330 million South African rand) (the "Tranche 1 Facility"). On May 28, 2018 the company entered into a second secured lending arrangement in the amount of $13,219 (170 million South African rand, net of a 2% raising fee of 3.4 million South African rand) (the "Tranche 2 Facility"). The Tranche 1 and 2 facilities are referred to collectively as the "Philafrica Facility", with an aggregate cash consideration of $41,153.

The Philafrica Facility was provided on an interim basis in advance of an expected future 500 million South African rand 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. The Tranche 1 and 2 facilities mature on October 4, 2018 and December 24, 2018 respectively. 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 will also receive a raising fee equal to 2.0% of the loan proceeds on the Tranche 1 Facility, which is payable at maturity or upon repayment. The company earns interest on the fee at the same rate as the credit facility. The 2.0% raising fee relating to the Tranche 2 Facility was received upfront and netted against the investment cost.

At June 30, 2018 the estimated fair value of its investment in the Philafrica Facility was $36,628 which, due to the short term to maturity, approximated its amortized cost. The changes in fair value of the Philafrica Facility for the second quarter and first six months of 2018 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $1,306 and $1,585 for the second quarter and first six months of 2018 in the consolidated statements of earnings and comprehensive income related to the Philafrica Facility.

***Investment in Consolidated Infrastructure Group (Debt Instrument)***

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

*CIG Loan*

On May 18, 2018 the company entered into a secured lending arrangement with CIG, pursuant to which the company provided CIG with $23,270 (300 million South African rand) of financing (the "CIG Loan"). The proceeds from the CIG Loan will be used by CIG to fund operations.

The initial term of the CIG Loan is for a period of 1 year at an interest rate of South African prime plus 4.0% per annum, payable monthly in cash. Subject to CIG shareholder approval of the conversion features described below at an upcoming Extraordinary General Meeting of CIG, the term of the CIG Loan will increase to 5 years and the interest rate will be reduced to South African prime plus 2.0% per annum.

Subject to CIG shareholder approval, Fairfax Africa will have the option at any time during the 5 year term to convert all or a portion of the CIG Loan into a maximum of 57,692,308 CIG ordinary shares at a price of 5.20 South African rand per ordinary share, representing 29.4% of the current outstanding CIG ordinary shares. CIG has the option after June 4, 2021 to force the conversion of the CIG Loan into CIG ordinary shares at a price of 5.20 South African rand per ordinary share, provided that the CIG ordinary shares have, at the time of such conversion, traded at more than 6.24 South African rand per ordinary share for at least 90 consecutive days.

In connection with the CIG Loan, Fairfax Africa received a non-refundable fee equal to 2.5% or $597 (7.5 million South African rand) upon drawdown of the CIG Loan for its role in structuring the transaction.

At June 30, 2018 the company estimated the fair value of the CIG Loan using an industry accepted discounted cash flow and option pricing model that incorporated the security's estimated credit spread of 5.0% and estimated share price volatility for the term of the security of 56.2%. The estimated credit spread was based on the implied spread of a floating CIG bond that is readily traded. At June 30, 2018 the company's internal valuation model indicated that the estimated fair value of the CIG Loan was $23,230. The changes in fair value of the CIG Loan for the second quarter and first six months of 2018 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $236 for the second quarter and first six months 2018 in the consolidated statements of earnings and comprehensive income related to the CIG Loan.

*PGR2 Loan*

In conjunction with the CIG Loan, Fairfax Africa entered into a secured lending agreement with PGR2 Investments Proprietary Limited ("PGR2"), the largest shareholder of CIG, pursuant to which the company provided PRG2 with $20,408 (260 million South African rand) of secured financing (the "PGR2 Loan"). The PGR2 Loan is secured by CIG ordinary shares held by PGR2 and associated parties and bears interest at a rate of 15.0% per annum, payable semi-annually in cash. The initial term of the PGR2 Loan is for 1 year. Subject to CIG shareholder approval of the CIG Rights Offer, the term of the PGR2 Loan will increase to 3 years with a maturity date of May 24, 2021. If the CIG ordinary shares trade above 6.50 South African rand for thirty consecutive days, the PGR2 Loan must be repaid in full. Within six months after the closing date of the CIG Rights Offer, either party may elect to buy or sell shares from the other to the extent necessary to ensure both parties hold an equal number of shares.

At June 30, 2018 the company estimated the fair value of the PGR2 Loan using an industry accepted discounted cash flow and option pricing model that incorporated PGR2's estimated credit spread of 8.1%. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to PGR2. At June 30, 2018 the company's internal valuation model indicated that the estimated fair value of the PGR2 Loan was $13,697. The changes in fair value of the PGR2 Loan for the second quarter and first six months of 2018 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $195 for the second quarter and first six months of 2018 in the consolidated statements of earnings and comprehensive income related to the PGR2 Loan.

***Atlas Mara Limited (Debt Instrument)***

The company's investment in Atlas Mara is comprised of an equity interest and a debt instrument classified as Level 3 in the fair value hierarchy. The company's investment in Atlas Mara common shares is discussed in the Public African Investments section under the heading Investment in Atlas Mara Limited (Equity Interest) of note 5.

***Atlas Mara Bond***

On April 24, 2018 Fairfax Africa and Atlas Mara entered into a placing agreement (the "Placing Agreement"), pursuant to which the company purchased $16,000 in secured convertible bonds maturing on April 24, 2020 (the "Atlas Mara Bond"). The company's investment represented an anchor investment in connection with a targeted debt fundraising by Atlas Mara (the "Debt Fundraising").

The terms of the Atlas Mara Bond include a 2 year tenor, Original Issue Discount ("OID") of 5%, a 1% upfront origination fee, a 3% structuring fee equal to the aggregate proceeds of the Debt Fundraising, an interest rate of 7.5% per annum (payable semi-annually) and a conversion feature, subject to Atlas Mara shareholder approval. In the event shareholder approval for the conversion feature is not obtained, the interest rate will be increased retroactively to 9.0%. The Atlas Mara Bond is secured by shares held by Atlas Mara in Union Bank of Nigeria ("UBN").

At June 30, 2018 the company estimated the fair value of the Atlas Mara Bond using an industry accepted discounted cash flow that incorporated the security's estimated credit spread of 9.6%. The estimated credit spread was based on the implied spread of a comparable Atlas Mara bond. At June 30, 2018 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara Bond was $15,106. The changes in fair value of the Atlas Mara Bond for the second quarter and first six months of 2018 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $213 for the second quarter and first six months of 2018 in the consolidated statements of earnings and comprehensive income related to the Atlas Mara Bond.

*Subsequent to June 30, 2018*

In July 2018 the company amended the terms of the Placing Agreement (the "Amended Placing Agreement") to provide an additional $20,000 in funding to maintain Fairfax Africa's position as an anchor investor in Atlas Mara's Debt Fundraising. Under the Amended Placing Agreement, the structuring fee has been reduced to 1% of the Atlas Mara Bond.

***Investment in 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 June 30, 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 18.9% (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 June 30, 2018 the company's internal valuation model indicated that the fair value of the Nova Pioneer Investment was $20,368 (December 31, 2017 - $19,934), comprised of Nova Pioneer Bonds of $19,496 (December 31, 2017 - $19,414) and Nova Pioneer Warrants of $872 (December 31, 2017 - $520).

The changes in fair value of the Nova Pioneer Investment for the second quarters and first six months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $1,035 and $2,059 for the second quarter and first six months of 2018 (2017 - nil) 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:

| | **June 30, 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 | **103,163** | — | — | **103,163** | 13,012 | — | — | 13,012 |
| Restricted cash(1) | **151,761** | — | — | **151,761** | 313,000 | — | — | 313,000 |
| | **254,924** | — | — | **254,924** | 326,012 | — | — | 326,012 |
| Short term investments - U.S. treasury bills | **163,853** | — | — | **163,853** | 32,968 | — | — | 32,968 |
| Loans: | | | | | | | | |
| AFGRI Facility | — | — | — | — | — | — | 24,233 | 24,233 |
| Philafrica Facility | — | — | **36,628** | **36,628** | — | — | — | — |
| CIG | — | — | **23,230** | **23,230** | — | — | — | — |
| PGR2 | — | — | **13,697** | **13,697** | — | — | — | — |
| | — | — | **73,555** | **73,555** | — | — | 24,233 | 24,233 |
| Bonds: | | | | | | | | |
| Atlas Mara Bond | — | — | **15,106** | **15,106** | — | — | — | — |
| Nova Pioneer Investment(2) | — | — | **20,368** | **20,368** | — | — | 19,934 | 19,934 |
| | — | — | **35,474** | **35,474** | — | — | 19,934 | 19,934 |
| Common stocks: | | | | | | | | |
| Atlas Mara | **177,018** | — | — | **177,018** | 168,671 | — | — | 168,671 |
| CIG | **2,200** | — | — | **2,200** | 2,563 | — | — | 2,563 |
| Other | **234** | — | — | **234** | 2,369 | — | — | 2,369 |
| Indirect equity interest in AFGRI | — | — | **105,837** | **105,837** | — | — | 88,314 | 88,314 |
| | **179,452** | — | **105,837** | **285,289** | 173,603 | — | 88,314 | 261,917 |
| Total cash and investments | **598,229** | — | **214,866** | **813,095** | 532,583 | — | 132,481 | 665,064 |
| | **73.6 %** | **— %** | **26.4 %** | **100.0 %** | 80.1 % | — % | 19.9 % | 100.0 % |

*(1)* As of June 30, 2018, comprised of $150,000 cash collateral relating to the Term Loan and $1,761 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)* As of June 30, 2018, comprised of Nova Pioneer Bonds of $19,496 (December 31, 2017 - $19,414) and Nova Pioneer Warrants of $872 (December 31, 2017 - $520) (see note 5).

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 six months 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. For all Private African Investments classified as Level 3 in the fair value hierarchy net change in unrealized gains (losses) on investments in the first six months of 2018 and 2017 relate to investments held at June 30, 2018 and June 30, 2017.

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 June 30, 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)] |
|---|---|---|---|---|---|---|
| CIG Loan | $23,230 | Discounted cash flow | Credit spread | 5.0% | 484 / (455) | 356 / (334) |
| | | | Historical share price volatility | 56.2% | 20 / (1,736) | 15 / (1,276) |
| PGR2 Loan | $13,697 | Discounted cash flow | Credit spread | 8.1% | 263 / (385) | 193 / (283) |
| Atlas Mara Bond | $15,106 | Discounted cash flow | Credit spread | 9.6% | 246 / (240) | 181 / (176) |
| Nova Pioneer Bonds | $19,496 | Discounted cash flow | Credit spread | 18.9% | 691 / (656) | 508 / (482) |
| Indirect equity interest in AFGRI | $105,837 | Discounted cash flow | After-tax discount rate | 12.0% to 25.6% | 6,450 / (5,875) | 5,595 / (5,097) |
| | | | Long term growth rate | 3.0% | 2,243 / (2,139) | 1,946 / (1,856) |

*(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), historical share price volatility (minimum and maximum historical volatility over a two year period from the the balance sheet date) 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, historical share price volatility or credit spreads would result in a higher (lower) fair value of the company's Private African Investments classified as Level 3 in the fair value hierarchy.

***Fixed Income Maturity Profile***

Loans and bonds are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of call and put features. At June 30, 2018 debt instruments containing call features represented $56,423 (December 31, 2017 - $19,414) value of loans and bonds. At June 30, 2018 and December 31, 2017 there were no debt instruments containing put features.

| | **June 30, 2018** | | December 31, 2017 | |
|---|---|---|---|---|
| | **Amortized cost** | **Fair value** | Amortized cost | Fair value |
| Due in 1 year or less | **79,980** | **73,555** | 24,233 | 24,233 |
| Due after 1 year through 5 years | **35,849** | **34,602** | 20,000 | 19,414 |
| | **115,829** | **108,157** | 44,233 | 43,647 |

***Investment Income***

An analysis of investment income for the three and six months ended June 30 is summarized in the tables that follow:

*Interest*

| | **Second quarter** | | **First six months** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Interest: | | | | |
| Cash and cash equivalents | **232** | 386 | **810** | 595 |
| Restricted cash | **754** | — | **1,435** | — |
| Short term investments | **616** | 190 | **819** | 207 |
| Loans | **1,737** | 52 | **2,399** | 52 |
| Bonds | **1,248** | 334 | **2,272** | 335 |
| Total interest income | **4,587** | 962 | **7,735** | 1,189 |

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

| | Second 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 - U.S. treasury bills | **(17)** | **—** | **(17)** | — | — | — |
| Loans | **—** | **1,715** | **1,715** | — | — | — |
| Bonds | **—** | **532** | **532** | — | 110 | 110 |
| Common stocks | **—** | **(28,523)** | **(28,523)** | — | 1,899 | 1,899 |
| | **(17)** | **(26,276)** | **(26,293)** | — | 2,009 | 2,009 |
| **Net foreign exchange gains (losses) on:** | | | | | | |
| Cash and cash equivalents | **—** | **145** | **145** | (70) | — | (70) |
| Loans | **—** | **(8,056)** | **(8,056)** | — | (326) | (326) |
| Common stocks | **—** | **(17,140)** | **(17,140)** | — | 1,765 | 1,765 |
| Other foreign exchange losses | **—** | **(66)** | **(66)** | (201) | — | (201) |
| | **—** | **(25,117)** | **(25,117)** | (271) | 1,439 | 1,168 |

| | First six months | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | **Net realized gains (losses)** | **Net change in unrealized gains (losses)** | **Net gains (losses)** | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) |
| **Net gains (losses) on investments:** | | | | | | |
| Short term investments - U.S. treasury bills | **(18)** | **—** | **(18)** | — | — | — |
| Loans | **—** | **1,715** | **1,715** | — | — | — |
| Bonds | **—** | **(310)** | **(310)** | — | (224) | (224) |
| Common stocks | **1,803** | **14,554** | **16,357** | — | 1,899 | 1,899 |
| | **1,785** | **15,959** | **17,744** | — | 1,675 | 1,675 |
| **Net foreign exchange gains (losses) on:** | | | | | | |
| Cash and cash equivalents | **—** | **215** | **215** | (71) | — | (71) |
| Loans | **1,166** | **(8,139)** | **(6,973)** | — | (326) | (326) |
| Common stocks | **—** | **(11,555)** | **(11,555)** | — | 4,355 | 4,355 |
| Other foreign exchange losses | **—** | **(73)** | **(73)** | (182) | — | (182) |
| | **1,166** | **(19,552)** | **(18,386)** | (253) | 4,029 | 3,776 |

## 7. Borrowings

*Term Loan*

On August 31, 2017 the company completed a secured term loan with a Canadian bank for a principal amount of $150,000, bearing interest at a rate of LIBOR plus 100 basis points (the ''Term Loan''). In connection with the Term Loan, the company was required to maintain cash collateral of $150,000, which together with interest received of $1,761, is classified as restricted cash in the consolidated balance sheet at June 30, 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*

In the second quarter and first six months of 2018 the company earned interest of $754 and $1,376 on the cash collateral provided for the Term Loan. In the second quarter and first six months of 2018, the company earned interest of nil and $59 on the LC Facility. Interest income earned was recorded in interest in the company's consolidated statements of earnings and comprehensive income.

*Interest Expense*

For the second quarter and first six months of 2018 interest expense of $1,137 and $2,201 relating to the Term Loan was recorded in interest expense in the company's consolidated statements of earnings and comprehensive income.

## 8. Common Shareholders' Equity

*Common stock*

The number of shares outstanding was as follows:

| | **2018** | 2017 |
|---|---|---|
| Subordinate voting shares - January 1 | **20,620,189** | — |
| Issuance of shares | **12,300,000** | 20,620,189 |
| Subordinate voting shares - June 30 | **32,920,189** | 20,620,189 |
| | | |
| Multiple voting shares - January 1 | **30,000,000** | 1 |
| Issuance of shares | — | 29,999,999 |
| Multiple voting shares - June 30 | **30,000,000** | 30,000,000 |
| | | |
| Common shares effectively outstanding - June 30 | **62,920,189** | 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").

On June 18, 2018 the company completed an underwritten public offering of 12,300,000 subordinate voting shares (the "Secondary Offering") at a price of $12.25 per share (the "Secondary Offering Price") and raised gross proceeds of $150,675 (net proceeds of $148,316 after commission and expenses). Fairfax purchased, directly or through its affiliates, 4,100,000 subordinate voting shares for $50,225. Subsequently, Fairfax purchased an additional 645,421 subordinate voting shares through open market purchases. Net proceeds from the Secondary Offering will be used to acquire additional African Investments and for general corporate purposes.

*Subsequent to June 30, 2018*

On July 3, 2018 the company announced its intention to commence a normal course issuer bid ("NCIB") to purchase up to 2,536,996 subordinate voting shares, representing 10% of the public float of its subordinate voting shares, over a twelve month period from July 6, 2018 to July 5, 2019. Any subordinate voting shares purchased by the company pursuant to the NCIB will be cancelled. The actual number of subordinate voting shares that may be purchased under the NCIB and the timing of any such purchases will be determined at the discretion of the company, with no assurances that any such purchases will be completed.

*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 in the consolidated statements of changes in equity.

The share-based payments 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 second quarters and first six months of 2018 share-based payment expense of $68 and $91 was recognized in the consolidated statements of earnings and comprehensive income.

## 9. Net Earnings per Share

Net earnings (loss) per share for the three and six months ended June 30 are calculated in the following tables based on the weighted average common shares outstanding:

| | Second quarter | | First six months | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Net earnings (loss) – basic and diluted | **(41,833)** | 3,764 | **(983)** | 4,314 |
| Weighted average shares outstanding – basic and diluted | **52,377,332** | 50,620,189 | **51,503,614** | 35,751,558 |
| Net earnings (loss) per share - basic and diluted | **$ (0.80)** | $ 0.07 | **$ (0.02)** | $ 0.12 |

At June 30, 2018 and 2017 there were no contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax. The performance fee is assessed quarterly and paid for the period from February 17, 2017 to December 31, 2019. Under the terms of the Investment Advisory Agreement (defined in note 12), if a performance fee is payable for the period ending on December 31, 2019, settlement of the performance fee will take place in subordinate voting shares of the company if the market price per share is less than two times the then book value per share. The number of subordinate voting shares to be issued 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 on the contingently issuable subordinate voting shares in the event that a performance fee is determined to be payable.

## 10. Income Taxes

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

| | Second quarter | | First six months | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Current income tax: | | | | |
| Current year expense (recovery) | **337** | (1,012) | **668** | 137 |
| Deferred income tax: | | | | |
| Origination and reversal of temporary differences | **—** | 200 | **—** | 408 |
| Provision for (recovery of) income taxes | **337** | (812) | **668** | 545 |

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 (recovery of) income taxes for the second quarters and first six months are summarized in the following table:

| | Second quarter | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | | | | 2017 | | | |
| | **Canada** | **Mauritius** | **South Africa** | **Total** | Canada | Mauritius | South Africa | Total |
| Earnings (loss) before income taxes | **(2,213)** | **(38,439)** | **(844)** | **(41,496)** | (406) | 3,646 | (288) | 2,952 |
| Provision for (recovery of) income taxes | **(129)** | **(12)** | **478** | **337** | (949) | — | 137 | (812) |
| Net earnings (loss) | **(2,084)** | **(38,427)** | **(1,322)** | **(41,833)** | 543 | 3,646 | (425) | 3,764 |

| | First six months | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | | | | 2017 | | | |
| | **Canada** | **Mauritius** | **South Africa** | **Total** | Canada | Mauritius | South Africa | Total |
| Earnings (loss) before income taxes | **(8,139)** | **7,528** | **296** | **(315)** | (1,146) | 6,293 | (288) | 4,859 |
| Provision for (recovery of) income taxes | **—** | **14** | **654** | **668** | 408 | — | 137 | 545 |
| Net earnings (loss) | **(8,139)** | **7,514** | **(358)** | **(983)** | (1,554) | 6,293 | (425) | 4,314 |

The decrease in pre-tax profitability in Mauritius in the second quarter of 2018 compared to the second quarter of 2017 primarily reflected an unrealized loss on the Atlas Mara ordinary shares and an unrealized loss and a net foreign exchange loss on the company's indirect equity interest in AFGRI, partially offset by recovery of performance fees. The increase in pre-tax profitability in Mauritius in the first six months of 2018 compared to the first six months of 2017 primarily reflected unrealized gains on the Atlas Mara ordinary shares, unrealized gains on the company's indirect equity interest in AFGRI and recovery of performance fees, partially offset by a net foreign exchange loss on the company's indirect equity interest in AFGRI.

The increase in pre-tax loss in South Africa in the second quarter of 2018 compared to the second quarter of 2017 primarily reflected net foreign exchange losses on the Philafrica, CIG and PGR2 loans which were partially offset by interest income on these investments and a net unrealized gain on the CIG Loan. The decrease in pre-tax loss in South Africa in the first six months of 2018 compared to the first six months of 2017 primarily reflected interest income, a net unrealized gain on the CIG Loan and a net realized foreign exchange gain on the AFGRI facility which was partially offset by net foreign exchange losses on the Philafrica, CIG and PGR2 loans.

The increase in pre-tax losses in Canada in the second quarters and first six months of 2018 compared to the second quarters and first six months of 2017 primarily reflected increased investment and advisory fees, interest expense on the Term Loan, increased general and administration expenses and professional fees, partially offset by recovery of performance fees.

A reconciliation of the provision for (recovery of) income taxes calculated at the Canadian statutory income tax rate to the provision for (recovery of) income taxes at the effective tax rate in the consolidated financial statements for the second quarter and first six months of 2018 and 2017 are summarized in the following table:

| | **Second quarter** | | **First six months** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Canadian statutory income tax rate | **26.5%** | 26.5% | **26.5%** | 26.5% |
| Provision for (recovery of) income taxes at the Canadian statutory income tax rate | **(10,997)** | 783 | **(84)** | 1,288 |
| Tax rate differential on losses incurred (income earned) outside of Canada | **12,161** | (808) | **(515)** | (1,509) |
| Provision relating to prior years | **53** | — | **53** | — |
| Change in unrecorded tax benefit of losses and temporary differences | **(3,394)** | 1,981 | **(3,761)** | 1,982 |
| Foreign exchange effect | **2,490** | (2,773) | **4,951** | (1,221) |
| Other including permanent differences | **24** | 5 | **24** | 5 |
| Provision for (recovery of) income taxes | **337** | (812) | **668** | 545 |

The tax rate differential on losses incurred outside of Canada of $12,161 in the second quarter of 2018 (2017 - income earned of $808) and the tax rate differential on income earned outside of Canada of $515 in the first six months of 2018 (2017 - $1,509) principally reflected the impact of net investment income taxed in Mauritius at lower rates, partially offset by income taxed in South Africa at marginally higher rates.

The change in unrecorded tax benefit of losses and temporary differences of $3,394 and $3,761 in the second quarter and first six months of 2018 (2017 - $1,981 and $1,982) principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $1,030 and nil in the second quarter and first six months of 2018 (2017 - $54 for both periods) with respect to the company's wholly-owned subsidiaries and utilization of net operating loss carryforwards in Canada of $2,364 and $3,761 in the second quarter and first six months of 2018 (2017 - $1,927 for both periods) that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS. The change in unrecorded tax benefit of losses and temporary differences of $1,981 and $1,982 in the second quarter and first six months of 2017 principally reflected net operating loss carryforward incurred by the company and foreign accrual property losses with respect to the company's Mauritius subsidiary. At June 30, 2018 deferred tax assets in Canada of $2,889 (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 $2,490 and $4,951 in the second quarter and first six months of 2018 (2017 - $2,773 and $1,221) 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 June 30, 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 future 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 June 30, 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:

| | **June 30, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | **Cash and cash equivalents** | **Investments** | **Total exposure** | Cash and cash equivalents | Investments | Total exposure |
| Canadian dollars | **690** | **—** | **690** | 1,024 | — | 1,024 |
| South African rand(1) | **1,458** | **183,320** | **184,778** | 139 | 119,593 | 119,732 |
| Mauritian rupees | **22** | **—** | **22** | 32 | — | 32 |
| Total | **2,170** | **183,320** | **185,490** | 1,195 | 119,593 | 120,788 |

*(1)* At December 31, 2017, the company was exposed to the South African rand primarily due to its indirect equity interest in AFGRI and the AFGRI Facility. The AFGRI Facility matured on January 31, 2018 and was fully repaid in cash. At June 30, 2018, the company was exposed to the South African rand primarily due to its indirect investment in AFGRI, the Philafrica, CGI and PGR2 loans.

If the South African rand (the foreign currency to which the company has the most exposure) appreciated by 5.0% relative to the U.S. dollar, with all other variables held constant, the effect on pre-tax earnings and net earnings would be a hypothetical increase of $9,649 and $7,092 (December 31, 2017 - $6,058 and $4,453). The hypothetical impact relates principally to the company's indirect equity interest in AFGRI, the Philafrica, CIG and PGR2 loans. Certain shortcomings are inherent with this method of analysis, including the assumption that the 5.0% 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 June 30, 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.

|  | June 30, 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 | **68,237** | **(2,419)** | **(4.6)%** | 18,078 | (982) | (6.9)% |
| 100 basis point rise | **69,792** | **(1,276)** | **(2.4)%** | 18,729 | (504) | (3.5)% |
| No change | **71,528** | **—** | **—** | 19,414 | — | — |
| 100 basis point decline | **73,213** | **1,238** | **2.4 %** | 20,126 | 524 | 3.7 % |
| 200 basis point decline | **74,479** | **2,169** | **4.1 %** | 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 should not be relied on as indicative of future results. Actual values may differ from the projections presented should market conditions vary from assumptions used in the calculation of the fair value of individual securities; such variations include non-parallel shifts in the term structure of interest rates and a change in individual issuer credit spreads.

*Market Price Fluctuations*

Market price fluctuation is the risk that the fair value or future cash flows of an equity investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market. The company's exposure to equity price risk through its equity instruments at June 30, 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 six months of 2018 as a result of unrealized appreciation in Atlas Mara (Level 1 investment in the fair value hierarchy) and the company's additional indirect equity interest investment in AFGRI (Level 3 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.

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

|  | June 30, 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 | **179,452** | **179,452** | 173,603 | 173,603 |
| Hypothetical $ change effect on pre-tax earnings (loss) | **17,945** | **(17,945)** | 17,360 | (17,360) |
| Hypothetical $ change effect on net earnings (loss) | **15,567** | **(15,567)** | 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. Credit risk 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 June 30, 2018 compared to December 31, 2017.

*Cash and Cash Equivalents and Short Term Investments*

At June 30, 2018 the company's cash and cash equivalents of $103,163 (December 31, 2017 - $13,012) were primarily held in major financial institutions (principally in high credit quality Canadian financial institutions). 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.

At June 30, 2018 the company's short term investments in U.S. treasury bills of $163,853 (December 31, 2017 - $32,968) were rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AA+ by Standard & Poor's Financial Services LLC ("S&P").

*Investments in Debt Instruments*

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

At June 30, 2018 the company's debt instruments were all considered to be subject to credit risk with a fair value of $108,157 (December 31, 2017 - $43,647) representing 16.4% (December 31, 2017 - 12.4%) of the total cash and investment portfolio excluding restricted cash of $151,761 at June 30, 2018 (December 31, 2017 - $313,000).

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

| | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Loans:[1] | | |
| AFGRI Facility | **—** | 24,233 |
| Philafrica Facility | **36,628** | — |
| CIG | **23,230** | — |
| PGR2 | **13,697** | — |
| Bonds:[1] | | |
| Atlas Mara Bond | **15,106** | — |
| Nova Pioneer Bonds | **19,496** | 19,414 |
| Total loans and bonds | **108,157** | 43,647 |

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

The company's exposure to credit risk from its investment in fixed income securities increased at June 30, 2018 compared to December 31, 2017 reflecting the investments in the Atlas Mara Bond and the Philafrica, CIG and PGR2 loans, all of which have specific collateral arrangements or guarantees that mitigate credit risk. The company assesses the creditworthiness of each new counterparty prior to entering into contracts. Management monitors credit risk from its African investments in debt instruments through reviewing financial performance of its counterparties, collateral arrangements, diversification, and other credit risk mitigation techniques.

At June 30, 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 a stable outlook. 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. There were no significant changes to the company's exposure to liquidity risk (except as set out in the discussion below) or the framework used to monitor, evaluate and manage liquidity risk at June 30, 2018 compared to December 31, 2017.

On June 18, 2018 the company raised net proceeds of $148,316 from the Secondary Offering (see note 8). The company believes that cash and cash equivalents at June 30, 2018 provide adequate liquidity to meet the company's remaining known significant commitments in 2018, which are principally comprised of the CIG Rights Offer, additional funding of the company's investment in the Atlas Mara Bond, investment and advisory fees, general and administration expenses and corporate income taxes. The Term Loan matures on August 31, 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:

| | June 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | **Africa** | **North America** | **Total** | Africa | North America | Total |
| Cash and cash equivalents | **23,245** | **79,918** | **103,163** | 657 | 12,355 | 13,012 |
| Restricted cash | **—** | **151,761** | **151,761** | — | 313,000 | 313,000 |
| Short term investments | **—** | **163,853** | **163,853** | — | 32,968 | 32,968 |
| Loans: | | | | | | |
| AFGRI Facility | **—** | **—** | **—** | 24,233 | — | 24,233 |
| Philafrica Facility | **36,628** | **—** | **36,628** | — | — | — |
| CIG | **23,230** | **—** | **23,230** | — | — | — |
| PGR2 | **13,697** | **—** | **13,697** | — | — | — |
| | **73,555** | **—** | **73,555** | 24,233 | — | 24,233 |
| Bonds: | | | | | | |
| Atlas Mara Bond | **15,106** | **—** | **15,106** | — | — | — |
| Nova Pioneer Investment | **20,368** | **—** | **20,368** | 19,934 | — | 19,934 |
| | **35,474** | **—** | **35,474** | 19,934 | — | 19,934 |
| Common stocks: | | | | | | |
| Atlas Mara(1) | **177,018** | **—** | **177,018** | 168,671 | — | 168,671 |
| CIG | **2,200** | | **2,200** | 2,563 | — | 2,563 |
| Other(2) | **234** | **—** | **234** | 2,369 | — | 2,369 |
| Indirect equity interest in AFGRI(3) | **105,837** | **—** | **105,837** | 88,314 | — | 88,314 |
| | **285,289** | **—** | **285,289** | 261,917 | — | 261,917 |
| Total cash and investments | **417,563** | **395,532** | **813,095** | 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) Comprised of common shares of a public company 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 June 30, 2018 and December 31, 2017 are summarized by the issuer's primary sector in the table below:

| | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Financial services | **192,124** | 168,671 |
| Food and Agriculture | **142,465** | 112,547 |
| Infrastructure | **25,664** | 4,932 |
| Education | **20,368** | 19,934 |
| Other | **13,697** | — |
| | **394,318** | 306,084 |

During the first six months of 2018 the company's concentration risk in the financial services, food and agriculture and infrastructure sectors increased primarily due to the company's increased investment in its indirect equity interest in AFGRI (through its ownership in Joseph Holdings), investment in the Philafrica and CIG loans, the Atlas Mara Bond and an unrealized gain on the Atlas Mara ordinary shares. The increase in the company's investment in the Other sector relates to the PGR2 Loan.

The company will not make an African Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% of the company's total assets at the time of the investment, provided, however, that the company is permitted to complete up to two African Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25.0% of the company's total assets (the "Investment Concentration Restriction)". The company's Investment Concentration Restriction increased at June 30, 2018 from December 31, 2017 principally due to the net proceeds received from the Secondary Offering and net change in unrealized gains on investments, partially offset by net foreign exchange losses arising as a result of the weakening of the South African rand relative to the U.S. dollar and increased expenses. 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 June 30, 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 $814,160 at June 30, 2018. The increase in total capital primarily reflected the net proceeds from the Secondary Offering of $148,316, partially offset by a net loss of $983 in the first six months 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.

On June 18, 2018 the company completed the Secondary Offering and raised gross proceeds of $150,675 (net proceeds of $148,316 after commission and expenses). Fairfax purchased, directly or through its affiliates, 4,100,000 subordinate voting shares for $50,225. Subsequently, Fairfax purchased an additional 645,421 subordinate voting shares through open market purchases. Net proceeds from the Secondary Offering will be used to acquire additional African Investments and for general corporate purposes. Upon closing of the Secondary Offering, Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 7,245,421 subordinate voting shares of Fairfax Africa. At June 30, 2018, Fairfax's holdings of multiple and subordinate voting shares represented 98.3% of the voting rights and 59.2% of the equity interest in Fairfax Africa (December 31, 2017 - 98.8% and 64.2% respectively).

## 12. Related Party Transactions

*Payable to Related Parties*

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

| | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Performance fee | **—** | 319 |
| Investment and advisory fees | **1,589** | 1,395 |
| Other | **180** | (232) |
| | **1,769** | 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 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 was not payable at June 30, 2018 as the book value per share of $10.56 (before factoring in the impact of the performance fee) at June 30, 2018 was less than the hurdle per share at that date of $10.74. For the second quarter and first six months of 2018 the company recorded recoveries of $9,368 and $319 (2017 - nil for both periods) 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 June 30, 2018 there were no 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 six months 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. For the second quarter and first six months of 2018 the investment and advisory fees recorded in the consolidated statements of earnings and comprehensive income was $1,589 and $3,148 (2017 - $800 and $1,180).

*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 $180 at June 30, 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 and six months ended June 30 were comprised as follows:

| | Second quarter | | First six months | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Brokerage fees | **10** | 3 | **23** | 3 |
| Audit, legal and tax professional fees | **712** | 229 | **1,054** | 381 |
| Salaries and employee benefit expenses | **204** | 50 | **531** | 50 |
| Administrative expenses | **389** | 105 | **770** | 167 |
| | **1,315** | 387 | **2,378** | 601 |

## 14. Supplementary Cash Flow Information

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

| | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Cash and balances with banks | **29,422** | 13,012 |
| U.S. treasury bills | **73,741** | — |
| | **103,163** | 13,012 |

Details of certain cash flows included in the consolidated statements of cash flows for the three and six months ended June 30 were as follows:

| | Second quarter | | First six months | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **(a) Purchases of investments classified as FVTPL** | | | | |
| Loans | **(51,564)** | (23,255) | **(79,498)** | (23,255) |
| Bonds | **(15,040)** | (30,532) | **(15,040)** | (52,274) |
| Common stocks | **—** | — | **(18,570)** | — |
| | **(66,604)** | (53,787) | **(113,108)** | (75,529) |
| **(b) Sales of investments classified as FVTPL** | | | | |
| Loans | **—** | — | **25,399** | — |
| **(c) Net interest received** | | | | |
| Interest received | **1,321** | 576 | **5,182** | 802 |
| Interest paid on term loan | **(1,124)** | — | **(2,179)** | — |
| | **197** | 576 | **3,003** | 802 |

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


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

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the notes to the interim consolidated financial statements for the three and six months ended June 30, 2018 and the company's 2017 annual report.

(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").

(4) Throughout this MD&A, the term "African Investments" refers to deployed capital in Public and Private African Investments as disclosed in note 5 (African Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2018.

**Business Developments**

**Overview**

Fairfax is Fairfax Africa's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. Hamblin Watsa Investment Counsel Ltd. (the "Portfolio Advisor"), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments. Fairfax Africa's subordinate voting shares trade on the Toronto Stock Exchange ("TSX") under the symbol FAH.U. The multiple voting shares of the company are not traded.

Fairfax Africa ended Q2 2018 with a book value per share of $10.56 compared with $11.02 at the end of Q1 2018. The $0.46 decrease in book value per share was primarily due to a weakening of the South African rand relative to the U.S. dollar and a decrease in the fair value of the company's investment in Atlas Mara Limited common shares.

**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 three and six months ended June 30, 2018.

On June 18, 2018 the company completed an underwritten public offering of 12,300,000 subordinate voting shares (the "Secondary Offering") at a price of $12.25 per share (the "Secondary Offering Price") and raised gross proceeds of $150,675 (net proceeds of $148,316 after commission and expenses). Fairfax purchased, directly or through its affiliates, 4,100,000 subordinate voting shares for $50,225. Subsequently, Fairfax purchased an additional 645,421 subordinate voting shares through open market purchases. Net proceeds from the Secondary Offering will be used to acquire additional African Investments and for general corporate purposes.

*Subsequent to June 30, 2018*

On July 3, 2018 the company announced its intention to commence a normal course issuer bid ("NCIB") to purchase up to 2,536,996 subordinate voting shares, representing 10% of the public float of its subordinate voting shares, over a twelve month period from July 6, 2018 to July 5, 2019. Any subordinate voting shares purchased by the company pursuant to the NCIB will be cancelled. The actual number of subordinate voting shares that may be purchased under the NCIB and the timing of any such purchases will be determined at the discretion of the company, with no assurances that any such purchases will be completed. Decisions regarding any future repurchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth. The Notice of Intention to Make a Normal Course Issuer Bid is available, without charge, by contacting the Corporate Secretary of the company.

### African Investments

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

### Operating Environment

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. Zuma is currently undergoing court proceedings in relation to sixteen charges of corruption, including fraud and money laundering over the arms deal.

Despite the initial euphoria over the end of Zuma's tumultuous presidency, the realities of the tough South African economic climate continue to linger. The first quarter Gross Domestic Product ("GDP") figures reflected this sluggishness by unexpectedly contracting 2.2%, compared with the fourth quarter of 2017. South Africa's economy shrank the most in nine years in the first quarter, casting a pall over President Cyril Ramaphosa's pledges to fuel the economy, boost growth and attract investment.

Despite the wavering sentiment following Ramaphosa's appointment as president, the South African economy has been heading in a stronger direction. GDP expanded 0.8% year-on-year in the first quarter of 2018 and the National Treasury continues to hold its prediction that South Africa's economy could expand 1.5% this year, with growth likely to accelerate to 2.1% in 2020. Central to this growth will be the concerted efforts made to strengthen many of the institutions weakened by Zuma's presidency. A key presidential initiative is the drive to attract foreign direct investment into the economy. Several Middle Eastern nations have announced pledges to invest into South Africa.

***South African Foreign and Local Currency Credit Ratings***

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.

In February 2018, Cyril Ramaphosa was elected as the new president of South Africa by ruling party politicians after the resignation of Jacob Zuma. Despite the initial euphoria over the end of Zuma's tumultuous presidency, the realities of the tough South African economic climate continue to linger. The 2018 Q1 GDP figures reflected this sluggishness by unexpectedly contracting 2.2%, the worst GDP print since the Great Recession. The contraction occurred across various sectors with agricultural output recording the sharpest decline. The decrease was mainly because of a drop in the production of field crops and horticultural products. After the record agricultural production seen in the previous year, 2018 is expected to produce a marginal decline from those levels.

The South African economy has been heading in a stronger direction despite the wavering sentiment following Ramaphosa's appointment as president. The National Treasury continues to hold its prediction that South Africa's economy could expand 1.5% this year, with growth likely to accelerate to 2.1% in 2020. Central to this growth story will be the concerted efforts made to strengthen many of the institutions weakened by Zuma's presidency. A key presidential initiative is the drive to attract foreign direct investment into the economy. Several Middle Eastern nations have announced pledges to invest into South Africa.

Moody's credit rating for South Africa was confirmed on March 23, 2018 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. In early July, Moody's published a research report where it flagged tougher times ahead. In the report, it stated that tightening external conditions could affect the overall cost of debt for the government, both through the availability and cost of external finance. Moody's also stated that, while investor confidence was soothed by Cyril Ramaphosa's election as president, enthusiasm has waned as growth numbers disappointed and uncertainty around new land and mining policies weighed. Moody's also highlighted risks related to the rising share of non-resident holdings of government debt.

In May 2018, Standard & Poor's reaffirmed its credit rating for South Africa at BB, with a stable outlook. After the appointment of Ramaphosa, S&P did note the new leadership could bring confidence and faster implementation of key reforms. In March, S&P stated that it was not anywhere near upgrading South Africa from "junk" status but that stronger per capita economic growth and faster debt stabilization could lift ratings in future.

Fitch maintained its credit rating for South Africa on June 15, 2018 at BB+, with a stable outlook.

The South African rand relative to the U.S. dollar declined from a high of 0.085 to a low of 0.072 during the second quarter. The significant weakening of the South African rand reflects foreign investor's anxiety over the direction of the economy in the short to medium term. This, coupled with strengthening crude prices and labour unrest, is expected to put upward pressure on inflation expectations and further weakening consumer demand.

**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 demographic trends and growing middle class that are expected to underpin growth for several years. Sectors of the African economy that the company believes will benefit most from such trends include 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 20.0% 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 June 30, 2018 from December 31, 2017 principally due to the net proceeds received from the Secondary Offering and net change in unrealized gains on investments, partially offset by net foreign exchange losses arising as a result of the weakening of the South African rand relative to the U.S. dollar and increased expenses.

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

The company intends to make multiple different investments as part of its prudent investment strategy in a manner that complies with Investment Concentration Restriction. At June 30, 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 ("Atlas Mara"), 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:

| | | June 30, 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 | 42.4% | 159,335 | 177,018 | 17,683 | 43.3% | 159,335 | 168,671 | 9,336 |
| CIG | November and December 2017 | 4.5% | 2,442 | 2,200 | (242) | 4.5% | 2,442 | 2,563 | 121 |
| Other[(2)] | Various | <5% | 2,055 | 234 | (1,821) | <5% | 1,986 | 2,369 | 383 |
| | | | 163,832 | 179,452 | 15,620 | | 163,763 | 173,603 | 9,840 |
| **Private African Investments:** | | | | | | | | | |
| Indirect Investment in AFGRI[(3)] | February 2017 and January 2018 | 43.8% | 93,469 | 105,837 | 12,368 | 42.2% | 74,968 | 88,314 | 13,346 |
| AFGRI Facility | June 2017 | — | — | — | — | — | 23,255 | 24,233 | 978 |
| Philafrica Facility | February and May 2018 | — | 41,153 | 36,628 | (4,525) | — | — | — | — |
| CIG | June 2018 | — | 23,270 | 23,230 | (40) | — | — | — | — |
| PGR2 | June 2018 | — | 15,074 | 13,697 | (1,377) | — | — | — | — |
| Atlas Mara Bond | May 2018 | — | 15,040 | 15,106 | 66 | — | — | — | — |
| Nova Pioneer Investment[(4)] | August 2017 | — | 20,763 | 20,368 | (395) | — | 20,000 | 19,934 | (66) |
| | | | 208,769 | 214,866 | 6,097 | | 118,223 | 132,481 | 14,258 |
| **Total African Investments** | | | 372,601 | 394,318 | 21,717 | | 281,986 | 306,084 | 24,098 |

*(1)* Cost excludes a non-cash net realized gain on Atlas Mara bonds (previously entered into in 2017) of $5,098 and Atlas Mara Equity Offering of $6,055. See note 5 (African Investments) to the interim consolidated financial statements for three and six months ended ended June 30, 2018 for details.

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

*(3)* Cost 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 and six months ended June 30, 2018 for details.

*(4)* Cost 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 second quarters and first six months of 2018 and 2017 were as follows:

| | Second quarter | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Public African Investments | | | | Private African Investments | | | | | | | | | |
| | Common stock | | | | Common stock | Loans | | | | | Bonds | | | |
| | Atlas Mara | CIG | Other[1] | Total | Indirect equity interest in AFGRI [2] | AFGRI Facility | Philafrica Facility | Nova Pioneer Facility | CIG | PGR2 | Atlas Mara | Nova Pioneer Investment[3] | Total | Total African Investments |
| **Balance as of March 31, 2018** | **200,765** | **2,819** | **1,559** | **205,143** | **125,809** | **—** | **27,851** | **—** | **—** | **—** | **—** | **19,855** | **173,515** | **378,658** |
| Purchases | **—** | **—** | **—** | **—** | **—** | **—** | **13,219** | **—** | **23,270** | **15,074** | **15,040** | **—** | **66,603** | **66,603** |
| Amortization of discount | **—** | **—** | **—** | **—** | **—** | **—** | **472** | **—** | **10** | **—** | **47** | **—** | **529** | **529** |
| Net change in unrealized gains (losses) on investments | **(23,747)** | **(237)** | **(1,003)** | **(24,987)** | **(3,536)** | **—** | **—** | **—** | **1,880** | **(165)** | **19** | **513** | **(1,289)** | **(26,276)** |
| Net foreign exchange losses on investments | **—** | **(382)** | **(322)** | **(704)** | **(16,436)** | **—** | **(4,914)** | **—** | **(1,930)** | **(1,212)** | **—** | **—** | **(24,492)** | **(25,196)** |
| **Balance as of June 30, 2018** | **177,018** | **2,200** | **234** | **179,452** | **105,837** | **—** | **36,628** | **—** | **23,230** | **13,697** | **15,106** | **20,368** | **214,866** | **394,318** |
| **Balance as of March 31, 2017** | — | — | — | — | 77,558 | — | — | — | — | — | — | — | 77,558 | 77,558 |
| Purchases | — | — | — | — | — | 23,255 | — | 3,000 | — | — | — | — | 26,255 | 26,255 |
| Net change in unrealized gains on investments | — | — | — | — | 1,899 | — | — | — | — | — | — | — | 1,899 | 1,899 |
| Net foreign exchange gains (losses) on investments | — | — | — | — | 1,765 | (326) | — | — | — | — | — | — | 1,439 | 1,439 |
| **Balance as of June 30, 2017** | — | — | — | — | 81,222 | 22,929 | — | 3,000 | — | — | — | — | 107,151 | 107,151 |

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

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

*(3)* Net change in unrealized gains on investments of $513 in the second quarter of 2018 was comprised of unrealized gains on the Nova Pioneer Bonds of $213 and Nova Pioneer Warrants of $300. See note 6 (Cash and Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2018 for details.

| | First six months | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Public African Investments | | | | Private African Investments | | | | | | | | | |
| | Common stock | | | | Common stock | Loans | | | | | Bonds | | | |
| | Atlas Mara | CIG | Other[1] | Total | Indirect equity interest in AFGRI [2] | AFGRI Facility | Philafrica Facility | Nova Pioneer Facility | CIG | PGR2 | Atlas Mara | Nova Pioneer Investment[3] | Total | Total African Investments |
| **Balance as of January 1, 2018** | **168,671** | **2,563** | **2,369** | **173,603** | **88,314** | **24,233** | **—** | **—** | **—** | **—** | **—** | **19,934** | **132,481** | **306,084** |
| Purchases | **—** | **—** | **69** | **69** | **20,304** | **—** | **41,153** | **—** | **23,270** | **15,074** | **15,040** | **763** | **115,604** | **115,673** |
| Amortization of discount | **—** | **—** | **—** | **—** | **—** | **—** | **472** | **—** | **10** | **—** | **47** | **—** | **529** | **529** |
| Repayments | **—** | **—** | **—** | | **—** | **(25,399)** | **—** | **—** | **—** | **—** | **—** | **—** | **(25,399)** | **(25,399)** |
| Net change in unrealized gains (losses) on investments | **8,347** | **(102)** | **(1,990)** | **6,255** | **8,299** | **—** | **—** | **—** | **1,880** | **(165)** | **19** | **(329)** | **9,704** | **15,959** |
| Net foreign exchange gains (losses) on investments | **—** | **(261)** | **(214)** | **(475)** | **(11,080)** | **1,166** | **(4,997)** | **—** | **(1,930)** | **(1,212)** | **—** | **—** | **(18,053)** | **(18,528)** |
| **Balance as of June 30, 2018** | **177,018** | **2,200** | **234** | **179,452** | **105,837** | **—** | **36,628** | **—** | **23,230** | **13,697** | **15,106** | **20,368** | **214,866** | **394,318** |
| **Balance as of January 1, 2017** | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Purchases | — | — | — | — | 74,968 | 23,255 | — | 3,000 | — | — | — | — | 101,223 | 101,223 |
| Net change in unrealized gains (losses) on investments | — | — | — | — | 1,899 | — | — | — | — | — | — | — | 1,899 | 1,899 |
| Net foreign exchange gains (losses) on investments | — | — | — | — | 4,355 | (326) | — | — | — | — | — | — | 4,029 | 4,029 |
| **Balance as of June 30, 2017** | — | — | — | — | 81,222 | 22,929 | — | 3,000 | — | — | — | — | 107,151 | 107,151 |

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

*(2)* 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's rights offering. See note 5 (African Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2018 for details. The AFGRI Facility matured on January 31, 2018 and was repaid in cash.

*(3)* During the first quarter of 2018, $763 relating to interest accrued on the Nova Pioneer Bonds was capitalized to the principal amount owing. Net change in unrealized losses on investments of $329 in the first six months of 2018 was comprised of an unrealized loss on the Nova Pioneer Bonds of $681 partially offset by an unrealized gain of $352 on the Nova Pioneer Warrants. See note 6 (Cash and Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2018 for details.

### 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 (Equity Interest)**

***Business Overview***

Atlas Mara is a Sub-Saharan African financial services group listed on the London Stock Exchange under the symbol ATMA. Atlas Mara was founded in 2013 with a vision to establish itself as a premier financial institution across key markets in Sub-Saharan Africa. Since its inception, Atlas Mara has acquired control or significant influence in 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.

The company's investment in Atlas Mara is comprised of an equity interest and a debt instrument. The debt instrument is discussed in the Private African Investments section under the heading Investment in Atlas Mara Limited (Debt Instrument) later in the MD&A.

***Transaction Description***

*Atlas Mara Common Shares*

On July 17, 2017 the company invested $100,000 in Atlas Mara through the purchase of a mandatory convertible bond with an interest rate of 5.0% per annum. On August 31, 2017, concurrent with the closing of the Atlas Mara Equity Offering (described below), the convertible bond (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 June 30, 2018 the company held 71,958,670 ordinary shares of Atlas Mara representing a 42.4% equity interest.

***Key Business Drivers, Events, and Risks***

On April 24, 2018 Simon Lee was appointed to Atlas Mara's Board of Directors, replacing Quinn McLean. John Staley joined the company as Chief Executive Officer effective May 1, 2018. Under Mr. Staley's leadership, Atlas Mara is undertaking a process to upgrade its information technology systems group-wide.

During the second quarter of 2018 Atlas Mara purchased additional shares in Union Bank of Nigeria ("UBN") and increased its equity interest from 48% to 49%. The company issued 2,360,062 ordinary shares as consideration for the UBN shares acquired. Atlas Mara will continue to look for opportunities in 2018 to acquire additional shares in UBN to achieve control. Atlas Mara's investment in UBN provides the company with a strong position in financial services in Africa's largest market.

***Valuation and Interim Consolidated Financial Statement Impact***

At June 30, 2018 the fair value of the company's investment in Atlas Mara was $177,018 and comprised of 71,958,670 ordinary shares representing a 42.4% equity interest (December 31, 2017 - $168,671). The changes in fair value of the company's investment in Atlas Mara for the six months ended June 30, 2018 were due to the increase in Atlas Mara's share price from $2.34 per share at December 31, 2017 to $2.46 per share at June 30, 2018.

The changes in fair value of the company's investment in Atlas Mara for the second quarters and first six months of 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. As of August 2, 2018 Atlas Mara had not yet released its June 30, 2018 interim consolidated financial statements. Summarized below are Atlas Mara's balance sheets at March 31, 2018 and December 31, 2017.

**Balance Sheets**
*(unaudited - US$ thousands)*

| | **March 31, 2018** | December 31, 2017 |
|---|---|---|
| Current assets | **2,182,100** | 2,436,336 |
| Non-current assets | **919,500** | 704,051 |
| Current liabilities | **1,924,800** | 1,962,694 |
| Non-current liabilities | **350,500** | 364,470 |
| Shareholders' equity | **826,300** | 813,223 |

Current assets decreased primarily due to a decrease in cash and financial assets held for trading and prepayments and other receivables, partially offset by an increase in loans and advances and investment securities. 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. Current liabilities decreased primarily due to lower deposits. Non-current liabilities decreased primarily due to a decrease in borrowed funds. Shareholders' equity increased primarily due to net earnings during the quarter and foreign exchange translation losses.

Summarized below are Atlas Mara's statements of earnings for the three months ended March 31, 2018 and 2017.

**Statements of Earnings**
*(unaudited - US$ thousands)*

| | **Three months ended March 31, 2018** | Three months ended March 31, 2017 |
|---|---|---|
| Revenue | **53,500** | 58,400 |
| Earnings before taxes | **26,000** | 9,300 |
| Net earnings | **24,000** | 5,000 |

Revenues decreased primarily due to lower non-interest income and low foreign exchange trading volumes. Earnings before taxes increased primarily due to the inclusion of a one-time gain of $19,200 related to the purchase of additional shares in UBN (due to the fair value of shares acquired exceeding the purchase consideration paid). This gain was partially offset by higher expenses as a result of the purchase of a second bank in Zambia, costs for which were not included in 2017 comparatives. Net earnings increased primarily due to the one-time gain on UBN shares, partially offset by lower income taxes.

**Investment in Consolidated Infrastructure Group (Equity Interest)**

***Business Overview***

Consolidated Infrastructure Group Limited ("CIG") is a pan-African engineering infrastructure company listed on the Johannesburg Stock Exchange under the symbol CIL. CIG has a diversified portfolio of operations including services and materials in power and electrical, oil and gas, building materials and the railway sector. The group's footprint spans over 20 African countries and the Middle East, with over 70% of profit derived outside of South Africa.

CIG operates in four divisions:

- Power: Africa's leading supplier of high voltage turnkey electrical substations, overhead power lines, renewable energy (wind and solar) and related products and services through Conco and its recently acquired smart metering business Conlog.
- Building Materials: Provides crushed stone for the construction industry for application in roads, ready-mix, concrete and for stabilisation through Drift Supersand; manufactures housing materials through West End Claybrick.
- Oil & Gas: Provides full integrated waste management services to the oil and gas industry through Angola Environmental Servicos.
- Rail: Leading railway electrification company in South Africa through Tractionel.

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

The company's investment in CIG is comprised of an equity interest and a debt instrument. The debt instrument is discussed in the Private African Investments section under the heading Investment in Consolidated Infrastructure Group (Debt Instrument) later in this MD&A.

***Transaction Description***

*CIG Common Shares*

In the fourth quarter of 2017 Fairfax Africa acquired 8,789,282 shares or a 4.5% equity interest in CIG at a cost of $2,442.

*CIG Rights Offer*

On May 18, 2018 the company entered into an agreement with CIG regarding a $62,794 (800 million South African rand) rights offer to CIG shareholders (the "CIG Rights Offer"), at the exchange rate on that date. Subject to CIG shareholder approval of the CIG Rights Offer, existing CIG shareholders will be invited to participate on a pro rata basis in the non-renounceable CIG Rights Offer for 200,000,000 CIG ordinary shares at a price of 4.00 South African rand. Fairfax Africa will acquire any shares not taken up by existing CIG shareholders and as a result Fairfax Africa will earn a fee equal to 2.5% of the CIG Rights Offer or $1,570 at the exchange rate on that date (20 million South African rand).

***Key Business Drivers, Events, and Risks***

CIG's footprint extends across 20 African countries in addition to South Africa. See the Operating Environment section of this MD&A for a description of the macro-economic conditions in South Africa.

Key markets for CIG outside South Africa include Angola, Ethiopia, and Kenya. According to the International Monetary Fund ("IMF"), economic growth in Sub-Saharan Africa is expected to rebound to an average of 4.0% by 2023, compared to 3.4% in the Middle East and North Africa, with significant variation between countries.

According to the World Bank, the oil industry represents approximately one-third of Angola's GDP and over 95% of its exports. Angola's economic growth has been negatively impacted by the decline in oil price since mid-2014. Following a peaceful transition of power in 2017, the Angolan government has responded by decreasing expenditure, devaluing the kwanza, and increasing non-oil revenue. The recent recovery in global oil prices is expected to have a positive impact on CIG' s operations in Angola.

In Ethiopia and Kenya, medium term GDP growth is expected to reach 8.0% and 6.0%, respectively. The political environment in both countries is stable, but not without uncertainty. In August 2017 Kenya underwent a peaceful presidential election, and in June 2018 the Ethiopian government initiated a partial privatization of several major state-owned enterprises.

Africa's high demand for infrastructure mitigates the risk posed by challenging macroeconomic trends in CIG's operating markets. The infrastructure gap in Africa remains a multi-billion dollar investment opportunity, with demand for energy infrastructure expected to outpace supply for decades. According to a 2015 McKinsey & Company study on the growth potential of the Sub-Saharan electrical sector, energy is Africa's largest infrastructure deficit, with over $800 billion of estimated investment required to meet future demand. The Global Infrastructure Outlook 2017 report forecasts that in the year 2025 alone, Africa's projected infrastructure gaps tally $27.0 billion in road transport, $18.0 billion in energy and water infrastructure, and $11.0 billion in telecommunication infrastructure.

Africa is the world's fastest urbanizing region. According to McKinsey & Company, between 2015 and 2025, the urban population on the African continent is forecasted to grow about 40% (187million) from 472 million to 659 million. It is expected that Africa's world-leading urbanization rates will contribute strong demand for CIG's products and services across the continent.

***Valuation and Interim Consolidated Financial Statement Impact***

At June 30, 2018 the fair value of the company's equity interest in CIG was $2,200 (December 31, 2017 - $2,563). The changes in fair value of the company's investment in CIG for the six months ended June 30, 2018 were due to foreign exchange losses and the decline in CIG's share price from 3.61 South African rand per share at December 31, 2017 to 3.43 South African rand per share at June 30, 2018.

The changes in fair value of the company's investment in CIG for the second quarters and first six months of 2018 and 2017 are presented in the table disclosed earlier in the African Investments section of this MD&A.

**Investment in Other Common Shares**

During the first quarter of 2018 and the fourth quarter of 2017 the company acquired common shares of a public company listed on the Johannesburg Stock Exchange ("Other Public African Investment") for aggregate cash consideration of $2,055. At June 30, 2018 the fair value of the company's investment in Other Public African Investment was $234 (December 31, 2017 - $2,369) and comprised less than a 5% equity interest. The changes in fair value of the company's investment in Other Public African Investment for the second quarters and first six months of 2018 and 2017 are presented 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 the Company's Private African Investments, fair values of these investments are determined by management using industry acceptable valuation methodologies after considering the history and nature of the business, operating results and financial conditions, outlook and prospects, general economic, industry and market conditions, contractual rights relating to the investment, public market comparables (if available) and, where applicable, other pertinent considerations. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed. The amounts at which the company's private African Investments could be disposed of may differ from the fair values assigned and those differences may be material.

**AFGRI Holdings Proprietary Limited**

***Business Overview***

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.

*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 wholly-owned subsidiary of AFGRI, pursuant to which the company provided Philafrica with $27,934 (330 million South African rand) (the "Tranche 1 Facility"). On May 28, 2018 the company entered into a second secured lending arrangement in the amount of $13,219 (170 million South African rand, net of a 2% raising fee of 3.4 million South African rand) (the "Tranche 2 Facility"). The Tranche 1 and 2 facilities are referred to collectively as the "Philafrica Facility", with an aggregate cash consideration of $41,153.

The Philafrica Facility was provided on an interim basis in advance of an expected future 500 million South African rand 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. The Tranche 1 and 2 facilities mature on October 4, 2018 and December 24, 2018 respectively. 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 will also receive a raising fee equal to 2.0% of the loan proceeds on the Tranche 1 Facility, which is payable at maturity or upon repayment. The company earns interest on the fee at the same rate as the credit facility. The 2.0% raising fee relating to the Tranche 2 Facility was received upfront and netted against the investment cost.

***Key Business Drivers, Events, and Risks***

Despite the initial euphoria over the end of Zuma's tumultuous presidency and the election of Cyril Ramaphosa, the realities of the tough South African economic climate continue to linger. During the first quarter, South Africa's GDP unexpectedly contracted 2.2%, compared with the fourth quarter of 2017. The contraction occurred across various sectors with agricultural output recording the sharpest decline. The decrease was mainly because of a drop in the production of field crops and horticultural products. After the record agricultural production seen in the previous year, 2018 is expected to produce a marginal decline from those levels.

Despite the wavering sentiment following Ramaphosa's appointment as president, the South African economy has been heading in a stronger direction. GDP expanded 0.8% year-on-year in the first quarter of 2018 and the National Treasury continues to hold its prediction that South Africa's economy could expand 1.5% this year, with growth likely to accelerate to 2.1% in 2020. Central to this growth will be the concerted efforts made to strengthen many of the institutions weakened by Zuma's presidency. A key presidential initiative is the drive to attract foreign direct investment into the economy. Several Middle Eastern nations have announced pledges to invest into South Africa.

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 by the end of the third quarter, 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 June 30, 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 12.0% to 25.6% 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 estimates 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 June 30, 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 $105,837 (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 $49,967, the $55,870 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 at June 30, 2018 from December 31, 2017 was primarily related to the additional investment of $20,304 made on January 31, 2018 as part of the AFGRI Rights Offer and unrealized gains of $8,299 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. These increases were partly offset by net foreign exchange losses of $11,080.

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

*AFGRI Facility*

On January 31, 2018 the AFGRI Facility, including accrued interest, in the amount of $25,399, was fully repaid 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 second quarters and first six months of 2018 and 2017 are presented in the tables disclosed earlier in the African Investments section of this MD&A.

The company recorded interest income of nil and $383 for the second quarter and first six months of 2018 (2017 - $42 for both periods) in the consolidated statements of earnings and comprehensive income related to the AFGRI Facility.

*Philafrica Facility*

At June 30, 2018 the estimated fair value of its investment in the Philafrica Facility was $36,628 which, due to the short term to maturity, approximated its amortized cost. The changes in fair value of the Philafrica Facility for the three and six months ended June 30, 2018 are presented in the table disclosed earlier in the African Investments section of this MD&A.

The company recorded interest income of $1,306 and $1,585 for the second quarter and first six months of 2018 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 March 31, 2018 and 2017.

**Balance Sheets**
*(unaudited - US$ thousands)*

| | **March 31, 2018** | March 31, 2017 |
|---|---|---|
| Current assets | **507,292** | 400,236 |
| Non-current assets | **402,593** | 334,342 |
| Current liabilities | **432,582** | 339,121 |
| Non-current liabilities | **292,023** | 253,071 |
| Shareholders' equity | **185,280** | 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 in addition to an increase in trade and other receivables and cash and cash equivalents which were partially offset by a reduction in derivative financial instruments. The increase in non-current assets primarily related to increase in goodwill (relating to the acquisition of Ratten & Slater), financial receivables, investment and joint ventures and capital expenditures which were partially offset by a decrease in 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 and commodity finance, partially offset by a reduction in borrowings from banks to finance trade receivables and derivative financial instruments. Non-current liabilities primarily comprised long-term loans and borrowings.

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

**Statements of Earnings**
*(unaudited - US$ thousands)*

| | **Year ended March 31, 2018** | Year ended March 31, 2017 |
|---|---|---|
| Revenue | **934,430** | 801,076 |
| Earnings (losses) before taxes | **7,454** | (7,683) |
| Net loss | **(11,044)** | (9,440) |

AFGRI's year-over-year increase in revenue and earnings before taxes was primarily due to improved performance in its two largest divisions, AFGRI AGRI Services ("AAS") and Philafrica Foods. AAS' grain management business posted strong results in South Africa in 2018 due to a record maize crop, partially offset by the closure of the Zambian border, which forced the selling of the previous season's maize crop at a loss. The drought in the Western Cape resulted in lower equipment sales, which were partially mitigated by the strong South African rand relative to the U.S. dollar. Philafrica's Nedan, Milling and Animal Feeds divisions all showed improved results, primarily due to increased sales volumes and margins from yellow maize and wheat customers and lower operating costs. AFGRI's year-over-year increase in net loss was primarily due to a $3.8 million loss from its discontinued operations in Nigeria.

**Consolidated Infrastructure Group (Debt Instrument)**

***Business Overview***

The company's investment in CIG is comprised of an equity interest and a debt instrument. The company's investment in CIG common shares is discussed in the Public African Investments section under the heading Investment in Consolidated Infrastructure Group (Equity Interest) earlier in this MD&A.

***Transaction Description***

*CIG Loan*

On May 18, 2018 the company entered into a secured lending arrangement with CIG, pursuant to which the company provided CIG with $23,270 (300 million South African rand) of financing (the "CIG Loan"). The proceeds from the CIG Loan will be used by CIG to fund operations.

The initial term of the CIG Loan is for a period of 1 year at an interest rate of South African prime plus 4.0% per annum, payable monthly in cash. Subject to CIG shareholder approval of the conversion features described below at an upcoming Extraordinary General Meeting of CIG, the term of the CIG Loan will increase to 5 years and the interest rate will be reduced to South African prime plus 2.0% per annum.

Subject to CIG shareholder approval, Fairfax Africa will have the option at any time during the 5 year term to convert all or a portion of the CIG Loan into a maximum of 57,692,308 CIG ordinary shares at a price of 5.20 South African rand per ordinary share, representing 29.4% of the current outstanding CIG ordinary shares. CIG has the option after June 4, 2021 to force the conversion of the CIG Loan into CIG ordinary shares at a price of 5.20 South African rand per ordinary share, provided that the CIG ordinary shares have, at the time of such conversion, traded at more than 6.24 South African rand per ordinary share for at least 90 consecutive days.

In connection with the CIG Loan, Fairfax Africa received a non-refundable fee equal to 2.5% or $597 (7.5 million South African rand) upon drawdown of the CIG Loan for its role in structuring the transaction.

*PGR2 Loan*

In conjunction with the CIG Loan, Fairfax Africa entered into a secured lending agreement with PGR2 Investments Proprietary Limited ("PGR2"), the largest shareholder of CIG, pursuant to which the company provided PRG2 with $20,408 (260 million South African rand) of secured financing (the "PGR2 Loan"). The PGR2 Loan is secured by CIG ordinary shares held by PGR2 and associated parties and bears interest at a rate of 15.0% per annum, payable semi-annually in cash. The initial term of the PGR2 Loan is for 1 year. Subject to CIG shareholder approval of the CIG Rights Offer, the term of the PGR2 Loan will increase to 3 years with a maturity date of May 24, 2021. If the CIG ordinary shares trade above 6.50 South African rand for thirty consecutive days, the PGR2 Loan must be repaid in full. Within six months after the closing date of the CIG Rights Offer, either party may elect to buy or sell shares from the other to the extent necessary to ensure both parties hold an equal number of shares.

***Valuation and Interim Consolidated Financial Statement Impact***

*CIG Loan*

At June 30, 2018 the company estimated the fair value of the CIG Loan using an industry accepted discounted cash flow and option pricing model that incorporated the security's estimated credit spread of 5.0% and estimated share price volatility for the term of the security of 56.2%. The estimated credit spread was based on the implied spread of a floating CIG bond that is readily traded. At June 30, 2018 the company's internal valuation model indicated that the estimated fair value of the CIG Loan was $23,230. The changes in fair value of the CIG Loan for the second quarter and first six months of 2018 are presented earlier in the African Investments section of this MD&A.

The company recorded interest income of $236 for the second quarter and first six months of 2018 in the consolidated statements of earnings and comprehensive income related to the CIG Loan.

*PGR2 Loan*

At June 30, 2018 the company estimated the fair value of the PGR2 Loan using an industry accepted discounted cash flow and option pricing model that incorporated PGR2's estimated credit spread of 8.1%. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to PGR2. At June 30, 2018 the company's internal valuation model indicated that the estimated fair value of the PGR2 Loan was $13,697. The changes in fair value of the PGR2 Loan for the second quarter and first six months of 2018 are presented earlier in the African Investments section of this MD&A.

The company recorded interest income of $195 for the second quarter and first six months of 2018 in the consolidated statements of earnings and comprehensive income related to the PGR2 Loan.

**Atlas Mara Limited (Debt Instrument)**

The company's investment in Atlas Mara is comprised of an equity interest and a debt instrument (discussed below). The company's investment in Atlas Mara common shares is discussed in the Public African Investments section under the heading Investment in Investment in Atlas Mara Limited (Equity Interest) earlier in this MD&A.

***Transaction Description***

*Atlas Mara Bond*

On April 24, 2018 Fairfax Africa and Atlas Mara entered into a placing agreement (the "Placing Agreement"), pursuant to which the company purchased $16,000 in secured convertible bonds maturing on April 24, 2020 (the "Atlas Mara Bond"). The company's investment represented an anchor investment in connection with a targeted debt fundraising by Atlas Mara (the "Debt Fundraising").

The terms of the Atlas Mara Bond include a 2 year tenor, Original Issue Discount ("OID") of 5%, a 1% upfront origination fee, a 3% structuring fee equal to the aggregate proceeds of the Debt Fundraising, an interest rate of 7.5% per annum (payable semi-annually) and a conversion feature, subject to Atlas Mara shareholder approval. In the event shareholder approval for the conversion feature is not obtained, the interest rate will be increased retroactively to 9.0%. The Atlas Mara Bond is secured by shares held by Atlas Mara in UBN.

*Subsequent to June 30, 2018*

In July 2018 the company amended the terms of the Placing Agreement (the "Amended Placing Agreement") to provide an additional $20,000 in funding to maintain Fairfax Africa's position as an anchor investor in Atlas Mara's Debt Fundraising. Under the Amended Placing Agreement, the structuring fee has been reduced to 1% of the Atlas Mara Bond.

***Valuation and Interim Consolidated Financial Statement Impact***

At June 30, 2018 the company estimated the fair value of the Atlas Mara Bond using an industry accepted discounted cash flow that incorporated the security's estimated credit spread of 9.6%. The estimated credit spread was based on the implied spread of a comparable Atlas Mara bond. At June 30, 2018 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara Bond was $15,106. The changes in fair value of the Atlas Mara Bond for the second quarter and first six months of 2018 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $213 for the second quarter and first six months of 2018 in the consolidated statements of earnings and comprehensive income related to the Atlas Mara Bond.

**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 June 30, 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 18.9% (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 June 30, 2018 the company's internal valuation model indicated that the fair value of the Nova Pioneer Investment was $20,368 (December 31, 2017 - $19,934), comprised of Nova Pioneer Bonds of $19,496 (December 31, 2017 - $19,414) and Nova Pioneer Warrants of $872 (December 31, 2017 - $520).

The changes in fair value of the Nova Pioneer Investment for the second quarter and first six months of 2018 and 2017 are presented in the table disclosed earlier in the African Investments section of this MD&A.

The company recorded interest income of $1,035 and $2,059 for the second quarter and first six months of 2018 (2017 - nil) 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 and six months ended June 30 are shown in the following table:

| | Second quarter | | First six months | |
|---|---|---|---|---|
| **Income** | **2018** | 2017 | **2018** | 2017 |
| Interest | **4,587** | 962 | **7,735** | 1,189 |
| Net realized gains (losses) on investments | **(17)** | — | **1,785** | — |
| Net change in unrealized gains (losses) on investments | **(26,276)** | 2,009 | **15,959** | 1,675 |
| Net foreign exchange gains (losses) | **(25,117)** | 1,168 | **(18,386)** | 3,776 |
| | **(46,823)** | 4,139 | **7,093** | 6,640 |
| **Expenses** | | | | |
| Investment and advisory fees | **1,589** | 800 | **3,148** | 1,180 |
| Performance fee | **(9,368)** | — | **(319)** | — |
| General and administration expenses | **1,315** | 387 | **2,378** | 601 |
| Interest expense | **1,137** | — | **2,201** | — |
| | **(5,327)** | 1,187 | **7,408** | 1,781 |
| **Earnings (loss) before income taxes** | **(41,496)** | 2,952 | **(315)** | 4,859 |
| Provision for (recovery of) income taxes | **337** | (812) | **668** | 545 |
| **Net earnings (loss) and comprehensive income (loss)** | **(41,833)** | 3,764 | **(983)** | 4,314 |
| **Net earnings (loss) per share** (basic and diluted) | **$ (0.80)** | $ 0.07 | **$ (0.02)** | $ 0.12 |

Total loss of $46,823 in the second quarter of 2018 compared to total income of $4,139 in the second quarter of 2017 was primarily due to net change in unrealized losses on investments and net foreign exchange losses arising from a weaker South African rand relative to the U.S. dollar. These losses were partially offset by in increase in interest income primarily relating to the Philafrica Facility and Nova Pioneer Bonds.

The net change in unrealized losses on investments of $26,276 in the second quarter of 2018 primarily related to decreases in the fair values of the company's investment in Atlas Mara of $23,747, its indirect equity interest in AFGRI of $3,536 and other public African investment of $1,003, partially offset by an increase in the fair value of the CIG Loan of $1,880. The net change in unrealized gains on investments of $2,009 in the second quarter of 2017 primarily related to an increase in the fair value of its indirect equity interest in AFGRI.

The net foreign exchange loss of $25,117 in the second quarter of 2018 primarily related to foreign exchange rate changes in the company's indirect equity interest in AFGRI, the Philafrica, CIG and PGR2 loans. The net foreign exchange gain of $1,168 in the second quarter of 2017 primarily related to the company's indirect equity interest in AFGRI.

Total income of $7,093 in the first six months of 2018 increased from $6,640 in the first six months of 2017 primarily due to a net change a net change unrealized gains on investments and interest income which were partially offset by net foreign exchange losses arising from a weaker South African rand relative to the U.S. dollar.

The net change in unrealized gains on investments of $15,959 in the first six months of 2018 primarily related to increases in the fair values of the company's investment in Atlas Mara of $8,347, its indirect equity interest in AFGRI of $8,299 and an increase in the fair value of the CIG Loan of $1,880. The net change in unrealized gains on investments of $1,675 in the first six months of 2017 primarily related to an increase in the fair value of the company's indirect equity interest in AFGRI.

The net foreign exchange loss of $18,386 in the first six months of 2018 primarily related to foreign exchange rate changes in the company's indirect equity interest in AFGRI, and the Philafrica, CIG and PGR2 loans which were partially offset by net foreign exchange gains of $1,168 relating relating to the AFGRI facility which matured during the year.

Net realized gains on investments of $1,785 in the first six months of 2018 primarily 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) for the three and six months ended June 30 were comprised as follows:

| | Second 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 - U.S. treasury bills | **(17)** | **—** | **(17)** | — | — | — |
| Loans | **—** | **1,715** | **1,715** | — | — | — |
| Bonds | **—** | **532** | **532** | — | 110 | 110 |
| Common stocks | **—** | **(28,523)** | **(28,523)** | — | 1,899 | 1,899 |
| | **(17)** | **(26,276)** | **(26,293)** | — | 2,009 | 2,009 |
| **Net foreign exchange gains (losses) on:** | | | | | | |
| Cash and cash equivalents | **—** | **145** | **145** | (70) | — | (70) |
| Loans | **—** | **(8,056)** | **(8,056)** | — | (326) | (326) |
| Common stocks | **—** | **(17,140)** | **(17,140)** | — | 1,765 | 1,765 |
| Other foreign exchange gains (losses) | **—** | **(66)** | **(66)** | (201) | — | (201) |
| | **—** | **(25,117)** | **(25,117)** | (271) | 1,439 | 1,168 |

| | First six months | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | **Net realized gains (losses)** | **Net change in unrealized gains (losses)** | **Net gains (losses)** | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) |
| **Net gains (losses) on investments:** | | | | | | |
| Short term investments - U.S. treasury bills | **(18)** | **—** | **(18)** | — | — | — |
| Loans | **—** | **1,715** | **1,715** | — | — | — |
| Bonds | **—** | **(310)** | **(310)** | — | (224) | (224) |
| Common stocks | **1,803** | **14,554** | **16,357** | — | 1,899 | 1,899 |
| | **1,785** | **15,959** | **17,744** | — | 1,675 | 1,675 |
| **Net foreign exchange gains (losses) on:** | | | | | | |
| Cash and cash equivalents | **—** | **215** | **215** | (71) | — | (71) |
| Loans | **1,166** | **(8,139)** | **(6,973)** | — | (326) | (326) |
| Common stocks | **—** | **(11,555)** | **(11,555)** | — | 4,355 | 4,355 |
| Other foreign exchange gains (losses) | **—** | **(73)** | **(73)** | (182) | — | (182) |
| | **1,166** | **(19,552)** | **(18,386)** | (253) | 4,029 | 3,776 |

Total recovery of $5,327 in the second quarter of 2018 compared to total expenses of $1,187 in the second quarter of 2017 were primarily related to recovery of performance fees of $9,368 due to the change in fair value of investments during the second quarter which were partially offset by increased investment and advisory fees as the company had deployed more capital during the quarter, increased general and administration expenses and interest expense on the company's secured term loan. Total expenses of $7,408 in the first six months of 2018 increased from $1,781 in the first six months of 2017 primarily due to increased investment and advisory fees as the company had deployed more capital during the year, increased general and administration expenses and interest expense incurred on the company's secured term loan.

The performance fee, if applicable, is accrued 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 was not payable at June 30, 2018 as the book value per share of $10.56 (before factoring in the impact of the performance fee) at June 30, 2018 was less than the hurdle per share at that date of $10.74. For the second quarter and first six months of 2018 the company recorded recoveries of $9,368 and $319 (2017 - nil for both periods) 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. At June 30, 2018 there were no contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax.

The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. For the second quarter and first six months of 2018 the investment and advisory fees recorded in the consolidated statements of earnings and comprehensive income was $1,589 and $3,148 (2017 - $800 and $1,180).

Interest expense of $1,137 and $2,201 for the second quarter and first six months of 2018 related to the company's secured term loan (2017 - nil for both periods).

General and administration expenses of $1,315 and $2,378 for the second quarter and first six months of 2018 (2017 -$387 and $601) primarily related to wages and salaries (excluding the Chief Executive Officer and Chief Financial Officer who are paid by Fairfax), legal and professional fees and directors' fees.

The provision for income taxes of $337 and $668 for the second quarter and first six months of 2018 (2017 - recovery of $812 and provision of $545) 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 a net loss of $41,833 (a net loss of $0.80 per basic share) in the second quarter of 2018 compared to net earnings of $3,764 (net earnings of $0.07 per basic share) in the second quarter of 2017. The decrease in profitability in the second quarter of 2018 primarily reflected net unrealized losses on investments and net foreign exchange losses on the company's common stock, loans and bonds which were partially offset by recovery of performance fees and interest income.

The company reported a net loss of $983 (a net loss of $0.02 per basic share) in the first six months of 2018 compared to net earnings of $4,314 (net earnings of $0.12 per basic share) in the first six months of 2017. The decrease in profitability in the first six months of 2018 primarily reflected net foreign exchange losses on the company's common stock, loans and bonds which were partially offset by net unrealized gains on investments and interest income.

**Consolidated Balance Sheet Summary**

***Total Assets***

Total assets at June 30, 2018 of $817,383 (December 31, 2017 - $669,111) were principally comprised of total cash and investments as follows:

**Total cash and investments** increased to $813,095 at June 30, 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:

| | **June 30, 2018** | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | **Africa** | **North America** | **Total** | Africa | North America | Total |
| Cash and cash equivalents | **23,245** | **79,918** | **103,163** | 657 | 12,355 | 13,012 |
| Restricted cash | **—** | **151,761** | **151,761** | — | 313,000 | 313,000 |
| Short term investments | **—** | **163,853** | **163,853** | — | 32,968 | 32,968 |
| Loans: | | | | | | |
| AFGRI Facility | — | — | — | 24,233 | — | 24,233 |
| Philafrica Facility | **36,628** | — | **36,628** | — | — | — |
| CIG | **23,230** | — | **23,230** | — | — | — |
| PGR2 | **13,697** | — | **13,697** | — | — | — |
| | **73,555** | — | **73,555** | 24,233 | — | 24,233 |
| Bonds: | | | | | | |
| Atlas Mara Bond | **15,106** | — | **15,106** | — | — | — |
| Nova Pioneer Investment | **20,368** | — | **20,368** | 19,934 | — | 19,934 |
| | **35,474** | — | **35,474** | 19,934 | — | 19,934 |
| Common stocks: | | | | | | |
| Atlas Mara[(1)] | **177,018** | — | **177,018** | 168,671 | — | 168,671 |
| CIG | **2,200** | | **2,200** | 2,563 | — | 2,563 |
| Other[(2)] | **234** | — | **234** | 2,369 | — | 2,369 |
| Indirect equity interest in AFGRI[(3)] | **105,837** | — | **105,837** | 88,314 | — | 88,314 |
| | **285,289** | — | **285,289** | 261,917 | — | 261,917 |
| Total cash and investments | **417,563** | **395,532** | **813,095** | 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)* Comprised of common shares of a public company listed on the Johannesburg Stock Exchange.

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

**Cash and cash equivalents** increased to $103,163 at June 30, 2018 from $13,012 at December 31, 2017 primarily due to the release of $162,000 cash collateral from restricted cash and net proceeds from the Secondary Offering of $148,316, which was partially offset by net purchases of short term investments and the company's participation in the AFGRI Rights Offering, investments in the Philafrica, CIG and PGR2 loans and the Atlas Mara Bond. See note 5 (African Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2018.

**Restricted cash** decreased to $151,761 at June 30, 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 and six months ended June 30, 2018. The cash was re-invested in U.S. treasury bills.

**Short term investments** increased to $163,853 at June 30, 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.

**Interest receivable** of $3,505 at June 30, 2018 related primarily to interest receivable on the Nova Pioneer Bond and Philafrica, CIG and PGR2 loans. Interest receivable of $3,506 at December 31, 2017 related primarily to interest receivable on the AFGRI Facility, Nova Pioneer Bond and the Term Loan and LC Facility.

### *Total Liabilities*

Total liabilities at June 30, 2018 of $153,223 (December 31, 2017 - $152,375) were principally comprised as follows:

**Accounts payable and accrued liabilities** increased to $1,440 at June 30, 2018 from $811 at December 31, 2017 primarily due to an increase in accrued legal and professional fees.

**Payable to related parties** increased to $1,769 at June 30, 2018 from $1,482 at December 31, 2017 which principally reflected the increase in investment advisory fees which were partially offset by a recovery of performance fee payable. See note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and six months ended June 30, 2018.

**Term loan** of $150,000 at June 30, 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 and six months ended June 30, 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 June 30, 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 and six months ended June 30, 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 $814,160 at June 30, 2018. The increase in total capital primarily reflected the net proceeds from the Secondary Offering of $148,316, partially offset by a net loss of $983 in first six months 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 (Borrowings) to the interim consolidated financial statements for the three and six months ended June 30, 2018.

On June 18, 2018 the company completed the Secondary Offering and raised gross proceeds of $150,675 (net proceeds of $148,316 after commission and expenses). Fairfax purchased, directly or through its affiliates, 4,100,000 subordinate voting shares for $50,225. Subsequently, Fairfax purchased an additional 645,421 subordinate voting shares through open market purchases. Net proceeds from the Secondary Offering will be used to acquire additional African Investments and for general corporate purposes. Upon closing of the Secondary Offering, Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 7,245,421 subordinate voting shares of Fairfax Africa. At June 30, 2018, Fairfax's holdings of multiple and subordinate voting shares represented 98.3% of the voting rights and 59.2% of the equity interest in Fairfax Africa (December 31, 2017 - 98.8% and 64.2% respectively).

On July 3, 2018 the company announced its intention to commence a normal course issuer bid to purchase up to 2,536,996 subordinate voting shares, representing 10% of the public float of its subordinate voting shares, over a twelve month period from July 6, 2018 to July 5, 2019. Any subordinate voting shares purchased by the company pursuant to the NCIB will be cancelled. The actual number of subordinate voting shares that may be purchased under the NCIB and the timing of any such purchases will be determined at the discretion of the company. There can be no assurances that any such purchases will be completed. Decisions regarding any future repurchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth. The Notice of Intention to Make a Normal Course Issuer Bid is available, without charge, by contacting the Corporate Secretary of the company.

### Book Value per Share

Common shareholders’ equity at June 30, 2018 was $664,160 (December 31, 2017 - $516,736). The book value per share at June 30, 2018 was $10.56 compared to $10.21 at December 31, 2017 representing an increase of 3.4% in the first six months of 2018, primarily due to the Secondary Offering in the second quarter of 2018 partially offset by the company's net loss of $983 in the first six months of 2018.

| | **June 30, 2018** | December 31, 2017 |
|---|---|---|
| Common shareholders' equity | **664,160** | 516,736 |
| Number of common shares outstanding | **62,920,189** | 50,620,189 |
| Book value per share | **$10.56** | $10.21 |

### Liquidity

During the second quarter of 2018, the company raised net proceeds of $148,316 from the Secondary Offering. The company believes that cash and cash equivalents at June 30, 2018 provide adequate liquidity to meet the company's remaining known significant commitments in 2018, which are principally comprised of the CIG Rights Offer, additional funding of the company's investment in the Atlas Mara Bond, investment and advisory fees, general and administration expenses and corporate income taxes. The Term Loan matures on August 31, 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 six months of 2018 (with comparisons to the first six months of 2017 except as otherwise noted) of major components of cash flow are presented in the following table:

| | First six months | |
|---|---|---|
| | **2018** | 2017 |
| **Operating activities** | | |
| Cash used in operating activities before the undernoted | **(1,609)** | (959) |
| Net purchases of short term investments classified as FVTPL | **(130,085)** | (99,770) |
| Purchases of investments classified as FVTPL | **(113,108)** | (75,529) |
| 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 | **(1,281)** | — |
| Issuance of subordinate voting shares, net of issuance costs | **148,316** | 191,828 |
| Issuance of multiple voting shares | **—** | 227,154 |
| **Increase in cash and cash equivalents during the period** | **90,151** | 242,724 |

Cash 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 used by operating activities before the undernoted of $1,609 in the first six months of 2018 compared to cash used by operating activities before the undernoted of $959 in the first six months of 2017, principally reflected interest payments on the company's term loan and increased general and administrative expenses and investment and advisory fees, partially offset by an increase in interest income.

Net purchases of short term investments classified as FVTPL of $130,085 and $99,770 in the first six months of 2018 and 2017 related to net purchases of U.S. treasury bills.

Purchases of investments classified as FVTPL of $113,108 in the first six months of 2018 primarily related to the company's purchases of loans and bonds including the Philafrica, CIG and PGR2 loans and the Atlas Mara Bond. In addition, the company had also participated in the AFGRI rights offering (through its ownership in Joseph Holdings) and purchased additional common shares of Joseph Holdings. Purchases of investments classified as FVTPL of $75,529 in the first six months of 2017 related to the purchase of Government of South Africa bonds and the AFGRI Facility.

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

Decrease in restricted cash in support of investment of $162,519 in the first six months 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 and six months ended June 30, 2018.

Increase in restricted cash in support of term loan of $1,281 in the first six months of 2018 related to interest received on cash collateral relating to the company's secured term loan.

Issuance of subordinate voting shares, net of issuance costs of $148,316 in the first six months of 2018 related to the net proceeds received from the Secondary Offering. Issuance costs of $2,359 relating to the Secondary Offering were primarily comprised of fees paid to underwriters of the subordinate voting shares. Issuance of subordinate voting shares, net of issuance costs of $191,828 and issuance of multiple voting shares of $227,154 in the first six months of 2017 related to the net proceeds received from the Offerings. Issuance costs of $12,252 relating to the Offerings were primarily comprised of fees paid to underwriters of the subordinate voting shares.

## Contractual Obligations

### *Performance Fees*

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 second quarter and first six months of 2018 was $1,589 and $3,148 (2017 - $800 and $1,180).

The performance fee, if applicable, is accrued 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 was not payable at June 30, 2018 as the book value per share of $10.56 (before factoring in the impact of the performance fee) at June 30, 2018 was less than the hurdle per share at that date of $10.74. For the second quarter and first six months of 2018 the company recorded recoveries of $9,368 and $319 (2017 - nil for both periods) 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. At June 30, 2018 there were no contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax.

### *CIG Rights Offer*

On May 18, 2018 the company entered into an agreement with CIG regarding a $62,794 (800 million South African rand) rights offer to CIG shareholders, at the exchange rate on that date. Subject to CIG shareholder approval of the CIG Rights Offer, existing CIG shareholders will be invited to participate on a pro rata basis in the non-renounceable CIG Rights Offer for 200,000,000 CIG ordinary shares at a price of 4.00 South African rand. Fairfax Africa will acquire any shares not taken up by existing CIG shareholders and as a result Fairfax Africa will earn a fee equal to 2.5% of the CIG Rights Offer or $1,570 at the exchange rate on that date (20 million South African rand).

## 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 and six months ended June 30, 2018.

## Other

### Comparative Quarterly Data (unaudited)

| *US$ thousands, except per share amounts* | **June 30, 2018** | March 31, 2018 | December 31, 2017 | September 30, 2017 | June 30, 2017 | March 31, 2017 |
|---|---|---|---|---|---|---|
| Income (loss) | **(46,823)** | 53,916 | (16,429) | 41,640 | 4,139 | 2,501 |
| Expenses (recovery) | **(5,327)** | 12,735 | (2,088) | 8,189 | 1,187 | 594 |
| Provision for (recovery of) income taxes | **337** | 331 | (492) | 432 | (812) | 1,357 |
| Net earnings (loss) | **(41,833)** | 40,850 | (13,849) | 33,019 | 3,764 | 550 |
| Net earnings (loss) per share | **$ (0.80)** | $ 0.81 | $ (0.27) | $ 0.65 | $ 0.07 | $ 0.02 |
| Net earnings (loss) per diluted share | **$ (0.80)** | $ 0.80 | $ (0.27) | $ 0.65 | $ 0.07 | $ 0.02 |

Income (loss) continues to be primarily comprised of net change in unrealized gains (losses) on investments, net foreign exchange gains (losses), net realized gains (losses) on investments and interest income. Total net loss in the second quarter of 2018 was primarily impacted by the net change in unrealized losses relating to the company's investment in Atlas Mara and its indirect equity interest in AFGRI, the timing of which are not predictable, as well as net foreign exchange losses arising from a weaker South African rand relative to the U.S. dollar.

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.*

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