FAIRFAX AFRICA
HOLDINGS CORPORATION

3

INTERIM REPORT

For the nine months ended
September 30, 2018

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

	Notes	September 30, 2018	December 31, 2017
Assets			
Cash and cash equivalents	6, 14	**94,419**	13,012
Restricted cash	6, 7	**—**	313,000
Short term investments	6	**141,712**	32,968
Loans	5, 6	**70,950**	24,233
Bonds	5, 6	**65,428**	19,934
Common stocks	5, 6	**282,172**	261,917
Total cash and investments		**654,681**	665,064
Interest receivable		**4,979**	3,506
Other assets		**1,522**	541
Total assets		**661,182**	669,111
Liabilities			
Accounts payable and accrued liabilities		**458**	811
Derivative obligation	5, 6	**6,362**	—
Payable to related parties	12	**2,236**	1,482
Income taxes payable		**470**	82
Term loan	7	**—**	150,000
Total liabilities		**9,526**	152,375
Equity			
Common shareholders' equity	8	**651,656**	516,736
		661,182	669,111

See accompanying notes.

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

	Notes	Third quarter 2018	Third quarter 2017	First nine months 2018	First nine months 2017
Income					
Interest	6	**6,507**	3,450	**14,242**	4,639
Net realized gains (losses) on investments	6	**(2)**	11,425	**1,783**	11,425
Net change in unrealized gains (losses) on investments	6	**(11,125)**	29,599	**4,834**	31,274
Net foreign exchange gains (losses)	6	**(3,545)**	(2,834)	**(21,931)**	942
		(8,165)	41,640	**(1,072)**	48,280
Expenses					
Investment and advisory fees	12	**1,733**	825	**4,881**	2,005
Performance fee	12	**—**	5,633	**(319)**	5,633
General and administration expenses	13	**908**	839	**3,286**	1,440
Interest expense	7	**751**	892	**2,952**	892
		3,392	8,189	**10,800**	9,970
Earnings (loss) before income taxes		**(11,557)**	33,451	**(11,872)**	38,310
Provision for income taxes	10	**470**	432	**1,138**	977
Net earnings (loss) and comprehensive income (loss)		**(12,027)**	33,019	**(13,010)**	37,333
Net earnings (loss) per share (basic and diluted)	9	**$ (0.19)**	$ 0.65	**$ (0.24)**	$ 0.91
Shares outstanding (weighted average)	9	**62,920,189**	50,620,189	**55,350,958**	40,871,955

See accompanying notes.

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

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings (deficit)	Common shareholders' equity (deficit)
Balance as of January 1, 2018	**193,326**	**300,000**	**—**	**23,410**	**516,736**
Net loss for the period	**—**	**—**	**—**	**(13,010)**	**(13,010)**
Issuance of shares, net of issuance costs	**148,316**	**—**	**—**	**—**	**148,316**
Purchases and amortization of share-based payment awards	**—**	**—**	**(386)**	**—**	**(386)**
Balance as of September 30, 2018	**341,642**	**300,000**	**(386)**	**10,400**	**651,656**
Balance as of January 1, 2017	—	—	—	(74)	(74)
Net earnings for the period	—	—	—	37,333	37,333
Issuance of shares, net of issuance costs	193,326	300,000	—	—	493,326
Tax benefit on share issuance costs	539	—	—	—	539
Balance as of September 30, 2017	193,865	300,000	—	37,259	531,124

See accompanying notes.

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

		Third quarter		First nine months	
	Notes	**2018**	2017	**2018**	2017
Operating activities					
Net earnings (loss)		**(12,027)**	33,019	**(13,010)**	37,333
Items not affecting cash and cash equivalents:					
Net bond discount amortization		**(1,357)**	(103)	**(2,705)**	(103)
Deferred income taxes	10	**—**	131	**—**	539
Amortization of share-based payment awards		**(42)**	—	**49**	—
Net realized (gains) losses on investments	6	**2**	(11,425)	**(1,783)**	(11,425)
Net change in unrealized (gains) losses on investments	6	**11,125**	(29,599)	**(4,834)**	(31,274)
Net foreign exchange (gains) losses	6	**3,545**	2,834	**21,931**	(942)
Net sales (purchases) of short term investments classified as FVTPL		**22,972**	100,017	**(107,113)**	247
Purchases of investments classified as FVTPL	14	**(32,698)**	(162,782)	**(145,806)**	(238,311)
Sales of investments classified as FVTPL	14	**—**	32,786	**25,399**	32,786
Decrease (increase) in restricted cash in support of investment	7	**—**	(162,000)	**162,519**	(162,000)
Changes in operating assets and liabilities:					
Interest receivable		**(1,474)**	(1,234)	**(1,473)**	(1,872)
Income taxes payable		**456**	301	**388**	438
Payable to related parties		**467**	5,634	**754**	5,598
Other		**(3,632)**	256	**(4,078)**	634
Cash used in operating activities		**(12,663)**	(192,165)	**(69,762)**	(368,352)
Financing activities					
Term loan:					
Proceeds	7	**—**	150,000	**—**	150,000
Issuance costs	7	**—**	(225)	**—**	(225)
Repayment	7	**(150,000)**	—	**(150,000)**	—
Decrease (increase) in restricted cash in support of term loan	7	**151,762**	(150,000)	**150,481**	(150,000)
Subordinate voting shares:	8				
Issuances		**—**	—	**150,675**	204,080
Issuance costs		**—**	(340)	**(2,359)**	(12,592)
Multiple voting shares:	8				
Issuances		**—**	—	**—**	227,154
Cash provided by (used in) financing activities		**1,762**	(565)	**148,797**	418,417
Increase (decrease) in cash and cash equivalents		**(10,901)**	(192,730)	**79,035**	50,065
Cash and cash equivalents - beginning of period		**103,163**	242,724	**13,012**	—
Foreign currency translation		**2,157**	108	**2,372**	37
Cash and cash equivalents - end of period		**94,419**	50,102	**94,419**	50,102

See accompanying notes.

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1. Business Operations

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

Fairfax Financial Holdings Limited ("Fairfax") is Fairfax Africa's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and the associated investment management. Hamblin Watsa Investment Counsel Ltd. (the "Portfolio Advisor"), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments.

At September 30, 2018 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 6,885,421 subordinate voting shares of Fairfax Africa. 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. At September 30, 2018, Fairfax's holdings of multiple and subordinate voting shares represented 98.3% of the voting rights and 58.6% of the equity interest in Fairfax Africa (December 31, 2017 - 98.8% and 64.2% respectively). See note 8 for additional details on the decrease in 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 nine months ended September 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 November 1, 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, common stocks and derivatives are classified at FVTPL. The company manages these investments on a fair value basis, using fair value information to assess investment performance and to make investment decisions. 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.

Derivatives represent forwards contracts and warrants, which derive their value primarily from changes in underlying equity instruments. The fair value of derivatives in a gain position are presented on the consolidated balance sheet within cash and investments. The fair value of derivatives in a loss position are presented on the consolidated balance sheet in derivative obligation. Changes in the fair value of derivatives are recorded as net gains (losses) on investments in the consolidated statement of earnings and comprehensive income.

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, net, in the consolidated statements of changes in equity. At each balance sheet date, the company reviews its estimates of the number of restricted share awards expected to vest.

New accounting pronouncements adopted in 2018

IFRS 9 Financial Instruments ("IFRS 9")

The complete version of IFRS 9 supersedes the 2010 version of IFRS 9 ("IFRS 9 (2010)") previously applied by the company. IFRS 9 includes requirements for the classification and measurement of financial assets and liabilities, an expected credit loss model for financial assets measured at amortized cost or fair value through other comprehensive income, and new hedge accounting guidance. The company has determined that its classifications of financial assets and financial liabilities, remain unchanged under IFRS 9 from those of IFRS 9 (2010). Equity investments and derivative assets continue to be mandatorily classified at FVTPL, debt investments continue to be classified at FVTPL due to the company's business model for the management of those debt instruments, and financial liabilities continue to be classified as amortized cost. IFRS 9 was adopted effective January 1, 2018 in accordance with its retrospective transition provisions without restatement of comparative periods. The company has determined that adoption of IFRS 9 did not have an impact on the consolidated financial statements.

New accounting pronouncement issued but not yet effective

Conceptual Framework for Financial Reporting ("Conceptual Framework")

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

4. Critical Accounting Estimates and Judgments

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

5. African Investments

Throughout this interim consolidated financial statements for the three and nine months ended September 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 third quarters of 2018 and 2017 were as follows:

	Third quarter												
	2018							2017					
	Balance as of July 1,	Purchases	Re-payments	Amortiz-ation of discount[1]	Net change in unrealized gains (losses) on investments[2]	Net foreign exchange losses on investments	Balance as of September 30,	Balance as of July 1,	Purchases	Re-payments	Net change in unrealized gains on investments[1]	Net foreign exchange losses on investments	Balance as of September 30,
Public African Investments:													
Common Stocks:													
Atlas Mara[3]	177,018	—	—	—	(9,354)	—	167,664	—	168,052	—	25,049	—	193,101
CIG	2,200	51	—	—	(105)	(76)	2,070	—	—	—	—	—	—
Other[4]	234	—	—	—	(17)	(63)	154	—	—	—	—	—	—
Total Public African Investments	179,452	51	—	—	(9,476)	(139)	169,888	—	168,052	—	25,049	—	193,101
Private African Investments:													
Common Stocks:													
Indirect equity interest in AFGRI[5]	105,837	—	—	—	(107)	(3,294)	102,436	81,222	—	—	4,095	(2,256)	83,061
GroCapital Holdings[6]	—	9,848	—	—	—	—	9,848	—	—	—	—	—	—
Loans:													
AFGRI Facility	—	—	—	—	—	—	—	22,929	—	—	—	(697)	22,232
Philafrica Facility	36,628	—	—	238	—	(1,172)	35,694	—	—	—	—	—	—
Nova Pioneer Facility	—	—	—	—	—	—	—	3,000	—	(3,000)	—	—	—
CIG	23,230	—	—	21	(804)	(675)	21,772	—	—	—	—	—	—
PGR2	13,697	—	—	—	223	(436)	13,484	—	—	—	—	—	—
Bonds:													
Atlas Mara	15,106	18,800	—	266	5,313	—	39,485	—	—	—	—	—	—
Nova Pioneer Investment[7]	20,368	5,487	—	—	88	—	25,943	—	10,000	—	286	—	10,286
Derivative Obligation:													
CIG forward derivative liability[8]	—	—	—	—	(6,362)	—	(6,362)	—	—	—	—	—	—
Total Private African Investments	214,866	34,135	—	525	(1,649)	(5,577)	242,300	107,151	10,000	(3,000)	4,381	(2,953)	115,579
Total African Investments	394,318	34,186	—	525	(11,125)	(5,716)	412,188	107,151	178,052	(3,000)	29,430	(2,953)	308,680

(1) Amortization of discount on the company's investments is recorded in interest income in the consolidated statement of earnings and comprehensive income.

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

(3) Purchases during the third quarter of 2017 is comprised of $156,899 capital contribution and a non-cash net realized gain on Atlas Mara Bonds of $5,098 (previously entered into in 2017) and Atlas Mara Equity Offering of $6,055.

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

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

(6) At September 30, 2018 the fair value represented the company's investment in the intermediate holding company GroCapital Holdings. On October 4, 2018 GroCapital Holdings acquired a 99.8% equity interest in SABA.

(7) Purchases during the third quarter of 2018 included deferred interest of $1,487 relating to the Nova Pioneer Bonds which was capitalized to the principal amount owing. Net change in unrealized gains on investments of $88 in the third quarter of 2018 was comprised of an unrealized gain on the Nova Pioneer Warrants of $508, partially offset by an unrealized loss on the Nova Pioneer Bonds of $420.

(8) Relates to the company's obligation to subscribe for any CIG shares not acquired by existing CIG shareholders as part of the CIG Rights Offer.

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

	First nine months												
	2018							2017					
	Balance as of January 1,	Purchases	Re-payments	Amortiz-ation of discount[(1)]	Net change in unrealized gains (losses) on investments[(2)]	Net foreign exchange gains (losses) on investments	Balance as of September 30,	Balance as of January 1,	Purchases	Re-payments	Net change in unrealized gains on investments[(1)]	Net foreign exchange gains (losses) on investments	Balance as of September 30,
Public African Investments:													
Common Stocks:													
Atlas Mara[(3)]	**168,671**	**—**	**—**	**—**	**(1,007)**	**—**	**167,664**	—	168,052	—	25,049	—	193,101
CIG	**2,563**	**51**	**—**	**—**	**(207)**	**(337)**	**2,070**	—	—	—	—	—	—
Other[(4)]	**2,369**	**69**	**—**	**—**	**(2,007)**	**(277)**	**154**	—	—	—	—	—	—
Total Public African Investments	**173,603**	**120**	**—**	**—**	**(3,221)**	**(614)**	**169,888**	—	168,052	—	25,049	—	193,101
Private African Investments:													
Common Stocks:													
Indirect equity interest in AFGRI[(5)]	**88,314**	**20,304**	**—**	**—**	**8,192**	**(14,374)**	**102,436**	—	74,968	—	5,994	2,099	83,061
GroCapital Holdings[(6)]	**—**	**9,848**	**—**	**—**	**—**	**—**	**9,848**	—	—	—	—	—	—
Loans:													
AFGRI Facility	**24,233**	**—**	**(25,399)**	**—**	**—**	**1,166**	**—**	—	23,255	—	—	(1,023)	22,232
Philafrica Facility	**—**	**41,153**	**—**	**710**	**—**	**(6,169)**	**35,694**	—	—	—	—	—	—
Nova Pioneer Facility	**—**	**—**	**—**	**—**	**—**	**—**	**—**	—	3,000	(3,000)	—	—	—
CIG	**—**	**23,270**	**—**	**31**	**1,076**	**(2,605)**	**21,772**	—	—	—	—	—	—
PGR2	**—**	**15,074**	**—**	**—**	**58**	**(1,648)**	**13,484**	—	—	—	—	—	—
Bonds:													
Atlas Mara	**—**	**33,840**	**—**	**313**	**5,332**	**—**	**39,485**	—	—	—	—	—	—
Nova Pioneer Investment[(7)]	**19,934**	**6,250**	**—**	**—**	**(241)**	**—**	**25,943**	—	10,000	—	286	—	10,286
Derivative Obligation:													
CIG forward derivative liability[(8)]	**—**	**—**	**—**	**—**	**(6,362)**	**—**	**(6,362)**	—	—	—	—	—	—
Total Private African Investments	**132,481**	**149,739**	**(25,399)**	**1,054**	**8,055**	**(23,630)**	**242,300**	—	111,223	(3,000)	6,280	1,076	115,579
Total African Investments	**306,084**	**149,859**	**(25,399)**	**1,054**	**4,834**	**(24,244)**	**412,188**	—	279,275	(3,000)	31,329	1,076	308,680

(1) Amortization of discount on the company's investments is recorded in interest income in the consolidated statement of earnings and comprehensive income.

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

(3) Purchases during the first nine months of 2017 is comprised of $156,899 capital contribution and a non-cash net realized gain on Atlas Mara Bonds of $5,098 (previously entered into in 2017) and Atlas Mara Equity Offering of $6,055.

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

(5) Acquired through the company's ownership in Joseph Holdings. 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 a non-cash realized gain of $1,803 on the AFGRI Rights Offer (see note 5). The AFGRI Facility matured on January 31, 2018 and was repaid in cash.

(6) At September 30, 2018 the fair value represented the company's investment in the intermediate holding company GroCapital Holdings. On October 4, 2018 GroCapital Holdings acquired a 99.8% equity interest in SABA.

(7) Purchases during the first nine months of 2018 included deferred interest of $2,250 relating to the Nova Pioneer Bonds which was capitalized to the principal amount owing. Net change in unrealized losses on investments of $241 in the first nine months of 2018 was comprised of an unrealized loss on the Nova Pioneer Bonds of $1,101, partially offset by an unrealized gain of $860 on the Nova Pioneer Warrants.

(8) Relates to the company's obligation to subscribe for any CIG shares not acquired by existing CIG shareholders as part of the CIG Rights Offer.

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 of $101,117 (including accrued interest) was converted into 44,722,222 ordinary shares of Atlas Mara at the Issue Price (defined below).

On August 31, 2017 the company acquired an additional 26,036,448 ordinary shares of Atlas Mara for $58,582 through participation in Atlas Mara's equity offering of $100,000 of new ordinary shares (the "Atlas Mara Equity Offering") at a price of $2.25 per share (the "Issue Price"). Fairfax Africa received a fee of $2,800 pursuant to an agreement to acquire any ordinary shares not taken up by qualifying Atlas Mara shareholders and to purchase a minimum of 30.0% of the Atlas Mara Equity Offering, resulting in a commitment to acquire Atlas Mara ordinary shares for net cash consideration of $55,782.

On December 22, 2017 the company acquired an additional 1,200,000 ordinary shares of Atlas Mara for cash consideration of $2,436. Upon completion of this transaction, the company had invested aggregate cash consideration of $159,335 (including accrued interest and net of the $2,800 fee received) for a 42.4% equity interest in Atlas Mara.

At September 30, 2018 the fair value of the company's equity interest in Atlas Mara was $167,664 (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 third quarters and first nine 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. CIG's footprint spans over 20 African countries and the Middle East, and historically with over 70% of its profit derived outside of South Africa.

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

CIG Common Shares

In the fourth quarter of 2017 Fairfax Africa acquired 8,789,282 ordinary shares or a 4.5% equity interest in CIG for cash consideration of $2,442. During the third quarter of 2018 the company acquired an additional 222,428 ordinary shares for cash consideration of $51. Upon completion of this transaction, the company had invested aggregate cash consideration of $2,493 for a 4.6% equity interest in CIG. At September 30, 2018 the fair value of the company's equity interest in CIG was $2,070 (December 31, 2017 - $2,563), comprised of 9,011,710 shares representing a 4.6% equity interest (December 31, 2017 - 4.5%). The changes in fair value of the company's equity interest in CIG for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

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 in the infrastructure sector, listed on the Johannesburg Stock Exchange ("Other Public African Investment") for aggregate cash consideration of $2,055. At September 30, 2018 the fair value of the company's investment in Other Public African Investment was $154 (December 31, 2017 - $2,369) and represents less than a 5% equity interest in the Other Public African Investment. The changes in fair value of the company's investment in Other Public African Investment for the third quarter and first nine 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

AFGRI Holdings Proprietary Limited is a private holding company based in South Africa and is the 100% shareholder of AFGRI Group Holdings ("AFGRI"), an investment holding company with interests in a number of agricultural and food-related companies providing products and services to ensure sustainable agriculture. AFGRI's core focus is grain commodities and it provides services across the entire grain production and storage cycle, offering financial support and solutions as well as 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). Upon completion of 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 (excluding a non-cash realized gain of $1,803 on the AFGRI Rights Offer). Upon completion of the AFGRI Rights Offer, 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. In aggregate, 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 non-cash realized gain on investments of $1,803 in the first nine months of 2018 in the consolidated statements of earnings and comprehensive income.

At September 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 12.1% to 25.8% and long term growth rates ranging from 1.0% to 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 third quarter of 2018 by AFGRI's management. Discount rates were based on the company's assessment of risk premiums to the redeemable risk-free rate of the economic environment in which AFGRI operates. At September 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 $102,436 (December 31, 2017 - $88,314, representing a 42.2% indirect equity interest, comprised of the class A shares of Joseph Holdings at the redeemable fixed price of $49,967 and the fair value of the ordinary shares of Joseph Holdings of $52,469 (2017 - $38,347). The changes in fair value of the company's indirect equity interest in AFGRI for the third quarters and first nine 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 company received $25,399 from AFGRI for settlement of the AFGRI Facility (including accrued interest), which resulted in a realized foreign exchange gain of $1,166 recorded in the consolidated statements of earnings and comprehensive income in the first nine months of 2018. The changes in the AFGRI Facility for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of nil and $383 related to the AFGRI Facility for the third quarter and first nine months of 2018 (2017 - $962 and $1,004) in the consolidated statements of earnings and comprehensive income.

Investment in GroCapital Holdings Proprietary Limited (Subsequent to September 30, 2018 acquired the South African Bank of Athens)

In December 2016 AFGRI Group Holding Proprietary Limited (“AFGRI”) entered into an agreement with the National Bank of Greece S.A. and NBG Malta Holdings Ltd. (collectively “NBG”) to acquire 27,965,985 ordinary shares, or a 99.8% equity interest in the South African Bank of Athens ("SABA") (the “Share Purchase Agreement” or “SPA”). To facilitate the closing of this transaction, GroCapital Holdings Proprietary Limited (“GroCapital Holdings”) was established as an intermediate holding company to acquire the SABA shares. On May 12, 2017 AFGRI appointed GroCapital Holdings as its nominee for purposes of the SPA and assigned its rights and obligations under the SPA to GroCapital Holdings. On September 28, 2018 Fairfax Africa acquired a 35.0% equity interest in GroCapital Holdings for cash consideration of $9,848 (approximately 139 million South African rand). The Public Investment Corporation SOC Limited (“PIC”) and AFGRI own the remaining 35.0% and 30.0% equity interest in GroCapital Holdings.

At September 30, 2018 the fair value of the company's investment in GroCapital Holdings of $9,848 represented only cash at period end.

Subsequent to September 30, 2018

On October 4, 2018 GroCapital Holdings acquired the 99.8% equity interest in SABA from NBG through the SPA assignment from AFGRI. Upon completion of this transaction, Fairfax Africa through its 35.0% equity interest in GroCapital Holdings, had an indirect 35.0% equity interest in SABA.

On October 26, 2018 GroCapital Holdings issued a $6,230 at current exchange rates (approximately 92 million South African rand) capital call to its shareholders to fund their pro rata contribution, which will be invested by GroCapital Holdings into SABA to ensure compliance with capital adequacy requirements of the South African regulators. By November 9, 2018 Fairfax Africa and AFGRI are required to invest their pro rata contribution of $2,181 and $1,869 at current foreign exchange rates (approximately 32.2 million and 27.6 million South African rand) to GroCapital Holdings to maintain their 35.0% and 30.0% indirect equity interest in SABA.

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

Investment in Philafrica Foods Proprietary Ltd.

Philafrica Foods Proprietary Ltd. ("Philafrica") is headquartered in South Africa, where it owns and operates maize mills, wheat mills, animal feed factories, snacking facilities, soya crushing and extraction plants, which process oil and other raw materials into edible oils, fats and proteins for human consumption (primarily for the food processing and quick-service restaurant industries), and a mussels farm and factory. Philafrica also has food-related businesses outside South Africa, consisting mainly of a cassava processing business in Côte d'Ivoire and Mozambique and a poultry joint venture in Mozambique. The company is a wholly-owned subsidiary of AFGRI (see the Investment in AFGRI Holdings Proprietary Limited section earlier in note 5). In addition to its 12 production plants across the South African regions of Gauteng, Kwazulu Natal, Mpumalanga, Eastern Cape, Western Cape, the Free State and Limpopo, Philafrica has investments in Mozambique.

Philafrica Facility

On February 28, 2018 Fairfax Africa entered into a secured lending arrangement with Philafrica, 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 $270 (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, net of the $270 raising fee.

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 "Philafrica Rights Offer" described below).

The Philafrica Facility is guaranteed by AFGRI Operations Proprietary Limited, a subsidiary controlled by AFGRI. The Tranche 1 and 2 facilities mature on October 4, 2018 (see below for disclosure on maturity extension) and December 24, 2018 respectively. The Philafrica Facility may be repaid through the issuance of Philafrica shares to Fairfax Africa or in cash. 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 Philafrica Facility in shares, the interest rate will be increased retroactively to South African Prime plus 4.0% per annum.

Fairfax Africa received 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 facility. Fairfax Africa also earned a 2.0% raising fee relating to the Tranche 2 facility that was received upfront and presented net in the cost of the company's investment in the Philafrica Facility.

At September 30, 2018 the estimated fair value of the company's investment in the Philafrica Facility was $35,694 which due to the short term to maturity, approximated its amortized cost. The changes in fair value of the Philafrica Facility for the third quarter and first nine months of 2018 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $1,358 and $2,943 for the third quarter and first nine months of 2018 in the consolidated statements of earnings and comprehensive income related to the Philafrica Facility.

Subsequent to September 30, 2018

Philafrica Facility

On October 4, 2018 the maturity date of the Tranche 1 Facility was extended from October 4, 2018 to December 24, 2018, coinciding with the Tranche 2 Facility's maturity date.

Philafrica Rights Offer

On October 25, 2018 Fairfax Africa entered into a subscription agreement with Philafrica to participate in a previously announced rights offering of Philafrica ordinary shares of $33,861 in aggregate, at current exchange rates (500 million South African rand). In accordance with the subscription agreement, Fairfax Africa will convert $22,010 at current exchange rates (325 million South African rand) of its Tranche 1 Facility into 26,000 ordinary shares of Philafrica. The remaining capital of the Philafrica Facility in the amount of $11,851 at current exchange rates (175 million South African rand) will be repaid in cash (in addition to accrued interest at time of repayment) in accordance with the terms of the agreements. Upon completion of this transaction, the company will have invested aggregate cash consideration of $22,152 for a 26.0% equity interest in Philafrica. The transaction is expected to close in the fourth quarter of 2018, subject to customary closing conditions.

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

The company's investment in CIG is comprised of an equity interest and a debt instrument and derivative obligation classified as Level 3 in the fair value hierarchy. The company's investment in CIG common shares is discussed in the Public African Investments section under the heading Investment in Consolidated Infrastructure Group (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 initial term of the CIG Loan was for a period of one year at an interest rate of South African prime plus 4.0% per annum, payable monthly in cash. On August 29, 2018 at a CIG Extraordinary General Meeting, shareholder approval was received for the conversion features in the CIG Loan (described below), and as a result the term of the CIG Loan was increased to five years and the interest rate was reduced to South African prime plus 2.0% per annum.

Fairfax Africa has the option at any time during the five year term to convert all or a portion of the CIG Loan into a maximum of 57,692,308 CIG ordinary shares of CIG at a price of 5.20 South African rand per ordinary share, representing a 29.4% equity interest in CIG. 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, upon completion Fairfax Africa received a fee of $597 (7.5 million South African rand) for its involvement in structuring the transaction.

At September 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 5.9% and estimated share price volatility for the term of the security of 58.3%. The estimated credit spread was based on a peer group of comparable companies adjusted for credit risk specific to CIG. At September 30, 2018 the company's internal valuation model indicated that the estimated fair value of the CIG Loan was $21,772. The changes in fair value of the CIG Loan for the third quarter and first nine months of 2018 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $744 and $980 for the third quarter and first nine months 2018 in the consolidated statements of earnings and comprehensive income related to the CIG Loan.

CIG Rights Offer (Derivative Obligation)

On May 18, 2018 the company entered into an agreement with CIG regarding a $54,178 at current exchange rates (800 million South African rand) rights offer to CIG shareholders (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 (the "Offer Price"). 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 $1,354, at current exchange rates (20 million South African rand). This transaction is expected to close in the fourth quarter of 2018, subject to regulatory approvals and customary closing conditions.

The company's obligation to subscribe for any shares not taken by existing CIG shareholders as part of the CIG Rights Offer gave rise to a forward derivative liability. At September 30, 2018 the company estimated the fair value of the derivative obligation using an estimated forward price of the CIG ordinary shares at an estimated closing date compared to the Offer Price, which was multiplied by the expected take-up percentage of CIG Rights Offer by Fairfax Africa. At September 30, 2018 the company's internal valuation model indicated that the estimated fair value of the derivative obligation was $6,362. The changes in fair value of the derivative obligation for CIG's Rights Offer for the third quarter and first nine months of 2018 are presented in the tables disclosed earlier in note 5.

PGR2 Loan (Debt Instrument)

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 PGR2 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 was for a period of one year. Upon CIG shareholder approval of the CIG Rights Offer at the August 29, 2018 Extraordinary General Meeting of CIG, the term of the PGR2 Loan was increased to three 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 September 30, 2018 $15,074 of the available loan amount had been drawn down by PGR2.

At September 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 7.2%. 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 September 30, 2018 the company's internal valuation model indicated that the estimated fair value of the PGR2 Loan was $13,484. The changes in fair value of the PGR2 Loan for the third quarter and first nine months of 2018 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $501 and $696 for the third quarter and first nine 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 included a two year tenor, original issue discount (“OID”) of 5.0%, a 1.0% upfront origination fee, and a 3.0% structuring fee equal to the aggregate proceeds of the Debt Fundraising, with features that included an interest rate of 7.5% per annum (payable semi-annually) and a conversion feature, which were subject to Atlas Mara shareholder approval. In the event shareholder approval for the conversion feature was not obtained, the interest rate would be increased retroactively to 9.0%. The Atlas Mara Bond is secured by shares held by Atlas Mara in Union Bank of Nigeria (“UBN”). The Atlas Mara Bond is not rated.

On July 5, 2018 the company amended the terms of the Placing Agreement (the "Amended Placing Agreement") to provide an additional $20,000 in funding to maintain Fairfax Africa's position as an anchor investor in Atlas Mara's Debt Fundraising. Under the Amended Placing Agreement, the structuring fee was reduced to 1.0% of the Atlas Mara Bond. Upon completion of this transaction, the company had invested aggregate cash consideration of $33,840 (net of the fees) in Atlas Mara Bond maturing on April 24, 2020.

At September 30, 2018 the company estimated the fair value of the Atlas Mara Bond using an industry accepted discounted cash flow and option pricing model that incorporated Atlas Mara's estimated credit spread of 10.0%. The estimated credit spread was based on the implied spread of a comparable Atlas Mara Bond. At September 30, 2018 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara Bond was $39,485. The changes in fair value of the Atlas Mara Bond for the third quarter and first nine months of 2018 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $930 and $1,143 for the third quarter and first nine months of 2018 (2017 - nil in both periods) in the consolidated statements of earnings and comprehensive income related to the Atlas Mara Bond.

Investment in Nova Pioneer Education Group

Nova Pioneer Education Group ("Nova Pioneer") is a Pan-African independent school network offering preschool through secondary education for students from ages 3 through 19. Nova Pioneer was started in 2013 with its first school opening in South Africa in 2015. Since then, the company has expanded across South Africa and launched its first campus in Kenya in 2016. Nova Pioneer currently operates eight schools with a combined total of approximately 2,200 students.

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 a $20,000 investment in Nova Pioneer which consisted of secured debentures maturing on December 31, 2024 (the "Nova Pioneer Bonds") and 2,000,000 warrants (the "Nova Pioneer Warrants"), collectively the "Nova Pioneer Investment", to be issued in tranches. At December 31, 2017 the full $20,000 investment was completed, consisting 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 at a price of $2.06 per ordinary share of Ascendant. Other than in circumstances relating to a change of control or a value realization event, the Nova Pioneer Warrants may be exercised after June 30, 2021. The Nova Pioneer Bonds are not rated.

On August 30, 2018 the company entered an Amending Agreement and completed an additional $4,000 investment in Nova Pioneer, comprised of secured debentures and 400,000 warrants, on the same terms as the initial Nova Pioneer Investment.

At September 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 19.1% (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 September 30, 2018 the company's internal valuation model indicated that the fair value of the Nova Pioneer Investment was $25,943 (December 31, 2017 - $19,934), comprised of Nova Pioneer Bonds of $24,268 (December 31, 2017 - $19,414) and Nova Pioneer Warrants of $1,675 (December 31, 2017 - $520).The changes in fair value of the Nova Pioneer Investment for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed earlier in note 5.

The company recorded interest income of $1,190 and $3,249 for the third quarter and first nine months of 2018 (2017 - $219 in both periods) 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:

	September 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	**94,419**	—	—	**94,419**	13,012	—	—	13,012
Restricted cash[(1)]	—	—	—	—	313,000	—	—	313,000
	94,419	—	—	**94,419**	326,012	—	—	326,012
Short term investments - U.S. treasury bills	**141,712**	—	—	**141,712**	32,968	—	—	32,968
Loans:								
AFGRI Facility	—	—	—	—	—	—	24,233	24,233
Philafrica Facility	—	—	**35,694**	**35,694**	—	—	—	—
CIG	—	—	**21,772**	**21,772**	—	—	—	—
PGR2	—	—	**13,484**	**13,484**	—	—	—	—
	—	—	**70,950**	**70,950**	—	—	24,233	24,233
Bonds:								
Atlas Mara Bond	—	—	**39,485**	**39,485**	—	—	—	—
Nova Pioneer Investment[(2)]	—	—	**25,943**	**25,943**	—	—	19,934	19,934
	—	—	**65,428**	**65,428**	—	—	19,934	19,934
Common stocks:								
Atlas Mara	**167,664**	—	—	**167,664**	168,671	—	—	168,671
CIG	**2,070**	—	—	**2,070**	2,563	—	—	2,563
Other	**154**	—	—	**154**	2,369	—	—	2,369
Indirect equity interest in AFGRI	—	—	**102,436**	**102,436**	—	—	88,314	88,314
GroCapital Holdings[(3)]	—	—	**9,848**	**9,848**	—	—	—	—
	169,888	—	**112,284**	**282,172**	173,603	—	88,314	261,917
Total cash and investments	**406,019**	—	**248,662**	**654,681**	532,583	—	132,481	665,064
Derivative obligation:								
CIG forward derivative liability[(4)]	—	—	**(6,362)**	**(6,362)**	—	—	—	—
Total cash and investments, net of derivative obligation	**406,019**	—	**242,300**	**648,319**	**532,583**	—	**132,481**	**665,064**
	62.6 %	—	**37.4 %**	**100.0 %**	80.1 %	—	19.9 %	100.0 %

(1) During the third quarter of 2018, $150,000 of cash collateral was used to repay the company's Term Loan with interest received on the cash collateral of $2,535 released to the company as non-restricted cash (see note 7). During 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). At 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 earned on restricted cash.

(2) At September 30, 2018 comprised of Nova Pioneer Bonds of $24,268 (December 31, 2017 - $19,414) and Nova Pioneer Warrants of $1,675 (December 31, 2017 - $520) (see note 5).

(3) At September 30, 2018 the fair value represented the company's investment in the intermediate holding company GroCapital Holdings. On October 4, 2018 GroCapital Holdings acquired a 99.8% equity interest in SABA (see note 5).

(4) Relates to the company's obligation to subscribe for any CIG shares not acquired by existing CIG shareholders as part of the CIG Rights Offer.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the first nine 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 nine months of 2018 and 2017 related to unrealized gains (losses) on investments held at September 30, 2018 and September 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 September 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 investments in: (i) the Philafrica Facility and the derivative obligation relating to the CIG Rights Offer as the company determined that there were no significant unobservable inputs suited for a sensitivity analysis; (ii) the Nova Pioneer Warrants as there were no updates to its significant unobservable inputs from December 31, 2017; and (iii) the company's equity interest in GroCapital Holdings as the fair value September 30, 2018 related to the company's cash contribution.

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	$21,772	Discounted cash flow and option pricing model	Credit spread	5.9%	428 / (414)	315 / (304)
			Estimated share price volatility	58.3%	nil / (1,442)	nil / (1,060)
PGR2 Loan	$13,484	Discounted cash flow and option pricing model	Credit spread	7.2%	94 / (284)	69 / (209)
Atlas Mara Bond	$39,485	Discounted cash flow and option pricing model	Credit spread	10.0%	295 / (288)	217 / (212)
Nova Pioneer Bonds	$24,268	Discounted cash flow and option pricing model	Credit spread	19.1%	840 / (798)	617 (587)
Indirect equity interest in AFGRI	$102,436	Discounted cash flow	After-tax discount rate	12.1% to 25.8%	6,612 / (6,030)	5,736 / (5,231)
			Long term growth rate	1.0% to 3.0%	2,333 / (2,228)	2,024 / (1,933)

(1) The impact on the internal valuation models from changes in significant unobservable inputs deemed to be subject to the most judgment and estimates disclosed in the above table shows the hypothetical increase (decrease) in net earnings. Changes in the after-tax discount rates (50 basis points), long term growth rates (25 basis points), estimated share price volatility (minimum and maximum historical volatility over a two year period from the balance sheet date) and credit spreads (100 basis points), each in isolation, would hypothetically change the fair value of the company's investments as noted in the table above. Generally, an increase (decrease) in long term growth rates or a decrease (increase) in after-tax discount rates, estimated share price volatility or credit spreads would result in a higher (lower) fair value of the company's Private African Investments classified as Level 3 in the fair value hierarchy.

Fixed Income Maturity Profile

Loans and bonds are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of call and put features. At September 30, 2018 debt instruments containing call features represented $59,524 (December 31, 2017 - $19,414) value of loans and bonds. At September 30, 2018 and December 31, 2017 there were no debt instruments containing put features.

	September 30, 2018		December 31, 2017	
	Amortized cost	**Fair value(1)**	Amortized cost	Fair value(1)
Due in 1 year or less	**80,239**	**70,950**	24,233	24,233
Due after 1 year through 5 years	**60,108**	**63,753**	20,000	19,414
	140,347	**134,703**	44,233	43,647

(1) Excludes the fair value of Nova Pioneer Warrants of $1,675 (December 31, 2017 - $520) (see note 5).

Investment Income

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

Interest

	Third quarter		First nine months	
	2018	2017	**2018**	2017
Interest:				
Cash and cash equivalents	**440**	366	**1,250**	961
Restricted cash	**512**	332	**1,947**	332
Short term investments	**832**	98	**1,651**	305
Loans	**2,603**	1,046	**5,002**	1,098
Bonds	**2,120**	1,608	**4,392**	1,943
Total interest income	**6,507**	3,450	**14,242**	4,639

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

	Third 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	**(2)**	**—**	**(2)**	—	—	—
Loans	**—**	**(581)**	**(581)**	—	—	—
Bonds	**—**	**5,401**	**5,401**	5,370	455	5,825
Common stocks	**—**	**(9,583)**	**(9,583)**	—	29,144	29,144
Derivative obligation	**—**	**(6,362)**	**(6,362)**	6,055	—	6,055
	(2)	**(11,125)**	**(11,127)**	11,425	29,599	41,024
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**2,157**	**—**	**2,157**	108	—	108
Loans	**—**	**(2,283)**	**(2,283)**	—	(697)	(697)
Common stocks	**—**	**(3,433)**	**(3,433)**	—	(2,256)	(2,256)
Other foreign exchange gains (losses)	**—**	**14**	**14**	182	(171)	11
	2,157	**(5,702)**	**(3,545)**	290	(3,124)	(2,834)

	First nine 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	**(20)**	**—**	**(20)**	—	—	—
Loans	**—**	**1,134**	**1,134**	—	—	—
Bonds	**—**	**5,091**	**5,091**	5,370	231	5,601
Common stocks	**1,803**	**4,971**	**6,774**	—	31,043	31,043
Derivative obligation	**—**	**(6,362)**	**(6,362)**	6,055	—	6,055
	1,783	**4,834**	**6,617**	11,425	31,274	42,699
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**2,372**	**—**	**2,372**	37	—	37
Loans	**1,166**	**(10,422)**	**(9,256)**	—	(1,023)	(1,023)
Common stocks	**—**	**(14,988)**	**(14,988)**	—	2,099	2,099
Other foreign exchange losses	**—**	**(59)**	**(59)**	—	(171)	(171)
	3,538	**(25,469)**	**(21,931)**	37	905	942

7. Borrowings

	September 30, 2018			December 31, 2017		
	Principal	**Carrying value**	**Fair value**	Principal	Carrying value	Fair value(1)
Secured Term Loan, floating rate, repaid on August 29, 2018	—	—	—	150,000	150,000	150,000

(1) Principal approximated fair value at December 31, 2017.

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 $2,535, was classified as restricted cash in the consolidated balance sheet. On January 31, 2018, the company extended the maturity of the Term Loan to August 31, 2018. On August 29, 2018 the proceeds from the cash collateral, including interest received, was released from restricted cash and used to fully repay the Term Loan.

Letter of Credit Facility

On August 31, 2017 the company entered into a non-revolving term 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.

Revolving Credit Facility

On September 7, 2018 the company entered into a $90,000 secured, revolving demand credit facility with a syndicate of Canadian lenders, bearing interest at a rate of LIBOR plus 400 basis points (the "Credit Facility") which is payable in arrears on the applicable interest payment date. The Credit Facility has a maturity date of September 7, 2019 with an option to extend for an additional year on an annual basis. At September 30, 2018 issue costs of $690 were deferred and $43 was amortized and recorded in interest expense in the consolidated statement of earnings. Deferred issue costs will be amortized over one year. The Credit Facility is presented net of issue costs when drawn; otherwise issue costs are recorded in other assets on the consolidated balance sheet. The Credit Facility contains a financial covenant that requires the company to maintain common shareholders’ equity of not less than $600,000. In connection with the Credit Facility, the company is required to maintain a debt reserve account balance equal to the interest outstanding for the subsequent payment period which will be classified as restricted cash in the consolidated balance sheet. At September 30, 2018 there were no amounts drawn on the Credit Facility and the company was in compliance with its financial covenant requirement to maintain common shareholders' equity of not less than $600,000.

Interest Income

In the third quarter and first nine months of 2018 the company earned interest of $512 and $1,888 (2017 - $160 in both periods) on the cash collateral provided for the Term Loan which was recorded in interest in the company's consolidated statements of earnings and comprehensive income.

Interest Expense

For the third quarter and first nine months of 2018 interest expense of $751 and $2,952 (2017 - $892 in both periods) 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 - September 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 - September 30	**30,000,000**	30,000,000
Common shares effectively outstanding - September 30	**62,920,189**	50,620,189

Capital transactions

Nine months ended September 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 of $2,359). 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 6,885,421 subordinate voting shares of Fairfax Africa. At September 30, 2018 Fairfax's holdings of multiple and subordinate voting shares represented 98.3% of the voting rights and 58.6% of the equity interest in Fairfax Africa (December 31, 2017 - 98.8% and 64.2% respectively).

Nine months ended September 30, 2017

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").

Repurchase of Shares

During the first nine months of 2018, under the terms of the normal course issuer bid, the company did not repurchase any shares for cancellation.

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, 43,476 RSA's with a total fair value of $435 were granted to the company's five independent directors and senior management. The fair value of RSA's on the grant date is amortized to compensation expense included in general and administration expenses in the consolidated statement of earnings and comprehensive income over five years with a corresponding increase in share-based payments, net, in the consolidated statements of changes in equity.

The share-based payments recognize 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).

9. Net Earnings per Share

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

	Third quarter		First nine months	
	2018	2017	**2018**	2017
Net earnings (loss) – basic and diluted	**(12,027)**	33,019	**(13,010)**	37,333
Weighted average shares outstanding – basic	**62,920,189**	50,620,189	**55,350,958**	40,871,955
Contingently issuable subordinate voting shares	**—**	403,346	**—**	403,346
Weighted average common shares outstanding – diluted	**62,920,189**	51,023,535	**55,350,958**	41,275,301
Net earnings (loss) per share - basic and diluted	**$ (0.19)**	$ 0.65	**$ (0.24)**	$ 0.91

At September 30, 2018 there were no contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax (September 30, 2017 - 403,346). The performance fee is assessed quarterly and relates to the period from February 17, 2017 to December 31, 2019. Under the terms of the Investment Advisory Agreement (defined in note 12), if a performance fee is payable for the period ending on December 31, 2019, settlement of the performance fee will take place in subordinate voting shares of the company if the market price per share is less than two times the then book value per share. The number of subordinate voting shares to be issued would be calculated based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including December 31, 2019 ("VWAP"). Refer to note 12 for further details on the contingently issuable subordinate voting shares in the event that a performance fee is determined to be payable.

10. Income Taxes

The company's provision for income taxes for the three and nine months ended September 30 are summarized in the following table:

	Third quarter		First nine months	
	2018	2017	**2018**	2017
Current income tax:				
Current year expense	**470**	301	**1,138**	438
Deferred income tax:				
Origination and reversal of temporary differences	**—**	131	**—**	539
Provision for income taxes	**470**	432	**1,138**	977

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

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

The company’s earnings (loss) before income taxes by jurisdiction and the associated provision for income taxes for the three and nine months ended September 30 are summarized in the following table:

	Third quarter							
	2018				2017			
	Canada	**Mauritius**	**South Africa**	**Total**	Canada	Mauritius	South Africa	Total
Earnings (loss) before income taxes	**1,167**	**(6,221)**	**(6,503)**	**(11,557)**	(6,465)	39,609	307	33,451
Provision for income taxes	**—**	**38**	**432**	**470**	131	125	176	432
Net earnings (loss)	**1,167**	**(6,259)**	**(6,935)**	**(12,027)**	(6,596)	39,484	131	33,019

	First nine months							
	2018				2017			
	Canada	**Mauritius**	**South Africa**	**Total**	Canada	Mauritius	South Africa	Total
Earnings (loss) before income taxes	**(6,972)**	**1,307**	**(6,207)**	**(11,872)**	(7,611)	45,902	19	38,310
Provision for income taxes	**—**	**52**	**1,086**	**1,138**	539	125	313	977
Net earnings (loss)	**(6,972)**	**1,255**	**(7,293)**	**(13,010)**	(8,150)	45,777	(294)	37,333

The decrease in pre-tax losses in Canada in the third quarter of 2018 compared to the third quarter of 2017 primarily reflected decreased performance fees, net foreign exchange gains on cash and cash equivalents and increased interest income. The decrease in pre-tax losses in Canada in the first nine months of 2018 compared to the first nine months of 2017 primarily reflected decreased performance fees, net foreign exchange gains on cash and cash equivalents, and increased interest income, partially offset by unrealized losses on the company's Other Public African Investment, increased interest expense and professional fees.

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

The decrease in pre-tax profitability in South Africa in the third quarter of 2018 compared to the third quarter of 2017 primarily reflected net change in unrealized losses on the company's derivative obligations and net foreign exchange losses on the Philafrica, CIG and PGR2 loans, partially offset by an increase in interest income. The decrease in pre-tax profitability in South Africa in the first nine months of 2018 compared to the first nine months of 2017 primarily reflected net foreign exchange losses on the Philafrica and CIG loan, and net change in unrealized losses on the company's derivative obligation related the CIG Rights Offer, partially offset by increased interest income, net realized foreign exchange gain on the AFGRI facility and net change in unrealized gains on the CIG and PGR2 loans.

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

	Third quarter		**First nine 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	**(3,063)**	8,844	**(3,146)**	10,132
Tax rate differential on losses incurred (income earned) outside of Canada	**1,816**	(8,320)	**1,301**	(9,829)
Provision relating to prior years	**—**	—	**53**	—
Change in unrecorded tax benefit of losses and temporary differences	**3,420**	2,847	**(341)**	4,829
Foreign exchange effect	**(1,693)**	(2,653)	**3,258**	(3,874)
Other including permanent differences	**(10)**	(286)	**13**	(281)
Provision for income taxes	**470**	432	**1,138**	977

The tax rate differential on losses incurred outside of Canada of $1,816 and $1,301 in the third quarter and first nine months of 2018 (2017 - income earned of $8,320 and $9,829) principally reflected the impact of net investment income taxed in Mauritius at lower rates, partially offset by income earned taxed in South Africa at marginally higher rates.

The change in unrecorded tax benefit of losses and temporary differences of $3,420 in the third quarter of 2018 (2017 - $2,847) principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $1,533 (2017 - $54) with respect to the company's wholly-owned subsidiaries and net operating loss carryforwards in Canada of $1,888 (2017 - $2,901) 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 $341 in the first nine months of 2018 (2017 - $4,829) principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $1,533 (2017 - nil) with respect to the company's wholly-owned subsidiaries and utilization of net operating loss carryforwards in Canada of $1,873 (2017 - $4,828) that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS. At September 30, 2018 deferred tax assets in Canada of $6,310 (December 31, 2017 - $6,115) were not recorded by the company as it was not probable that those losses could be utilized by the company.

Foreign exchange effect of $1,693 and $3,258 in the third quarter and first nine months of 2018 (2017 - $2,653 and $3,874) 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 September 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 September 30, 2018 the company increased the holdings in African Investments which are primarily denominated in the South African rand, decreasing the amount of assets that are denominated in U.S. dollars, which is the functional and presentation currency of the company. As a result, the company common shareholders' equity and net earnings may also be significantly affected by foreign currency movements as it pertains to the items denoted in the table that follows. The company has not hedged its foreign currency risk.

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

	September 30, 2018					December 31, 2017			
	Cash and cash equivalents	**Investments**	**Interest receivable**	**Derivative obligation**	**Total exposure**	Cash and cash equivalents	Investments	Interest receivable	Total exposure
Canadian dollars	**752**	**—**	**—**	**—**	**752**	1,024	—	—	1,024
South African rand[(1)]	**30,537**	**185,458**	**3,080**	**(6,362)**	**212,713**	139	117,479	2,114	119,732
Mauritian rupees	**52**	**—**	**—**	**—**	**52**	32	—	—	32
Total	**31,341**	**185,458**	**3,080**	**(6,362)**	**213,517**	1,195	117,479	2,114	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 September 30, 2018 the company was exposed to the South African rand primarily due to its indirect equity interest in AFGRI, the Philafrica Facility, CGI and PGR2 loans, equity interest in GroCapital Holdings and the CIG rights offer derivative obligation.

The table above shows the company's net exposure to the all other currencies, other than the U.S. dollar. 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 $11,144 and $8,191 (December 31, 2017 - $6,058 and $4,453). The hypothetical impact relates principally to the company's indirect equity interests in AFGRI, the Philafrica Facility, CIG and PGR2 loans, equity interest in GroCapital Holdings and the CIG Rights Offer derivative obligation. 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 September 30, 2018 compared to December 31, 2017.

The company's exposure to interest rate risk increased in the first nine months of 2018 primarily reflecting the investments in the Atlas Mara Bonds, Philafrica Facility, the CIG and PGR2 Loans and the additional investment in Nova Pioneer Bonds, partially offset by the AFGRI Facility (which expired on January 31, 2018). The table that follows displays the potential impact of changes in interest rates on the company's fixed income portfolio based on parallel 200 basis point shifts up and down in 100 basis point increments. This analysis was performed on each individual security, with the hypothetical effect on net earnings. The impact of the hypothetical effect on net earnings relating to the Philafrica Facility, the AFGRI Facility (which expired on January 31, 2018) and the CIG Rights Offer derivative obligation have not been included in the below sensitivity analysis due to the short duration to maturity.

	September 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	**95,586**	**(2,516)**	**(3.5)%**	18,078	(982)	(6.9)%
100 basis point rise	**97,226**	**(1,311)**	**(1.8)%**	18,729	(504)	(3.5)%
No change	**99,009**	**—**	**—**	19,414	—	—
100 basis point decline	**100,666**	**1,218**	**1.7 %**	20,126	524	3.7 %
200 basis point decline	**102,360**	**2,463**	**3.4 %**	20,629	893	6.3 %

Certain shortcomings that are inherent in the method of analysis presented above. Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions, including the maintenance of the level and composition of fixed income securities at the indicated date, and 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 September 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 decreased during the first nine months of 2018 as a result of unrealized depreciation in Other Public African Investment, CIG and Atlas Mara (Level 1 investments in the fair value hierarchy), partially offset by the company's additional investment in the indirect equity interest in AFGRI and the investment in GroCapital Holdings (Level 3 investments in the fair value hierarchy). Refer to note 6 for the potential impact on net earnings of various combinations of changes in significant unobservable inputs in the company's internal valuation models for the company's investments classified as Level 3 in the fair value hierarchy.

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

	September 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	**169,888**	**169,888**	173,603	173,603
Hypothetical $ change effect on pre-tax earnings (loss)	**16,989**	**(16,989)**	17,360	(17,360)
Hypothetical $ change effect on net earnings (loss)	**14,738**	**(14,738)**	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, short term investments, and investments in debt instruments. 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 September 30, 2018 compared to December 31, 2017.

Cash and Cash Equivalents, and Short Term Investments

At September 30, 2018 the company's cash and cash equivalents of $94,419 (December 31, 2017 - $13,012) were comprised of $64,634 at the holding company (principally in high credit quality Canadian financial institutions), and $29,785 at the company's wholly-owned subsidiaries (principally $27,530 held in deposit accounts with SABA which will be used to partially finance the anticipated CIG Rights Offer). The company monitors risks associated with cash and cash equivalents, and short term investments by regularly reviewing the financial strength and creditworthiness of these financial institutions.

At September 30, 2018 the company's short term investments in U.S. treasury bills of $141,712 (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 September 30, 2018 the company's debt instruments were all considered to be subject to credit risk with a fair value of $134,703 (December 31, 2017 - $43,647) representing 20.8% (December 31, 2017 - 12.4%) of the total cash and investments portfolio, net of the derivative obligation (excluding restricted cash of $313,000 at December 31, 2017).

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

	September 30, 2018	December 31, 2017
Loans:[(1)]		
AFGRI Facility	—	24,233
Philafrica Facility	**35,694**	—
CIG	**21,772**	—
PGR2	**13,484**	—
Bonds:[(1)]		
Atlas Mara Bond	**39,485**	—
Nova Pioneer Bonds	**24,268**	19,414
Total loans and bonds	**134,703**	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 September 30, 2018 compared to December 31, 2017 primarily reflecting the investments in the Atlas Mara Bonds, Philafrica Facility, the CIG and PGR2 Loans and the additional investment in Nova Pioneer Bonds, partially offset by the AFGRI Facility (which expired on January 31, 2018), all of which have specific collateral arrangements or guarantees that mitigates the company's exposure to credit risk. The company assesses the creditworthiness of each new counterparty prior to entering into contracts. Management monitors credit risk from its African investments in debt instruments through reviewing financial performance of its counterparties, collateral arrangements, diversification, and other credit risk mitigation techniques.

Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. 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 September 30, 2018 compared to December 31, 2017.

The company believes that cash and cash equivalents at September 30, 2018 provides adequate liquidity to meet the company's remaining known significant commitments in 2018, which are principally comprised of the CIG Rights Offer, investment and advisory fees, general and administration expenses and potentially corporate income taxes. On August 29, 2018 the company used the cash collateral classified as restricted cash to repay the principal amount of the Term Loan. To further augment its liquidity, on June 18, 2018 the company raised net proceeds of $148,316 from the Secondary Offering (see note 8), and the holding company can draw upon its $90,000 secured, revolving demand credit facility (see note 7). The company expects to continue to receive investment income on its holdings of fixed income securities to supplement its cash and cash equivalents. Accordingly, the company has adequate working capital to support its operations. Refer to note 12 for details on the settlement of the performance fees, if any, at the end of the first calculation period, December 31, 2019.

Concentration Risk

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

The company’s total cash and investments, net of the derivative obligation composition by the issuer's region of domicile was as follows:

	September 30, 2018			December 31, 2017		
	Africa	**North America**	**Total**	Africa	North America	Total
Cash and cash equivalents	**30,589**	**63,830**	**94,419**	657	12,355	13,012
Restricted cash	**—**	**—**	**—**	—	313,000	313,000
Short term investments	**—**	**141,712**	**141,712**	—	32,968	32,968
Loans:						
AFGRI Facility	**—**	**—**	**—**	24,233	—	24,233
Philafrica Facility	**35,694**	**—**	**35,694**	—	—	—
CIG	**21,772**	**—**	**21,772**	—	—	—
PGR2	**13,484**	**—**	**13,484**	—	—	—
	70,950	**—**	**70,950**	24,233	—	24,233
Bonds:						
Atlas Mara Bond	**39,485**	**—**	**39,485**	—	—	—
Nova Pioneer Investment	**25,943**	**—**	**25,943**	19,934	—	19,934
	65,428	**—**	**65,428**	19,934	—	19,934
Common stocks:						
Atlas Mara(1)	**167,664**	**—**	**167,664**	168,671	—	168,671
CIG	**2,070**	**—**	**2,070**	2,563	—	2,563
Other(2)	**154**	**—**	**154**	2,369	—	2,369
Indirect equity interest in AFGRI(3)	**102,436**	**—**	**102,436**	88,314	—	88,314
GroCapital Holdings(4)	**9,848**	**—**	**9,848**	—	—	—
	282,172	**—**	**282,172**	261,917	—	261,917
Total cash and investments	**449,139**	**205,542**	**654,681**	306,741	358,323	665,064
Derivative obligation	**(6,362)**	**—**	**(6,362)**	—	—	—
Total cash and investments, net of derivative obligation	**442,777**	**205,542**	**648,319**	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.
(4) At September 30, 2018 the company's investment was in GroCapital Holdings. On October 4, 2018 GroCapital acquired a 99.8% equity interest in SABA.

The company's holdings of Public and Private African Investments (see note 5) at September 30, 2018 and December 31, 2017 are summarized by the issuer's primary sector in the table below:

	September 30, 2018	December 31, 2017
Financial services	**207,149**	168,671
Food and agriculture	**138,130**	112,547
Infrastructure	**17,634**	4,932
Education	**25,943**	19,934
Other	**23,332**	—
	412,188	306,084

During the first nine months of 2018 the company's concentration risk in the financial services sector increased primarily due to the company's investment in the Atlas Mara Bond, partially offset by unrealized depreciation in the Atlas Mara ordinary shares. The company's concentration risk in the food and agriculture sector increased primarily due to the additional investment in its indirect equity interest in AFGRI (through its ownership in Joseph Holdings) and the investment in the Philafrica Facility, partially offset by the maturity of the AFGRI Facility. The company's concentration risk in the infrastructure sector increased primarily due to the investment in the CIG Loan, net of the derivative obligation and unrealized depreciation in the company's Other Public African Investment. The company's concentration risk in the education sector increased as a result of the additional investment in Nova Pioneer, while the company's concentration risk in the other sector related to the PGR2 Loan and the company's equity interest in GroCapital Holdings which as of September 30, 2018, only held cash deposits.

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 decreased at September 30, 2018 from December 31, 2017 principally as a result of the repayment of the Term Loan, net foreign exchange losses arising as a result of the weakening of the South African rand relative to the U.S. dollar and increased investment and advisory fees, partially offset by the net proceeds received from the Secondary Offering.

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 September 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 common shareholders' equity at September 30, 2018 (December 31, 2017 - term loan and common shareholders' equity) decreased from $666,736 at December 31, 2017 to $651,656 at September 30, 2018, principally reflecting a decrease in the term loan, partially offset by an increase in common shareholders' equity, as described below.

On January 31, 2018 the maturity date of the $150,000 Term Loan was extended to August 31, 2018. On August 29, 2018 the proceeds from the cash collateral, including interest received, was released from restricted cash and used to fully repay the Term Loan. See note 7 for details.

On September 7, 2018 the company entered into a $90,000 secured, revolving demand credit facility with a syndicate of Canadian lenders, bearing interest at a rate of LIBOR plus 400 basis points which is payable in arrears on the applicable interest payment date. The Credit Facility has a maturity date of September 7, 2019 with an option to extend for an additional year on an annual basis. At September 30, 2018 there were no amounts drawn on the Credit Facility and the company was in compliance with its financial covenant requirement to maintain common shareholders' equity of not less than $600,000. See note 7 for details.

Common shareholders' equity increased to $651,656 at September 30, 2018 from $516,736 at December 31, 2017 primarily reflecting the net proceeds received from the Secondary Offering of $148,316, partially offset by a net loss of $13,010 in the first nine months of 2018.

12. Related Party Transactions

Payable to Related Parties

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

	September 30, 2018	December 31, 2017
Performance fee	—	319
Investment and advisory fees	**1,733**	1,395
Other	**503**	(232)
	2,236	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 no performance fee was payable at September 30, 2018 as the book value per share of $10.36 (before factoring in the impact of the performance fee) at September 30, 2018 was less than the hurdle per share at that date of $10.87. For the third quarter and first nine months of 2018 the company recorded recoveries of nil and $319 (2017 - performance fee of $5,633 in 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 September 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 nine months of 2018 the company determined that a significant portion of its assets were invested in African Investments, which are considered deployed capital. The investment and advisory fees recorded in the consolidated statements of earnings and comprehensive income for the third quarter and first nine months of 2018 were $1,733 and $4,881 (2017 - $825 and $2,005).

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 $503 at September 30, 2018 (December 31, 2017 - receivable of $232) was primarily comprised of amounts due to related parties for expenses incurred by Fairfax and the Portfolio Advisor on behalf of the company.

GroCapital Holdings

On October 4, 2018 GroCapital Holdings acquired the 99.8% equity interest in SABA from NBG through the SPA assignment from AFGRI. Upon completion of this transaction, Fairfax Africa through its 35.0% equity interest in GroCapital Holdings, had an indirect 35.0% equity interest in SABA. At September 30, 2018 the company had $27,530 held in deposit accounts with SABA which will be used to partially finance the anticipated CIG Rights Offer.

13. General and Administration Expenses

General and administration expenses for the three and nine months ended September 30 were comprised as follows:

	Third quarter		**First nine months**	
	2018	2017	**2018**	2017
Audit, legal and tax professional fees	**487**	448	**1,541**	829
Administrative expenses	**281**	99	**1,051**	266
Salaries and employee benefit expenses	**130**	292	**661**	342
Brokerage fees	**10**	—	**33**	3
	908	839	**3,286**	1,440

14. Supplementary Cash Flow Information

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

	September 30, 2018	December 31, 2017
Cash and balances with banks	**36,788**	13,012
U.S. treasury bills	**57,631**	—
	94,419	13,012

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

	Third quarter		First nine months	
	2018	2017	**2018**	2017
(a) Purchases of investments classified as FVTPL				
Loans	**—**	—	**(79,498)**	(23,255)
Bonds	**(22,800)**	(7,000)	**(37,840)**	(59,274)
Common stocks	**(9,898)**	(155,782)	**(28,468)**	(155,782)
	(32,698)	(162,782)	**(145,806)**	(238,311)
(b) Sales of investments classified as FVTPL				
Bonds	**—**	32,786	**—**	32,786
Loans	**—**	—	**25,399**	—
	—	32,786	**25,399**	32,786
(c) Net interest received				
Interest received	**2,123**	578	**7,747**	1,953
Interest paid on term loan	**(1,786)**	(468)	**(3,965)**	(468)
	337	110	**3,782**	1,485
(d) Income taxes paid	**14**	—	**750**	—

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

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

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should review the notes to the interim consolidated financial statements for the three and nine months ended September 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”) applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting*, 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 nine months ended September 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.

The book value per share at September 30, 2018 was $10.36 compared to $10.21 at December 31, 2017 representing an increase of 1.5% in the first nine months of 2018, primarily due to the net proceeds received from the Secondary Offering in the second quarter of 2018, partially offset by a net loss of $13,010 in the first nine months of 2018 (principally due to depreciation in the company's investments in the CIG Rights Offer derivative obligation and the weakening of the South African rand relative to the U.S. dollar, partially offset by an appreciation in the company's investments in the indirect equity investment in AFGRI and the Atlas Mara Bond).

Capital Transactions

On September 7, 2018 the company entered into a $90,000 secured, revolving demand credit facility with a syndicate of Canadian lenders, bearing interest at a rate of LIBOR plus 400 basis points ("Credit Facility") which is payable in arrears on the applicable interest payment date. The Credit Facility has a maturity date of September 7, 2019 with an option to extend for an additional year on an annual basis. At September 30, 2018 there were no amounts drawn on the Credit Facility and the company was in compliance with its financial covenant requirement to maintain common shareholders' equity of not less than $600,000.

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 of $2,359). 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.

On January 31, 2018 the maturity date of the $150,000 Term Loan was extended to August 31, 2018. On August 29, 2018 the proceeds from the cash collateral, including interest received, was released from restricted cash and used to fully repay the Term Loan.

For a detailed analysis on the above transactions, refer to note 7 (Borrowings) and note 8 (Total Equity) to the interim consolidated financial statements for three and nine months ended September 30, 2018.

African Investments

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

Operating Environment

Sub-Saharan Africa

After a two-year period of lagging growth in Sub-Saharan Africa ("SSA"), the International Monetary Fund ("IMF") reported in October 2018 that the region's growth is projected to rise to 3.1% in 2018 from 2.7% in 2017, and to 3.8% in 2019. These figures include certain low-growth markets where Fairfax Africa's portfolio companies do not operate. According to the IMF, the improved forecasts relative to 2016-2017 reflect a stronger external environment, including stronger global growth, higher commodity prices, and improved capital market access related to efforts to improve fiscal balances following the commodity price downturn, as well as domestic growth in the agricultural sector following severe drought in several countries. Half of this expected growth is attributable to a rebound in Nigeria of 2.3% and modest recovery in South Africa of 1.4%. South Africa and Nigeria account for approximately half of the region's GDP. The remaining half of this expected growth is driven by public infrastructure investments in Kenya, Ethiopia, the Ivory Coast, Ghana, Senegal and Rwanda, which are averaging expected growth of 6%.

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 by about 40% (approximately 187 million people), from 472 million people to 659 million people. It is expected that Africa's world-leading urbanization rates will contribute to a strong demand for infrastructure which will mitigate the risk posed by challenging macroeconomic trends in the geographic regions Fairfax Africa's investee companies operate in.

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 total approximately $27 billion in road transport, $18 billion in energy and water infrastructure, and $11 billion in telecommunication infrastructure.

In its September 2018 African Markets research report, Standard Bank indicated that despite the positive economic outlook for Africa, it is highly probable that the performance of African economies will diverge from that of its market. Negative sentiment towards emerging markets has prevailed, as evidenced by the emerging market sell-off during the third quarter of 2018; the MSCI Emerging Markets index has declined by 16.5% as at September 30, 2018, since the beginning of the year. Management believes this dichotomy between actual economic and market performance presents an ideal opportunity for further investments in Africa.

Approximately half of the company's African Investments operate in South Africa, with the remainder primarily in Nigeria and Kenya.

South Africa

South Africa is the SSA region's second largest economy and is driven primarily by agriculture, mining and manufacturing. The South African economy fell into recession in the first half of the year, with 2 consecutive periods of contraction in the first quarter and second quarters of 2018 of 2.2% and 0.7%. The contraction occurred across various sectors, with agricultural output recording the sharpest decline. The decrease in the economy was mainly due to a drop in the production of field crops and horticultural products, as a result of the Western Cape drought (which subsequently eased with the rainfall received in the last 6 months), and the strength of the South African rand at the beginning of the fiscal year that impacted the South African exports of agricultural produce.

The IMF expects the South African economy to emerge from the recession by the end of 2018, before clawing back losses next year, with forecast growth of 0.8% in 2018 and 1.4% in 2019.

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

The South African rand relative to the U.S. dollar weakened from 0.073 in the second quarter of 2018 to 0.071 in third quarter of 2018. The continued weakening of the South African rand from 0.081 in at the end of 2017 reflects foreign investors' anxiety over the direction of the economy in the short to medium term. Despite these fluctuations, the IMF believes that South Africa's long-term currency stability is supported by a range of buffers, including a floating exchange rate, deep financial markets, contained foreign currency exposures, and long debt maturities.

The uncertainty over upcoming land reform policies continues to constrain growth in South Africa. President Cyril Ramaphosa has undertaken to pursue land reform "without destabilising the agricultural sector, endangering food security in the country or undermining economic growth and job creation".

Mr. Ramaphosa is facing challenges in balancing the need for investor-led economic growth and advancing social justice through equitable land ownership redistribution. International investors and providers of capital are closely monitoring this situation and remain cautious, awaiting greater clarity and adequate comfort to be provided around the safety and security of investment capital in the agriculture sector.

Nigeria

Nigeria is the SSA region's largest economy. According to the IMF, Nigeria's economy is recovering from the worst contraction in 25 years experienced in 2016, which was caused by lower oil prices and output and shortages of foreign exchange to import raw materials.

The IMF reported in October 2018 that Nigeria's GDP growth is projected to increase from 0.8% in 2017 to 1.9% in 2018 and 2.3% in 2019, a 0.5% increase from the IMF's April 2018 forecast, strengthened by the impact of recovering oil production and prices. Additionally, increasingly disciplined Nigerian monetary policy and moderation in food price increases has contributed to tapering inflation. In Nigeria, inflation is projected to fall to 12.4% in 2018, from 16.5% in 2017.

Nigeria is taking steps to diversify its foreign exchange reserves to increase non-dollar currency availability. On April 27, 2018 the People's Bank of China announced its agreement with the Central Bank of Nigeria ("CBN") to conduct a currency swap totaling 720 billion Naira or approximately $2.5 billion, in order to facilitate "bilateral trade and direct investment, and safeguarding financial market stability in both countries". The CBN stated the swap was aimed at providing local currency liquidity to Nigerian and Chinese industrialists and other businesses thereby reducing the difficulties encountered in the search for third currencies". Nigeria is the third African nation to agree to a currency swap deal with China.

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

Kenya

According to the Kenya National Bureau of Statistics, Kenya's economy experienced a dip in growth of 4.9% in 2017 due to the compound effect of adverse weather conditions which contributed to its under performance in the agricultural sector, a tight credit environment and a prolonged election cycle. Despite this, Kenya remains one of the world's most consistent high-growth economies, with near-term forecasted growth of 6.0% in 2018 and 6.1% in 2019. Medium-term growth projections remain at these levels with 6.0% growth forecasted in 2019.

Kenya's position as a much more diverse economy (compared to its SSA peers) is expected to continue to attract foreign investment in infrastructure projects. Over the medium and long-term, Kenya's economy is expected to continue on a high GDP growth trajectory of 6%, mainly driven by favourable demographics, a dynamic services sector and a strong infrastructure investment pipeline.

A strongly contested presidential election in 2017 resulted in the re-election of President Uhuru Kenyatta and significant opposition resistance, including occasional isolated violent outbreaks. In 2018 there has been widespread stability as evidenced by an increase in tourism and an expansion in the hospitality industry in the first half of 2018.

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

The Mauritius Finance Act 2018

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

Business Objectives

Investment Objective

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

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 decreased at September 30, 2018 from December 31, 2017 principally as a result of the repayment of the Term Loan, net foreign exchange losses arising as a result of the weakening of the South African rand relative to the U.S. dollar and increased investment and advisory fees, partially offset by the net proceeds received from the Secondary Offering.

The company intends to make multiple different investments as part of its prudent investment strategy in a manner that complies with Investment Concentration Restriction. African Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders. At September 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.

Summarized financial information of the company's Significant African Investments has generally been provided for the periods subsequent to the company's investment and to the extent that the most recent interim financial information is available to the company's management. 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:

	September 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	167,664	8,329	43.3%	159,335	168,671	9,336
CIG	November 2017, December 2017, and September 2018	4.6%	2,493	2,070	(423)	4.5%	2,442	2,563	121
Other[2]	Various	<5%	2,055	154	(1,901)	<5%	1,986	2,369	383
			163,883	169,888	6,005		163,763	173,603	9,840
Private African Investments:									
Indirect equity interest in AFGRI[3]	February 2017 and January 2018	43.8%	93,469	102,436	8,967	42.2%	74,968	88,314	13,346
GroCapital Holdings[4]	September 2018	35.0%	9,848	9,848	—	—	—	—	—
AFGRI Facility[5]	June 2017	—	—	—	—	—	23,255	24,233	978
Philafrica Facility	February and May 2018	—	41,153	35,694	(5,459)	—	—	—	—
CIG	June 2018	—	23,270	21,772	(1,498)	—	—	—	—
PGR2	June 2018	—	15,074	13,484	(1,590)	—	—	—	—
Atlas Mara Bond	May and July 2018	—	33,840	39,485	5,645	—	—	—	—
Nova Pioneer Investment[6]	August 2017 and August 2018	—	26,250	25,943	(307)	—	20,000	19,934	(66)
CIG forward derivative liability[7]	—	—	—	(6,362)	(6,362)		—	—	—
			242,904	242,300	(604)		118,223	132,481	14,258
Total African Investments			406,787	412,188	5,401		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 nine months ended September 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 (through Joseph Holdings) of $1,803. See note 5 (African Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2018 for details.

(4) At September 30, 2018 the fair value represented the company's investment in the intermediate holding company GroCapital Holdings. On October 4, 2018 GroCapital Holdings acquired a 99.8% equity interest in SABA. See note 5 (African Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2018 for details.

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

(6) Cost includes $2,250 of deferred interest relating to the Nova Pioneer Bonds which was capitalized to the principal amount owing.

(7) Relates to the company's obligation to subscribe for any CIG shares not acquired by existing CIG shareholders as part of the CIG Rights Offer.

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 third quarters and first nine months of 2018 and 2017 were as follows:

	Third quarter												
	2018							2017					
	Balance as of July 1,	Purchases	Re-payments	Amortiz-ation of discount[1]	Net change in unrealized gains (losses) on investments	Net foreign exchange losses on investments	Balance as of September 30,	Balance as of July 1,	Purchases	Re-payments	Net change in unrealized gains on investments	Net foreign exchange losses on investments	Balance as of September 30,
Public African Investments:													
Common Stocks:													
Atlas Mara[2]	**177,018**	**—**	**—**	**—**	**(9,354)**	**—**	**167,664**	—	168,052	—	25,049	—	193,101
CIG	**2,200**	**51**	**—**	**—**	**(105)**	**(76)**	**2,070**	—	—	—	—	—	—
Other[3]	**234**	**—**	**—**	**—**	**(17)**	**(63)**	**154**	—	—	—	—	—	—
Total Public African Investments	**179,452**	**51**	**—**	**—**	**(9,476)**	**(139)**	**169,888**	—	168,052	—	25,049	—	193,101
Private African Investments:													
Common Stocks:													
Indirect equity interest in AFGRI[4]	**105,837**	**—**	**—**	**—**	**(107)**	**(3,294)**	**102,436**	81,222	—	—	4,095	(2,256)	83,061
GroCapital Holdings[5]	**—**	**9,848**	**—**	**—**	**—**	**—**	**9,848**	—	—	—	—	—	—
Loans:													
AFGRI Facility	**—**	**—**	**—**	**—**	**—**	**—**	**—**	22,929	—	—	—	(697)	22,232
Philafrica Facility	**36,628**	**—**	**—**	**238**	**—**	**(1,172)**	**35,694**	—	—	—	—	—	—
Nova Pioneer Facility	**—**	**—**	**—**	**—**	**—**	**—**	**—**	3,000	—	(3,000)	—	—	—
CIG	**23,230**	**—**	**—**	**21**	**(804)**	**(675)**	**21,772**	—	—	—	—	—	—
PGR2	**13,697**	**—**	**—**	**—**	**223**	**(436)**	**13,484**	—	—	—	—	—	—
Bonds:													
Atlas Mara	**15,106**	**18,800**	**—**	**266**	**5,313**	**—**	**39,485**	—	—	—	—	—	—
Nova Pioneer Investment[6]	**20,368**	**5,487**	**—**	**—**	**88**	**—**	**25,943**	—	10,000	—	286	—	10,286
Derivative Obligation:													
CIG forward derivative liability[7]	**—**	**—**	**—**	**—**	**(6,362)**	**—**	**(6,362)**	—	—	—	—	—	—
Total Private African Investments	**214,866**	**34,135**	**—**	**525**	**(1,649)**	**(5,577)**	**242,300**	107,151	10,000	(3,000)	4,381	(2,953)	115,579
Total African Investments	**394,318**	**34,186**	**—**	**525**	**(11,125)**	**(5,716)**	**412,188**	107,151	178,052	(3,000)	29,430	(2,953)	308,680

(1) Amortization of discount on the company's investments is recorded in interest income in the consolidated statement of earnings and comprehensive income.

(2) Purchases during the third quarter of 2017 is comprised of $156,899 capital contribution and a non-cash net realized gain on Atlas Mara Bonds of $5,098 (previously entered into in 2017) and Atlas Mara Equity Offering of $6,055.

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

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

(5) At September 30, 2018 the fair value represented the company's investment in the intermediate holding company GroCapital Holdings. On October 4, 2018 GroCapital Holdings acquired a 99.8% equity interest in SABA.

(6) Purchases during the third quarter of 2018 included deferred interest of $1,487 relating to the Nova Pioneer Bonds which was capitalized to the principal amount owing. Net change in unrealized gains on investments of $88 in the third quarter of 2018 was comprised of an unrealized gain on the Nova Pioneer Warrants of $508, partially offset by an unrealized loss on the Nova Pioneer Bonds of $420.

(7) Relates to the company's obligation to subscribe for any CIG shares not acquired by existing CIG shareholders as part of the CIG Rights Offer.

	First nine months												
	2018							2017					
	Balance as of January 1,	Purchases	Re-payments	Amortiz-ation of discount[1]	Net change in unrealized gains (losses) on investments	Net foreign exchange gains (losses) on investments	Balance as of September 30,	Balance as of January 1,	Purchases	Re-payments	Net change in unrealized gains on investments	Net foreign exchange gains (losses) on investments	Balance as of September 30,
Public African Investments:													
Common Stocks:													
Atlas Mara[2]	**168,671**	**—**	**—**	**—**	**(1,007)**	**—**	**167,664**	—	168,052	—	25,049	—	193,101
CIG	**2,563**	**51**	**—**	**—**	**(207)**	**(337)**	**2,070**	—	—	—	—	—	—
Other[3]	**2,369**	**69**	**—**	**—**	**(2,007)**	**(277)**	**154**	—	—	—	—	—	—
Total Public African Investments	**173,603**	**120**	**—**	**—**	**(3,221)**	**(614)**	**169,888**	—	168,052	—	25,049	—	193,101
Private African Investments:													
Common Stocks:													
Indirect equity interest in AFGRI[4]	**88,314**	**20,304**	**—**	**—**	**8,192**	**(14,374)**	**102,436**	—	74,968	—	5,994	2,099	83,061
GroCapital Holdings[5]	**—**	**9,848**	**—**	**—**	**—**	**—**	**9,848**	—	—	—	—	—	—
Loans:													
AFGRI Facility	**24,233**	**—**	**(25,399)**	**—**	**—**	**1,166**	**—**	—	23,255	—	—	(1,023)	22,232
Philafrica Facility	**—**	**41,153**	**—**	**710**	**—**	**(6,169)**	**35,694**	—	—	—	—	—	—
Nova Pioneer Facility	**—**	**—**	**—**	**—**	**—**	**—**	**—**	—	3,000	(3,000)	—	—	—
CIG	**—**	**23,270**	**—**	**31**	**1,076**	**(2,605)**	**21,772**	—	—	—	—	—	—
PGR2	**—**	**15,074**	**—**	**—**	**58**	**(1,648)**	**13,484**	—	—	—	—	—	—
Bonds:													
Atlas Mara	**—**	**33,840**	**—**	**313**	**5,332**	**—**	**39,485**	—	—	—	—	—	—
Nova Pioneer Investment[6]	**19,934**	**6,250**	**—**	**—**	**(241)**	**—**	**25,943**	—	10,000	—	286	—	10,286
Derivative Obligation:													
CIG forward derivative liability[7]	**—**	**—**	**—**	**—**	**(6,362)**	**—**	**(6,362)**	—	—	—	—	—	—
Total Private African Investments	**132,481**	**149,739**	**(25,399)**	**1,054**	**8,055**	**(23,630)**	**242,300**	—	111,223	(3,000)	6,280	1,076	115,579
Total African Investments	**306,084**	**149,859**	**(25,399)**	**1,054**	**4,834**	**(24,244)**	**412,188**	—	279,275	(3,000)	31,329	1,076	308,680

(1) Amortization of discount on the company's investments is recorded in interest income in the consolidated statement of earnings and comprehensive income.

(2) Purchases during the first nine months of 2017 is comprised of $156,899 capital contribution and a non-cash net realized gain on Atlas Mara Bonds of $5,098 (previously entered into in 2017) and Atlas Mara Equity Offering of $6,055.

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

(4) Acquired through the company's ownership in Joseph Holdings. 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 a non-cash realized gain of $1,803 on the AFGRI Rights Offer (see note 5). The AFGRI Facility matured on January 31, 2018 and was repaid in cash.

(5) At September 30, 2018 the fair value represented the company's investment in the intermediate holding company GroCapital Holdings. On October 4, 2018 GroCapital Holdings acquired a 99.8% equity interest in SABA.

(6) Purchases during the first nine months of 2018 included deferred interest of $2,250 relating to the Nova Pioneer Bonds which was capitalized to the principal amount owing. Net change in unrealized losses on investments of $241 in the first nine months of 2018 was comprised of an unrealized loss on the Nova Pioneer Bonds of $1,101, partially offset by an unrealized gain of $860 on the Nova Pioneer Warrants.

(7) Relates to the company's obligation to subscribe for any CIG shares not acquired by existing CIG shareholders as part of the CIG Rights Offer.

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 positions in banking operations across seven key Sub-Saharan African countries: Botswana, Mozambique, Nigeria, Rwanda, Tanzania, Zambia and Zimbabwe.

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

The company's investment in Atlas Mara is comprised of a 42.4% 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 this 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 of $101,117 (including accrued interest) was converted into 44,722,222 ordinary shares of Atlas Mara at the Issue Price (defined below).

On August 31, 2017 the company acquired an additional 26,036,448 ordinary shares of Atlas Mara for $58,582 through participation in Atlas Mara's equity offering of $100,000 of new ordinary shares (the "Atlas Mara Equity Offering") at a price of $2.25 per share (the "Issue Price"). Fairfax Africa received a fee of $2,800 pursuant to an agreement to acquire any ordinary shares not taken up by qualifying Atlas Mara shareholders and to purchase a minimum of 30.0% of the Atlas Mara Equity Offering, resulting in a commitment to acquire Atlas Mara ordinary shares for net cash consideration of $55,782.

On December 22, 2017 the company acquired an additional 1,200,000 ordinary shares of Atlas Mara for cash consideration of $2,436. Upon completion of this transaction, the company had invested aggregate cash consideration of $159,335 (including accrued interest and net of the $2,800 fee received) for a 42.4% equity interest in Atlas Mara.

At September 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

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

Atlas Mara has raised $900 million of equity and debt financing, completed six acquisitions over the past three years and has hired a team of professionals with extensive experience in the African banking sector. A significant component of Atlas Mara's portfolio is its equity investment in the Union Bank of Nigeria ("UBN"). During the second quarter of 2018 Atlas Mara purchased additional shares in UBN and increased its equity interest from 48.0% to 49.0%. The company issued 2,360,062 ordinary shares as consideration for the UBN shares acquired. Atlas Mara's investment in UBN provides the company with a strong position in financial services in Nigeria, Africa's largest economy. The IMF expects the Nigerian economy to build on its recovery from a recession in 2018, forecasting GDP growth of 2.1% for the year compared to 0.8% in 2017. This growth is expected to be driven by increased contribution from key non-oil sectors (such as agriculture and trade) and an increase in crude oil production due to stability in the oil-producing region.

John Staley joined Atlas Mara as Chief Executive Officer effective May 1, 2018. Mr. Staley has extensive and successful experience in African financial services and under his leadership, Atlas Mara has commenced an extensive review of its capital and funding structure and began upgrading its information technology systems group-wide. Mr. Staley is focused on a long-term migration to a stronger retail deposit franchise in each operating market, to reduce reliance on interbank and wholesale funding. There is a heightened urgency in expediting this work as the market backdrop has been less buoyant than it was in 2017. Lower international demand for commodities, international trade tensions, Central Banks in the United States and Europe pursuing less accommodating monetary policies and the relative strengthening of the U.S. dollar have reduced foreign inflows into, and the economic growth trajectory in some of Atlas Mara's markets, particularly Mozambique, Tanzania and Zambia. This has resulted in tighter liquidity conditions, increased capital requirements and lower credit demand from viable customers.

Despite these challenges, during the first six months of 2018, Atlas Mara was able to maintain a stable balance sheet and reported net earnings of $28,621 in the first six months of 2018, compared to $11,468 for the comparable first six months of 2017 (see discussion below).

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2018 the fair value of the company's equity interest in Atlas Mara was $167,664 (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 third quarters and first nine months of 2018 and 2017 are presented in the tables at the outset of the African Investments section of this MD&A. Atlas Mara's share price modestly decreased by 0.43% from $2.34 per share at December 31, 2017 to $2.33 per share at September 30, 2018.

Atlas Mara's Summarized Financial Information

Atlas Mara and Fairfax Africa's fiscal years both end on December 31. Summarized below are Atlas Mara's balance sheets at June 30, 2018 and December 31, 2017.

Balance Sheets
(unaudited - US$ thousands)

	June 30, 2018	December 31, 2017
Current assets	**2,260,463**	2,436,336
Non-current assets	**843,864**	704,051
Current liabilities	**1,964,869**	1,962,694
Non-current liabilities	**363,274**	364,470
Shareholders' equity	**776,184**	813,223

Current assets decreased primarily due to a decrease in cash, financial assets held for trading due to lower trading volumes in all markets, prepayments and other receivables, and loans and advances, partially offset by an increase in investment securities. Cash decreased primarily as a result of vendor payments, repayment of a loan and the purchase of additional UBN shares. Loans and advances decreased primarily as a result of Atlas Mara's adoption of IFRS 9 that was effective on January 1, 2018 (credit impairment on loans), partially offset by recoveries of legacy non-performing loans in Tanzania and Mozambique.

Non-current assets increased primarily due to Atlas Mara's share of profits recorded for its investment in UBN accounted for under the equity method of accounting.

Current liabilities modestly increased primarily due to higher deposits, partially offset by decreases in creditors and accruals arising from scheduled vendor payments due.

Non-current liabilities modestly decreased primarily due to the repayment of a loan and lower income tax liabilities due to the deferred income tax impact of the IFRS 9 adjustment (discussed above), partially offset by an increase in borrowed funds attributable to additional funds received and accrued interest.

Shareholders' equity decreased primarily due to the negative impact of the IFRS 9 adjustment recorded to opening retained earnings and foreign exchange translation losses, partially offset by net earnings during the quarter for the first six months of 2018.

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

Statements of Earnings
(unaudited - US$ thousands)

	Six months ended June 30, 2018	Six months ended June 30, 2017
Revenue	**112,300**	122,200
Earnings before taxes	**36,092**	16,757
Net earnings	**28,621**	11,468

Revenues decreased primarily due to lower non-interest income as a result of muted low loan book growth and margin pressure, as the credit appetite in many markets remains subdued. Earnings before taxes increased primarily due to the inclusion of a one-time gain of $19.2 million related to the acquisition of additional shares in UBN (where the fair value of shares acquired exceeded the purchase consideration paid) and improved UBN financial performance. The one-time gain was partially offset by higher expenses as a result of the merger and integration of two banks in Zambia, costs for which were not incurred in the first six months of 2017. Although costs increased overall, on a year-over-year constant currency basis this was below the rate of inflation in Atlas Mara's main markets, as the company continued to focus on cost management. Net earnings increased primarily due to the one-time gain on the acquisition of the additional UBN shares, partially offset by lower income taxes as the one-time gain was not taxable.

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. CIG's footprint spans over 20 African countries and the Middle East, and historically with over 70% of its profit derived outside of South Africa.

CIG's principal lines of business are as follows:

Power

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

Consolidated Building Materials

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

Oil & Gas

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

Rail

CIG's Rail business through Tractionel, a wholly-owned subsidiary, is a leading railway electrification and maintenance (installation and maintenance of railway electrics, and railway maintenance services to public and private owners) company in South Africa.

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

The company's investment in CIG is comprised of a 4.6% 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 ordinary shares or a 4.5% equity interest in CIG for cash consideration of $2,442. During the third quarter of 2018 the company acquired an additional 222,428 ordinary shares for cash consideration of $51. Upon completion of this transaction, the company had invested aggregate cash consideration of $2,493 for a 4.6% equity interest in CIG. At September 30, 2018 the fair value of the company's equity interest in CIG was $2,070 (December 31, 2017 - $2,563), comprised of 9,011,710 shares representing a 4.6% equity interest (December 31, 2017 - 4.5%). The changes in fair value of the company's equity interest in CIG for the third quarters and first nine months of 2018 and 2017 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

Key Business Drivers, Events, and Risks

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

- Right-sizing the operations of Conco to ensure that it is running at optimum levels. Conco in the past had grown too fast and was in too many regions and countries, resulting in margin pressures, increased investments in working capital, and increased complexity in its operations. CIG is addressing the risks associated with restructuring Conco by assessing office and division closures, reducing working capital investments and borrowings;
- Organically growing its Conlog smart metering business by establishing a prepaid meter leasing platform and funding additional capital expenditures to increase plant capacity;
- Investing in its pipeline of 14 renewable energy projects (535 megawatts) to generate annuity income; and
- Focusing on providing waste management services as the oil sector recovers, leading to more rigs coming online in Angola.

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

Valuation and Interim Consolidated Financial Statement Impact

CIG Common Shares

At September 30, 2018 the fair value of the company's equity interest in CIG was $2,070 (December 31, 2017 - $2,563), comprised of 9,011,710 shares representing a 4.6% equity interest (December 31, 2017 - 4.5%). The changes in fair value of the company's investment in CIG for the first nine months of 2018 related to foreign exchange losses and a decline in the CIG's share price from 3.61 South African rand per share at December 31, 2017 to 3.25 South African rand per share at September 30, 2018. The changes in fair value of the company's equity interest in CIG for the third quarters and first nine months of 2018 and 2017 are presented in the tables at the outset of 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 in the infrastructure sector, listed on the Johannesburg Stock Exchange ("Other Public African Investment") for aggregate cash consideration of $2,055. At September 30, 2018 the fair value of the company's investment in Other Public African Investment was $154 (December 31, 2017 - $2,369) and represents less than a 5% equity interest in the Other Public African Investment. The changes in fair value of the company's investment in Other Public African Investment for the third quarter and first nine months of 2018 are presented in the tables at the outset of 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 Holdings Proprietary Limited is a private holding company based in South Africa and is the 100% shareholder of AFGRI Group Holdings ("AFGRI"), an investment holding company with interests in a number of agricultural and food-related companies providing products and services to ensure sustainable agriculture. AFGRI's core focus is grain commodities and it provides services across the entire grain production and storage cycle, offering financial support and solutions as well as inputs and high-tech equipment through the John Deere brand supported by a large retail footprint. AFGRI 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 investment philosophy is to create long-term sustainable value by targeting investments in: agriculture, food processing and financial services, by building or acquiring interests which provide the company with control or significant influence. AFGRI’s long-term growth strategy is based on a vision to ensure sustainable agriculture and enable food security across Africa. In addition to South Africa, 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 include growing its existing financial services business, which is currently centered on providing credit, trade and commodity finance, insurance, payments and related products and services to the agricultural sector.

AFGRI's principal lines of business are as follows:

AFGRI Agricultural Services

AFGRI holds a 73.3% equity interest in AFGRI Agricultural Services ("AAS") which focuses on grain management, silos, equipment (through the John Deere brand), agricultural finance and insurance, retail and farmer development. AAS is the market leader for grain management solutions in South Africa, with 69 silos and 15 bunkers representing more than 5 million tonnes of storage capacity. AAS manages one of South Africa's largest loan books to the agricultural sector on behalf of the Land Bank, with an average book value for fiscal year 2017 of approximately $0.7 billion (10.3 billion South African rand). AAS also manages the group’s agri-related businesses outside South Africa through AFGRI International (see below), consisting mainly of grain management and equipment operations in Zambia, Uganda, Zimbabwe, Ghana, Tanzania, Mozambique, Congo and Australia.

Philafrica Foods

Philafrica Foods Proprietary Ltd. ("Philafrica"), a wholly-owned subsidiary, owns and operates maize mills, wheat mills, animal feed factories, snacking facilities, soya crushing and extraction plants, which process oil and other raw materials into edible oils, fats and proteins for human consumption (primarily for the food processing and quick-service restaurant industries), and a mussels farm and factory. Philafrica also has food-related businesses outside South Africa, consisting mainly of a cassava processing business in Côte d'Ivoire and Mozambique and a poultry joint venture in Mozambique. Philafrica recently completed the acquisition of PakWorks, a snack manufacturing company which produces dry snacks exclusively for PepsiCo in SSA under the popular *Nik Naks* and *Simba* brand names. Refer to the Private African Investments section under the heading Philafrica Foods Proprietary Ltd. later in this MD&A for a discussion on Fairfax Africa's Philafrica Facility investment.

GroCapital Advisory Services (formerly known as AFGRI Investment Services)

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

AFGRI Management Services

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

AFGRI International

AFGRI International Proprietary Ltd., a wholly-owned subsidiary, focuses on operations outside of South Africa.

Additional information can be accessed from AFGRI's website: www.agh.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). Upon completion of 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 (excluding a non-cash realized gain of $1,803 on the AFGRI Rights Offer). Upon completion of the AFGRI Rights Offer, 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. In aggregate, 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 non-cash realized gain on investments of $1,803 in the first nine months of 2018 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. Upon maturity, the AFGRI Facility including accrued interest was repaid in cash.

Subsequent to September 30, 2018

Indirect Equity Interest in SABA

On October 4, 2018 AFGRI acquired a 30.0% indirect equity interest in South African Bank of Athens ("SABA") through GroCapital Holdings, an intermediate holding company. SABA is a South African bank focused on delivering world-class banking services to the medium-sized business market in the region (refer to the Private African Investments section under the heading SABA later in this MD&A).

Philafrica Rights Offer

On October 25, 2018 AFGRI entered into a subscription agreement with Philafrica to participate in a previously announced rights offering of Philafrica ordinary shares of $33,861 in aggregate, at current exchange rates (500 million South African rand). In accordance with the subscription agreement, AFGRI will convert $56,616 at current exchange rates (836 million South African rand) of its shareholder loan into 30,000 ordinary shares of Philafrica and upon completion will have an equity interest of 60.0% in Philafrica. The transaction is expected to close in the fourth quarter of 2018, subject to customary closing conditions. The Public Investment Corporation SOC Limited ("PIC") and Fairfax Africa own the remaining 26.0% and 14.0% of Philafrica (refer to the Private African Investments section under the heading Philafrica later in this MD&A).

Key Business Drivers, Events, and Risks

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

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

In March of 2018 AFGRI's previously announced acquisition of National Bank of Greece Group's 99.8% stake in 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 closed on October 4, 2018 with AFGRI acquiring a 30.0% indirect equity interest in SABA through GroCapital Holdings. The acquisition of SABA provides AFGRI with a retail and alliance banking platform for current and prospective customers, allowing AFGRI to continue its focus on innovation and food security.

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

In June 2018, South Africa's department of Agriculture, Forestry and Fisheries revised its production estimate for the 2018 summer crop, with the total maize crop projected to increase by 2.3% from its previous estimate of 13.2 million tons and the size of the expected soya crop to increase by 8.4% to 1.55 million tons.

Subsequent to September 30, 2018

On October 26, 2018 GroCapital Holdings issued a $6,230 at current exchange rates (approximately 92 million South African rand) capital call to its shareholders to fund their pro rata contribution, which will be invested by GroCapital Holdings into SABA to ensure compliance with capital adequacy requirements of the South African regulators. By November 9, 2018 Fairfax Africa and AFGRI are required to invest their pro rata contribution of $2,181 and $1,869 at current foreign exchange rates (approximately 32.2 million and 27.6 million South African rand) to GroCapital Holdings to maintain their 35.0% and 30.0% indirect equity interest in SABA.

On October 25, 2018 AFGRI entered into a subscription agreement with Philafrica to participate in a previously announced rights offering of Philafrica ordinary shares of $33,861 in aggregate, at current exchange rates (500 million South African rand). In accordance with the subscription agreement, AFGRI will convert $56,616 at current exchange rates (836 million South African rand) of its shareholder loan into 30,000 ordinary shares of Philafrica and upon completion will have an equity interest of 60.0% in Philafrica.

Valuation and Interim Consolidated Financial Statement Impact

Indirect Equity Interest in AFGRI

At September 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 12.1% to 25.8% and long term growth rates ranging from 1.0% to 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 third quarter of 2018 by AFGRI's management. Discount rates were based on the company's assessment of risk premiums to the redeemable risk-free rate of the economic environment in which AFGRI operates.

At September 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 $102,436 (December 31, 2017 - $88,314, representing a 42.2% indirect equity interest), comprised of the class A shares of Joseph Holdings at the redeemable fixed price of $49,967 and the fair value of the ordinary shares of Joseph Holdings of $52,469 (2017 - $38,347).

The change in the fair value of the company's indirect equity interest in AFGRI at September 30, 2018 from December 31, 2017 was primarily related to the additional investment of $18,501 completed on January 31, 2018 as part of the AFGRI Rights Offer, a non-cash realized gain of $1,803 related to the forward derivative arising from the AFGRI Rights Offer and unrealized gains of $8,192 due to an increase in the fair value of the silo business within AAS, partially offset by decreases in fair value of the GroCapital and AMS lines of business. The changes in fair value of the company's indirect equity interest in AFGRI for the third quarters and first nine months of 2018 and 2017 are presented in the tables at the outset of the African Investments section of this MD&A.

AFGRI Facility

On January 31, 2018 the company received $25,399 from AFGRI for settlement of the AFGRI Facility (including accrued interest), which resulted in a realized foreign exchange gain of $1,166 recorded in the consolidated statements of earnings and comprehensive income in the first nine months of 2018. The changes in the AFGRI Facility for the third quarters and first nine months of 2018 and 2017 are presented in the tables at the outset of the African Investments section of this MD&A.

The company recorded interest income of nil and $383 related to the AFGRI Facility for the third quarter and first nine months of 2018 (2017 - $962 and $1,004) in the consolidated statements of earnings and comprehensive income.

AFGRI's Summarized Financial Information

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

The South African rand weakened relative to the U.S. dollar (measured using average foreign exchange rates) by 4.1% in the first three months of fiscal 2018 compared to the first three months of 2017. To avoid the distortion caused by foreign currency translation, the tables below present AFGRI's financial and operating results in both U.S. dollars and South African rand (AFGRI's functional currency). The discussion which follows refers to those South African rand figures unless indicated otherwise.

Summarized below are AFGRI's balance sheets at June 30, 2018 and March 31, 2018.

Balance Sheets
(unaudited - South African rand and US$ in thousands)

	South African rand		US$	
	June 30, 2018	**March 31, 2018**	**June 30, 2018**	**March 31, 2018**
Current assets	**5,992,499**	6,011,000	**436,865**	508,407
Non-current assets	**4,963,633**	4,746,000	**362,095**	403,311
Current liabilities	**5,457,731**	5,111,000	**397,995**	432,580
Non-current liabilities	**3,486,846**	3,454,000	**254,273**	292,700
Shareholders' equity	**2,011,555**	2,192,000	**146,692**	186,438

The decrease in current assets primarily reflected decreases in trade receivables financed by banks, income tax assets and restricted cash, which were partially offset by an increase in inventories, trade and other receivables and derivative financial instruments related to a weaker South African rand, which impacted the fair value of derivatives within the financial markets brokerage business. The increase in non-current assets primarily related to increases in property, plant and equipment and deferred income taxes arising from Philafrica's 2017 acquisition of Dutch Agricultural Development & Trading Company ("DADTCO"), a cassava processing business, and financial receivables, partially offset by decreases in investments in joint ventures (related to equity accounted losses of its retail joint venture in Hinterland) and other intangible assets.

The increase in current liabilities primarily related to increases in short-term borrowings and bank overdrafts and derivative financial instruments related to a weaker rand, which impacted the fair value of derivatives within the financial markets brokerage business, partially offset by decreases in trade and other payables, short-term portion of long-term borrowing, commodity finance and borrowings from banks to finance trade receivables. The increase in non-current liabilities primarily related to increases in borrowings, partially offset by a decrease in derivative financial instruments.

Summarized below are AFGRI's statements of earnings for three months ended June 30, 2018 and 2017.

Statements of Earnings
(unaudited - South African rand and US$ in thousands)

	South African rand		US$	
	Three months ended June 30, 2018	Three months ended June 30, 2017	**Three months ended June 30, 2018**	Three months ended June 30, 2017
Revenue	**2,955,866**	2,975,589	**233,755**	225,640
Earnings (losses) before taxes	**(7,571)**	50,975	**(599)**	3,866
Net earnings (loss)	**(31,636)**	3,963	**(2,502)**	301

Revenues decreased primarily due to lower equipment volumes (through the John Deere brand) following a late harvest and uncertainty surrounding government plans on land reform (with farmers holding off on capital purchases), and lower volumes at Philafrica's mussels, cassava and poultry businesses, partially offset by an increase in storage fees from AFGRI's grain management business in South Africa and strong performances at Philafrica's milling and Nedan divisions arising from better procurement in a less volatile commodity market. The losses before taxes and net loss were further impacted by the increased costs associated with Philafrica's acquisitions of DADTCO and Pakworks, foreign currency losses reported at the non-South African operations following the depreciation of the South African rand, partially offset by decreased income tax expense.

Philafrica Foods Proprietary Ltd.

Business Overview

Philafrica Foods Proprietary Ltd. ("Philafrica") is headquartered in South Africa, where it owns and operates maize mills, wheat mills, animal feed factories, snacking facilities, soya crushing and extraction plants, which process oil and other raw materials into edible oils, fats and proteins for human consumption (primarily for the food processing and quick-service restaurant industries), and a mussels farm and factory. Philafrica also has food-related businesses outside South Africa, consisting mainly of a cassava processing business in Côte d'Ivoire and Mozambique and a poultry joint venture in Mozambique. The company is a wholly-owned subsidiary of AFGRI (refer to the AFGRI Holdings Proprietary Ltd. section earlier in this MD&A). In addition to its 12 production plants across the South African regions of Gauteng, Kwazulu Natal, Mpumalanga, Eastern Cape, Western Cape, the Free State and Limpopo, Philafrica has investments in Mozambique.

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

Philafrica's principal lines of business are as follows:

Cassava Processing

Philafrica's Cassava Processing business, through its controlling stake in DADTCO, produces food products from cassava. Cassava is a starchy food and the largest produced crop in Africa (by tonnage), and is mainly grown by smallholder farmers. Philafrica processes cassava into an intermediate ("business-to-business") and end product ("business-to-consumer"). The intermediate product, cassava starch cake, is a semi wet cassava paste or wet starch flour. The end product is cassava starch flour, which is a white dry starch flour derived from the cassava root. Both cassava starch cake and cassava starch flour are primarily used in the baking and brewing industries.

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

Grain Milling

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

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

Bread wheat is the biggest winter cereal crop planted in South Africa; the three main bread wheat producing provinces are Western Cape, Free State and the Northern Cape. The Western Cape contributes about 50% of the total crop followed by the Northern Cape's irrigation areas which now surpassed the Free State province where the downward production trend continues. The remainder of the crop is produced primarily in the Limpopo and North West provinces. Local wheat production is not sufficient for domestic requirements and South Africa has to import different classes of wheat to meet domestic consumption (approximately 40% of wheat consumed in South Africa is imported).

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

Oil and Protein

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

Animal Feeds

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

Poultry Mozambique

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

Snack Manufacturing

Philafrica's Snack Manufacturing business, through its recent acquisition of Pakworks, is a snack manufacturing company producing dry snacks exclusively for PepsiCo in SSA under the popular *Nik Naks* and *Simba* brand names. Pakworks operates a production facility based in Heilbron in the Free State of South Africa with three main manufacturing platforms: (i) processing, frying and packaging of peanuts; (ii) two hard-extruding lines producing Nik Naks; and (iii) a full pellet frying line.

Mussel Farming and Processing

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

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

Transaction Description

Philafrica Facility

On February 28, 2018 Fairfax Africa entered into a secured lending arrangement with Philafrica, 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 $270 (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, net of the $270 raising fee.

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 "Philafrica Rights Offer" described below). 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 subsidiary controlled by AFGRI. The Tranche 1 and 2 facilities mature on October 4, 2018 (see below for disclosure on maturity extension) and December 24, 2018 respectively. The Philafrica Facility may be repaid through the issuance of Philafrica shares to Fairfax Africa or in cash. 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 Philafrica Facility in shares, the interest rate will be increased retroactively to South African Prime plus 4.0% per annum.

Fairfax Africa received 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 facility. Fairfax Africa also earned a 2.0% raising fee relating to the Tranche 2 facility that was received upfront and presented net in the cost of the company's investment in the Philafrica Facility.

Subsequent to September 30, 2018

Philafrica Facility

On October 4, 2018 the maturity date of the Tranche 1 Facility was extended from October 4, 2018 to December 24, 2018, coinciding with the Tranche 2 Facility's maturity date.

Philafrica Rights Offer

On October 25, 2018 Fairfax Africa entered into a subscription agreement with Philafrica to participate in a previously announced rights offering of Philafrica ordinary shares of $33,861 in aggregate, at current exchange rates (500 million South African rand). In accordance with the subscription agreement, Fairfax Africa will convert $22,010 at current exchange rates (325 million South African rand) of its Tranche 1 Facility into 26,000 ordinary shares of Philafrica. The remaining capital of the Philafrica Facility in the amount of $11,851 at current exchange rates (175 million South African rand) will be repaid in cash (in addition to accrued interest at time of repayment) in accordance with the terms of the agreements. Upon completion of this transaction, the company will have invested aggregate cash consideration of $22,152 for a 26.0% equity interest in Philafrica. The transaction is expected to close in the fourth quarter of 2018, subject to customary closing conditions.

Key Business Drivers, Events, and Risks

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

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

On July 2, 2018 Philafrica announced its acquisition of a majority shareholding in Pakworks, following approval by the Competition Tribunal. The Pakworks acquisition will allow Philafrica to partner with one of its important Milling customers and diversify its business model by moving down the supply chain to drive additional value.

On October 25, 2018 Fairfax Africa and AFGRI entered into subscription agreements with Philafrica to participate in the previously announced rights offering as discussed earlier in this MD&A.

Valuation and Interim Consolidated Financial Statement Impact

Philafrica Facility

At September 30, 2018 the estimated fair value of the company's investment in the Philafrica Facility was $35,694 which due to the short term to maturity, approximated its amortized cost. The changes in fair value of the Philafrica Facility for the third quarter and first nine months of 2018 are presented in the tables at the outset of the African Investments section of this MD&A.

The company recorded interest income of $1,358 and $2,943 for the third quarter and first nine months of 2018 in the consolidated statements of earnings and comprehensive income related to the Philafrica Facility.

South African Bank of Athens

Business Overview

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

SABA's principal lines of business are as follows:

Business and Commercial Banking

SABA's Business and Commercial Banking line of business is focused on the cornerstones of business banking (transactional banking, lending and deposit taking) and is aimed at the small and medium-sized business customer. The Business and Commercial banking unit is fully integrated with the SABA's Treasury and Global Transactional Services ("GTS") business (see below) to facilitate international business transactions. SABA also offers risk and investment solutions from leading providers in the industry which cover short and long term insurance as well as investment management to build and preserve business and personal wealth. These solutions are delivered through seven business suites situated in key business nodes across South Africa.

Treasury and Global Transaction Services

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

Alliance Banking

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

Transaction Description

In December 2016entered into an agreement with the National Bank of Greece S.A. and NBG Malta Holdings Ltd. (collectively "NBG") to acquire 27,965,985 ordinary shares, or a 99.8% equity interest in the South African Bank of Athens ("SABA") (the "Share Purchase Agreement" or "SPA"). To facilitate the closing of this transaction, GroCapital Holdings Proprietary Limited ("GroCapital Holdings") was established as an intermediate holding company to acquire the SABA shares. On May 12, 2017 AFGRI appointed GroCapital Holdings as its nominee for purposes of the SPA and assigned its rights and obligations under the SPA to GroCapital Holdings. On September 28, 2018 Fairfax Africa acquired a 35.0% equity interest in GroCapital Holdings for cash consideration of $9,848 (approximately 139 million South African rand). The PIC and AFGRI own the remaining 35.0% and 30.0% equity interest in GroCapital Holdings.

Subsequent to September 30, 2018

On October 4, 2018 GroCapital Holdings acquired the 99.8% equity interest in SABA from NBG through the SPA assignment from AFGRI. Upon completion of this transaction, Fairfax Africa through its 35.0% equity interest in GroCapital Holdings, had an indirect 35.0% equity interest in SABA.

On October 26, 2018 GroCapital Holdings issued a $6,230 at current exchange rates (approximately 92 million South African rand) capital call to its shareholders to fund their pro rata contribution, which will be invested by GroCapital Holdings into SABA to ensure compliance with capital adequacy requirements of the South African regulators. By November 9, 2018 Fairfax Africa and AFGRI are required to invest their pro rata contribution of $2,181 and $1,869 at current foreign exchange rates (approximately 32.2 million and 27.6 million South African rand) to GroCapital Holdings to maintain their 35.0% and 30.0% indirect equity interest in SABA.

Key Business Drivers, Events, and Risks

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

SABA's key business drivers relate to its ability to grow and penetrate the financial services industry in Africa, particularly in its Business Banking and Alliance Banking segments. As part of AFGRI's GroCapital Advisory Services business unit, SABA intends to grow its customer base in the agricultural industry with a focus on small to medium-sized enterprises ("SME's"). SABA's Alliance Banking Offering creates an opportunity to provide co-branded financial services to AFGRI's customers in strategic partnership with established retailers and FinTech companies.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2018 the fair value of the company's investment in GroCapital Holdings of $9,848 represented only cash at period end.

Consolidated Infrastructure Group (Debt Instrument and Derivative Obligation)

Business Overview

The company's investment in CIG is comprised of a 4.6% 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) presented 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 was for a period of one year at an interest rate of South African prime plus 4.0% per annum, payable monthly in cash. On August 29, 2018 at a CIG Extraordinary General Meeting, shareholder approval was received for the conversion features in the CIG Loan (described below), and as a result the term of the CIG Loan was increased to five years and the interest rate was reduced to South African prime plus 2.0% per annum.

Fairfax Africa has the option at any time during the five year term to convert all or a portion of the CIG Loan into a maximum of 57,692,308 CIG ordinary shares of CIG at a price of 5.20 South African rand per ordinary share, representing a 29.4% equity interest in CIG. 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, upon completion Fairfax Africa received a fee of $597 (7.5 million South African rand) for its involvement in structuring the transaction.

CIG Rights Offer

On May 18, 2018 the company entered into an agreement with CIG regarding a $54,178 at current exchange rates (800 million South African rand) rights offer to CIG shareholders (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 (the "Offer Price"). 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 $1,354, at current exchange rates (20 million South African rand). This transaction is expected to close in the fourth quarter of 2018, subject to regulatory approvals and customary closing conditions.

Valuation and Interim Consolidated Financial Statement Impact

CIG Loan

At September 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 5.9% and estimated share price volatility for the term of the security of 58.3%. The estimated credit spread was based on a peer group of comparable companies adjusted for credit risk specific to CIG. At September 30, 2018 the company's internal valuation model indicated that the estimated fair value of the CIG Loan was $21,772. The changes in fair value of the CIG Loan for the third quarter and first nine months of 2018 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

The company recorded interest income of $744 and $980 for the third quarter and first nine months 2018 in the consolidated statements of earnings and comprehensive income related to the CIG Loan.

CIG Rights Offer

The company's obligation to subscribe for any shares not taken by existing CIG shareholders as part of the CIG Rights Offer gave rise to a forward derivative liability. At September 30, 2018 the company estimated the fair value of the derivative obligation using an estimated forward price of the CIG ordinary shares at an estimated closing date compared to the Offer Price, which was multiplied by the expected take-up percentage of CIG Rights Offer by Fairfax Africa. At September 30, 2018 the company's internal valuation model indicated that the estimated fair value of the derivative obligation was $6,362. The changes in fair value of the derivative obligation for CIG's Rights Offer for the third quarter and first nine months of 2018 are presented in the tables at the outset of the African Investments section of this MD&A.

PGR2 Loan (Debt Instrument)

Transaction Description

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 PGR2 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 was for a period of one year. Upon CIG shareholder approval of the CIG Rights Offer at the August 29, 2018 Extraordinary General Meeting of CIG, the term of the PGR2 Loan was increased to three 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 September 30, 2018 $15,074 of the available loan amount had been drawn down by PGR2.

Valuation and Interim Consolidated Financial Statement Impact

At September 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 7.2%. 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 September 30, 2018 the company's internal valuation model indicated that the estimated fair value of the PGR2 Loan was $13,484. The changes in fair value of the PGR2 Loan for the third quarter and first nine months of 2018 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

The company recorded interest income of $501 and $696 for the third quarter and first nine 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 a 42.4% 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) presented 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 included a two year tenor, original issue discount ("OID") of 5.0%, a 1.0% upfront origination fee, and a 3.0% structuring fee equal to the aggregate proceeds of the Debt Fundraising, with features that included an interest rate of 7.5% per annum (payable semi-annually) and a conversion feature, which were subject to Atlas Mara shareholder approval. In the event shareholder approval for the conversion feature was not obtained, the interest rate would be increased retroactively to 9.0%. The Atlas Mara Bond is secured by shares held by Atlas Mara in Union Bank of Nigeria ("UBN"). The Atlas Mara Bond is not rated.

On July 5, 2018 the company amended the terms of the Placing Agreement (the "Amended Placing Agreement") to provide an additional $20,000 in funding to maintain Fairfax Africa's position as an anchor investor in Atlas Mara's Debt Fundraising. Under the Amended Placing Agreement, the structuring fee was reduced to 1.0% of the Atlas Mara Bond. Upon completion of this transaction, the company had invested aggregate cash consideration of $33,840 (net of the fees) in Atlas Mara Bond maturing on April 24, 2020. The proceeds will be used for general corporate purposes, including replacing the Atlas Mara Bond and supporting broader business growth and operations.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2018 the company estimated the fair value of the Atlas Mara Bond using an industry accepted discounted cash flow and option pricing model that incorporated Atlas Mara's estimated credit spread of 10.0%. The estimated credit spread was based on the implied spread of a comparable Atlas Mara Bond. At September 30, 2018 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara Bond was $39,485. The changes in fair value of the Atlas Mara Bond for the third quarter and first nine months of 2018 are presented in the tables at the outset of the African Investments section of this MD&A.

The company recorded interest income of $930 and $1,143 for the third quarter and first nine months of 2018 (2017 - nil in both periods) in the consolidated statements of earnings and comprehensive income related to the Atlas Mara Bond.

Nova Pioneer Education Group

Business Overview

Nova Pioneer is a Pan-African independent school network offering preschool through secondary education for students from ages 3 through 19. Nova Pioneer was started in 2013 with its first school opening in South Africa in 2015. Since then, the company has expanded across South Africa and launched its first campus in Kenya in 2016. Nova Pioneer currently operates eight schools with a combined total of approximately 2,200 students.

The middle class has rapidly expanded across key regions in Africa. As a result, the demand for affordable, quality private education has grown in excess of available supply. Nova Pioneer is well-positioned to become a leading brand in the African education sector. Average 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 a $20,000 investment in Nova Pioneer which consisted of secured debentures maturing on December 31, 2024 (the "Nova Pioneer Bonds") and 2,000,000 warrants (the "Nova Pioneer Warrants"), collectively the "Nova Pioneer Investment", to be issued in tranches. At December 31, 2017 the full $20,000 investment was completed, consisting 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 at a price of $2.06 per ordinary share of Ascendant. Other than in circumstances relating to a change of control or a value realization event, the Nova Pioneer Warrants may be exercised after June 30, 2021. The Nova Pioneer Bonds are not rated.

On August 30, 2018 the company entered an Amending Agreement and completed an additional $4,000 investment in Nova Pioneer, comprised of secured debentures and 400,000 warrants, on the same terms as the initial Nova Pioneer Investment.

Key Business Drivers, Events, and Risks

Nova Pioneer's key business drivers relate to its success in meeting its enrollment targets, and scaling and expanding its operations across multiple campuses in Kenya and South Africa. Nova Pioneer's projected enrollment for 2018 represents a 75% increase over 2017 and the company will produce its first high school graduates in 2019.

Nova Pioneer's operations in Kenya continues to outperform, while it is facing softer demand in South Africa due to its weak economy and more intense competition. Nova Pioneer's management is primarily focused on continued growth in Kenya.

Valuation and Interim Consolidated Financial Statement Impact

At September 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 19.1% (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 September 30, 2018 the company's internal valuation model indicated that the fair value of the Nova Pioneer Investment was $25,943 (December 31, 2017 - $19,934), comprised of Nova Pioneer Bonds of $24,268 (December 31, 2017 - $19,414) and Nova Pioneer Warrants of $1,675 (December 31, 2017 - $520). The changes in fair value of the Nova Pioneer Investment for the third quarters and first nine months of 2018 and 2017 are presented in the tables at the outset of the African Investments section of this MD&A.

The company recorded interest income of $1,190 and $3,249 for the third quarter and first nine months of 2018 (2017 - $219 in both periods) 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 nine months ended September 30 are shown in the following table:

	Third quarter		First nine months	
Income	**2018**	2017	**2018**	2017
Interest	**6,507**	3,450	**14,242**	4,639
Net realized gains (losses) on investments	**(2)**	11,425	**1,783**	11,425
Net change in unrealized gains (losses) on investments	**(11,125)**	29,599	**4,834**	31,274
Net foreign exchange gains (losses)	**(3,545)**	(2,834)	**(21,931)**	942
	(8,165)	41,640	**(1,072)**	48,280
Expenses				
Investment and advisory fees	**1,733**	825	**4,881**	2,005
Performance fee	**—**	5,633	**(319)**	5,633
General and administration expenses	**908**	839	**3,286**	1,440
Interest expense	**751**	892	**2,952**	892
	3,392	8,189	**10,800**	9,970
Earnings (loss) before income taxes	**(11,557)**	33,451	**(11,872)**	38,310
Provision for income taxes	**470**	432	**1,138**	977
Net earnings (loss) and comprehensive income (loss)	**(12,027)**	33,019	**(13,010)**	37,333
Net earnings (loss) per share (basic and diluted)	**$ (0.19)**	$ 0.65	**$ (0.24)**	$ 0.91

Total loss from income of $8,165 in the third quarter of 2018 decreased from total income of $41,640 in the third quarter of 2017 primarily as a result of net change in unrealized losses on investments and increased net foreign exchange losses (arising from the weakening of the South African rand relative to the U.S. dollar during the third quarter of 2018), partially offset by in increased in interest income (primarily relating to the Philafrica Facility, the Nova Pioneer Bonds, the CIG and PGR2 loans, and increased interest income from U.S. treasury bills). The net change in unrealized losses on investments of $11,125 in the third quarter of 2018 primarily related to depreciation in the company's investments in Atlas Mara ($9,354) and the CIG Loan ($804), and the derivative obligation relating to CIG Rights Offer ($6,362), partially offset by the appreciation of the company's investment in the Atlas Mara Bond ($5,313). The net change in unrealized gains on investments of $29,599 in the third quarter of 2017 primarily related to the appreciation of the company's investments in Atlas Mara ($25,049) and its indirect equity interest in AFGRI ($4,095). The net foreign exchange loss of $3,545 in the third quarter of 2018 was primarily a result of the weakening of the South African rand relative to the U.S. dollar during the period (principally related to the company's investments in an indirect equity interest in AFGRI ($3,294), Philafrica ($1,172), and the CIG loan ($675). The net foreign exchange loss of $2,834 in the third quarter of 2017 was primarily a result of the weakening of the South African rand relative to the U.S. dollar during the period (principally related to the company's indirect equity interest in AFGRI ($2,256) and the AFGRI Facility ($697)). Net realized gains on investments of $11,425 in the third quarter of 2017 primarily related to the recognition of realized gains on the Atlas Mara Commitment derivative ($6,055) and the conversion of the Atlas Mara Convertible Bond ($5,098) (refer to the African Investments section under the heading Atlas Mara of this MD&A for further details).

Total loss from income of $1,072 in the first nine months of 2018 decreased from total income of $48,280 in the first nine months of 2017 primarily as a result of decreased net change in unrealized gains on investments and increased net foreign exchange losses primarily as a result of the weakening of the South African rand relative to the U.S. dollar during the first nine months of 2018, partially offset by increased interest income (primarily relating to the Philafrica Facility, the Nova Pioneer Bonds, the CIG and PGR2 loans, and increased interest income from U.S. treasury bills). The net change in unrealized gains on investments of $4,834 in the first nine months of 2018 was principally comprised of appreciation in the company's investments in the indirect equity interest in AFGRI ($8,192), Atlas Mara Bond ($5,332) and CIG Loan ($1,076), partially offset by depreciation in Other African Investment ($2,007), and the derivative obligation relating to the CIG Rights Offer ($6,362). The net change in unrealized gains on investments of $31,274 in the first nine months of 2017 was principally comprised of appreciation in the company's investments in Atlas Mara ($25,049) and its indirect equity interest in AFGRI ($5,994). The net foreign exchange loss of $21,931 in the first nine months of 2018 was primarily a result of the weakening of the South African rand relative to the U.S. dollar during the period (principally related to the company's investments in the indirect equity interest in AFGRI ($14,374), Philafrica Facility ($6,169), CIG loan ($2,605) and PGR2 loan ($1,648), partially offset by net foreign exchange gains on cash and cash equivalents). Net realized gains on investments of $1,783 in the first nine months of 2018 primarily related to the recognition of a forward derivative liability as a result of the company's participation in the AFGRI rights offer through its investment in Joseph Holdings (refer to the African Investments section under the heading of AFGRI Holdings Proprietary Limited of this MD&A for further details). Net realized gains on investments of $11,425 in the first nine months of 2017 primarily related to the recognition of realized gains on the Atlas Mara Commitment derivative ($6,055) and the conversion of the Atlas Mara Convertible Bond ($5,098) (see Atlas Mara Investment 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 nine months ended September 30 were comprised as follows:

	Third 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	**(2)**	**—**	**(2)**	—	—	—
Loans	**—**	**(581)**	**(581)**	—	—	—
Bonds	**—**	**5,401**	**5,401**	5,370	455	5,825
Common stocks	**—**	**(9,583)**	**(9,583)**	—	29,144	29,144
Derivative obligation	**—**	**(6,362)**	**(6,362)**	6,055	—	6,055
	(2)	**(11,125)**	**(11,127)**	11,425	29,599	41,024
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**2,157**	**—**	**2,157**	108	—	108
Loans	**—**	**(2,283)**	**(2,283)**	—	(697)	(697)
Common stocks	**—**	**(3,433)**	**(3,433)**	—	(2,256)	(2,256)
Other foreign exchange gains (losses)	**—**	**14**	**14**	182	(171)	11
	2,157	**(5,702)**	**(3,545)**	290	(3,124)	(2,834)

	First nine 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	**(20)**	**—**	**(20)**	—	—	—
Loans	**—**	**1,134**	**1,134**	—	—	—
Bonds	**—**	**5,091**	**5,091**	5,370	231	5,601
Common stocks	**1,803**	**4,971**	**6,774**	—	31,043	31,043
Derivative obligation	**—**	**(6,362)**	**(6,362)**	6,055	—	6,055
	1,783	**4,834**	**6,617**	11,425	31,274	42,699
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**2,372**	**—**	**2,372**	37	—	37
Loans	**1,166**	**(10,422)**	**(9,256)**	—	(1,023)	(1,023)
Common stocks	**—**	**(14,988)**	**(14,988)**	—	2,099	2,099
Other foreign exchange losses	**—**	**(59)**	**(59)**	—	(171)	(171)
	3,538	**(25,469)**	**(21,931)**	37	905	942

Total expenses of $3,392 in the third quarter of 2018 compared to total expenses of $8,189 in the third quarter of 2017 decreased primarily as a result of the company determining that no performance fee accrual was payable at September 30, 2018**,** partially offset by increased investment and advisory fees as a result of the increased holdings of African Investments. Total expenses of $10,800 in the first nine months of 2018 increased from $9,970 in the first nine months of 2017 primarily due to increased investment and advisory fees as a result of the increased holdings of African Investments, interest expense incurred on the secured term loan and general and administration expenses, partially offset by decreased performance fee as a result of the company determining that no performance fee accrual was payable at September 30, 2018.

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 no performance fee was payable at September 30, 2018 as the book value per share of $10.36 (before factoring in the impact of the performance fee) at September 30, 2018 was less than the hurdle per share at that date of $10.87. For the third quarter and first nine months of 2018 the company recorded a recovery of nil and $319 (2017 - performance fee of $5,633 in both periods) in performance fee 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 would be calculated based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including December 31, 2019. At September 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 third quarter and first nine months of 2018 the investment and advisory fees recorded in the consolidated statements of earnings and comprehensive income was $1,733 and $4,881 (2017 - $825 and $2,005).

Interest expense of $751 and $2,952 in the third quarter and first nine months of 2018 related to the company's secured term loan (2017 - $892 for both periods). On August 29, 2018 the proceeds from the cash collateral, including interest received, was released from restricted cash and used to fully repay the Term Loan.

The provision for income taxes of $470 in the third quarter of 2018 (2017 - $432) 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 unrecorded benefit of Canadian deferred tax assets and tax rate differential on losses incurred outside of Canada, partially offset by foreign exchange fluctuations. The provision for income taxes of $1,138 in the first nine months of 2018 (2017 - $977) 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 foreign exchange fluctuations and tax rate differential on losses incurred outside of Canada.

The company reported a net loss of $12,027 (a net loss of $0.19 per basic share) in the third quarter of 2018 compared to net earnings of $33,019 (net earnings of $0.65 per basic share) in the third quarter of 2017. The quarter-over-quarter decrease in profitability primarily reflected decreased net change in unrealized gains on investments and realized gains on investments, partially offset by no performance fee accrued as a result of the company determining that no performance fee accrual was payable at September 30, 2018, and increased interest income.

The company reported a net loss of $13,010 (a net loss of $0.24 per basic share) in the first nine months of 2018 compared to net earnings of $37,333 (net earnings of $0.91 per basic share) in the first nine months of 2017. The year-over-year decrease in profitability primarily reflected decreased net change in unrealized gains on investments and realized gains on investments, and increased in net foreign exchange losses and investment and advisory fees, partially offset by no performance fee accrued as a result of the company determining that no performance fee accrual was payable at September 30, 2018, and increased interest income.

Consolidated Balance Sheet Summary

Total Assets

Total assets at September 30, 2018 of $661,182 (December 31, 2017 - $669,111) were principally comprised of total cash and investments as follows:

Total cash and investments decreased to $654,681 at September 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:

	September 30, 2018			December 31, 2017		
	Africa	**North America**	**Total**	Africa	North America	Total
Cash and cash equivalents	**30,589**	**63,830**	**94,419**	657	12,355	13,012
Restricted cash	**—**	**—**	**—**	—	313,000	313,000
Short term investments	**—**	**141,712**	**141,712**	—	32,968	32,968
Loans:						
AFGRI Facility	**—**	**—**	**—**	24,233	—	24,233
Philafrica Facility	**35,694**	**—**	**35,694**	—	—	—
CIG	**21,772**	**—**	**21,772**	—	—	—
PGR2	**13,484**	**—**	**13,484**	—	—	—
	70,950	**—**	**70,950**	24,233	—	24,233
Bonds:						
Atlas Mara Bond	**39,485**	**—**	**39,485**	—	—	—
Nova Pioneer Investment	**25,943**	**—**	**25,943**	19,934	—	19,934
	65,428	**—**	**65,428**	19,934	—	19,934
Common stocks:						
Atlas Mara(1)	**167,664**	**—**	**167,664**	168,671	—	168,671
CIG	**2,070**		**2,070**	2,563	—	2,563
Other(2)	**154**	**—**	**154**	2,369	—	2,369
Indirect equity interest in AFGRI(3)	**102,436**	**—**	**102,436**	88,314	—	88,314
GroCapital Holdings(4)	**9,848**	**—**	**9,848**	—	—	—
	282,172	**—**	**282,172**	261,917	—	261,917
Total cash and investments	**449,139**	**205,542**	**654,681**	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.
(4) At September 30, 2018 the company's investment was in GroCapital Holdings. On October 4, 2018 GroCapital acquired a 99.8% equity interest in SABA.

Cash and cash equivalents increased to $94,419 at September 30, 2018 from $13,012 at December 31, 2017 primarily as a result of the net proceeds received from the Secondary Offering ($148,316), and net proceeds from the sale of short term investments where the proceeds were used to acquire South African rand in anticipation of the CIG rights offer, partially offset by 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 nine months ended September 30, 2018.

Restricted cash decreased to nil at September 30, 2018 from $313,000 at December 31, 2017 principally as a result of the release of cash collateral, including accrued interest, related to the company's LC Facility in the first quarter of 2018 and the Term Loan in the third quarter of 2018. See note 7 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Short term investments increased to $141,712 at September 30, 2018 from $32,968 at December 31, 2017 reflecting net purchases of U.S. treasury bills from the net proceeds received from the release of the cash collateral on the company's LC Facility.

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, and short term investment 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 $4,979 at September 30, 2018 related primarily to interest receivable on the company's investments in Philafrica Facility, Nova Pioneer Bonds, PGR2 Loan and Atlas Mara Bond. Interest receivable of $3,506 at December 31, 2017 related primarily to interest receivable on the company's investments in AFGRI Facility and Nova Pioneer Bonds.

Total Liabilities

Total liabilities at September 30, 2018 of $9,526 (December 31, 2017 - $152,375) were principally comprised as follows:

Derivative obligation of $6,362 at September 30, 2018 (December 31, 2017 - nil) related to the company's commitment to purchase any ordinary shares from the CIG Rights Offer not acquired by other shareholders.

Payable to related parties increased to $2,236 at September 30, 2018 from $1,482 at December 31, 2017, principally as a result of increased investment and advisory fees, partially offset by decreased performance fee. See note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Term loan decreased to nil at September 30, 2018 from $150,000 at December 31, 2017 as a result of repayment of the Term Loan. On August 29, 2018 the proceeds from the cash collateral, including interest received, was released from restricted cash and used to fully repay the Term Loan. See note 7 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 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 September 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 nine months ended September 30, 2018.

Capital Resources and Management

For a detailed analysis, refer to note 11 (Financial Risk Management, under the heading Capital Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Book Value per Share

Common shareholders' equity at September 30, 2018 was $651,656 (December 31, 2017 - $516,736). The book value per share at September 30, 2018 was $10.36 compared to $10.21 at December 31, 2017 representing an increase of 1.5% in the first nine months of 2018, primarily reflecting the Secondary Offering completed in the second quarter of 2018, partially offset by a net loss of $13,010 in the first nine months of 2018.

	September 30, 2018	December 31, 2017
Common shareholders' equity	**651,656**	516,736
Number of common shares outstanding	**62,920,189**	50,620,189
Book value per share	**$10.36**	$10.21

On July 3, 2018 the company received acceptance from the TSX of a notice filed by Fairfax Africa of its intention to commence a normal course issuer bid for its subordinate voting shares by which it is authorized, until expiry of the bid on July 5, 2019, to acquire up to 2,536,996 subordinate voting shares representing on that date 10% of the public float in respect of the subordinate voting shares. 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.

There were no repurchases for cancellation of subordinate voting shares during the first nine months of 2018 and 2017 under the terms of normal course issuer bids.

Liquidity

The company believes that cash and cash equivalents at September 30, 2018 provides adequate liquidity to meet the company's remaining known significant commitments in 2018, which are principally comprised of the CIG Rights Offer, investment and advisory fees, general and administration expenses and potentially corporate income taxes. On August 29, 2018 the company used the cash collateral classified as restricted cash to repay the principal amount of the Term Loan. To further augment its liquidity, on June 18, 2018 the company raised net proceeds of $148,316 from the Secondary Offering (see note 8 (Total Equity) to the interim consolidated financial statements for the three and nine months ended September 30, 2018), and the holding company can draw upon its $90,000 secured, revolving demand credit facility (see note 7 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 30, 2018). The company expects to continue to receive investment income on its holdings of fixed income securities to supplement its cash and cash equivalents. Accordingly, the company has adequate working capital to support its operations.

Refer to the contractual obligations section of this MD&A for details on the settlement of the performance fees, if any, at the end of the first calculation period, December 31, 2019.

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

	First nine months	
	2018	2017
Operating activities		
Cash used in operating activities before the undernoted	**(4,761)**	(1,074)
Net sales (purchases) of short term investments classified as FVTPL	**(107,113)**	247
Purchases of investments classified as FVTPL	**(145,806)**	(238,311)
Sales of investments classified as FVTPL	**25,399**	32,786
Decrease (increase) in restricted cash in support of investment	**162,519**	(162,000)
Financing activities		
Net Proceeds from the Term Loan	**—**	149,775
Decrease (increase) in restricted cash in support of Term Loan	**150,481**	(150,000)
Repayment of the Term Loan	**(150,000)**	—
Issuance of subordinate voting shares, net of issuance costs	**148,316**	191,488
Issuance of multiple voting shares	**—**	227,154
Increase in cash and cash equivalents during the period	**79,035**	50,065

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 in operating activities before the undernoted of $4,761 in the first nine months of 2018 compared to cash used in operating activities before the undernoted of $1,074 in the first nine months of 2017, with the change principally reflecting increased general and administrative expenses, investment and advisory fees and interest paid on the term loan, partially offset by increased interest income.

Net purchases of short term investments classified as FVTPL of $107,113 in the first nine months of 2018 related to net purchases of U.S. treasury bills that were acquired from the net proceeds received from the Secondary Offering. Purchases of investments classified as FVTPL of $145,806 in the first nine months of 2018 primarily related to the company's investment in the Philafrica Facility, Atlas Mara Bond, CIG and PGR2 loans, additional investments in the company's indirect equity interest in AFGRI (participated in the AFGRI rights offering (through its ownership in Joseph Holdings) and the Nova Pioneer Bonds, and an investment in GroCapital Holdings. Purchases of investments classified as FVTPL of $238,311 in the first nine months of 2017 primarily related to the company's investments in Atlas Mara, the AFGRI Facility and the Nova Pioneer Investment, and purchases of Government of South Africa bonds. Sales of investments classified as FVTPL of $25,399 in the first nine months of 2018 related to the proceeds received on the maturity of the AFGRI Facility on January 31, 2018. Sales of investments classified as FVTPL of $32,786 in the first nine months of 2017 related to net proceeds from the sale of Government of South African bonds.

Decrease in restricted cash in support of investment of $162,519 and in the first nine months of 2018 reflected the release of cash collateral related to the termination of the company's LC Facility. Increase in restricted cash in support of investment of $162,000 in the first nine months of 2017 reflected the cash collateral provided as part of the company's LC facility which was entered into in on August 31, 2017. Refer to note 7 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Decrease in restricted cash in support of the Term Loan of $150,481 and repayment of the Term Loan of $150,000 in the first nine months of 2018 related to proceeds from the cash collateral, including interest received, which was released from restricted cash and used to fully repay the Term Loan. Net proceeds from the Term Loan of $149,775 and increase in restricted cash in support of the Term Loan of $150,000 in the first nine months of 2017 related to the net proceeds received from the Term Loan and the cash collateral provided in connection with that Loan. Refer to note 7 (Borrowings) to the interim consolidated financial statements for the three and nine months ended September 30, 2018.

Issuance of subordinate voting shares, net of issuance costs of $148,316 in the first nine 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 $191,488 and issuance of multiple voting shares of $227,154 in the first nine months of 2017 related to the net proceeds received from the Offerings. Issuance costs of $12,592 relating to the Offerings were primarily comprised of fees paid to underwriters of the subordinate voting shares.

Contractual Obligations

Performance Fee and Investment and Advisory 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 fees recorded in the consolidated statements of earnings and comprehensive income for the third quarter and first nine months of 2018 was $1,733 and $4,881 (2017 - $825 and $2,005). The company determined that no performance fee was payable at September 30, 2018 as the book value per share of $10.36 (before factoring in the impact of the performance fee) was less than the hurdle per share at that date of $10.87.

CIG Rights Offer

On May 18, 2018 the company entered into an agreement with CIG regarding a $54,178 at current exchange rates (800 million South African rand) rights offer to CIG shareholders. 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 where Fairfax Africa has agreed to acquire any shares not taken up by existing CIG shareholders. The company's obligation to subscribe for any shares not taken up by existing CIG shareholders as part of the CIG Rights Offer gave rise to a forward derivative liability of $6,362 at September 30, 2018 (see note 5 (African Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2018).

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 nine months ended September 30, 2018.

Other

Comparative Quarterly Data (unaudited)

US$ thousands, except per share amounts	**September 30, 2018**	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Income (loss)	**(8,165)**	(46,823)	53,916	(16,429)	41,640	4,139	2,501
Expenses (recovery)	**3,392**	(5,327)	12,735	(2,088)	8,189	1,187	594
Provision for (recovery of) income taxes	**470**	337	331	(492)	432	(812)	1,357
Net earnings (loss)	**(12,027)**	(41,833)	40,850	(13,849)	33,019	3,764	550
Net earnings (loss) per share	**$ (0.19)**	$ (0.80)	$ 0.81	$ (0.27)	$ 0.65	$ 0.07	$ 0.02
Net earnings (loss) per diluted share	**$ (0.19)**	$ (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. Income was significantly impacted in the third quarter of 2018 by the net change in unrealized losses on the company's African Investments (principally unrealized losses in Atlas Mara and the CIG Rights Offer derivative obligation) and net foreign exchange losses, the timing of which are not predictable. Individual quarterly results have been (and may in the future be) affected by increased expenses impacted by the change in fair value of the company's African Investments which result in higher performance fees, if applicable, and investment and advisory fees.

Forward-Looking Statements

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

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

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

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