To Our Shareholders,

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

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

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

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

AFGRI Group Holdings (AGH)

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

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

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

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

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

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

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

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

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

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

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

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

Atlas Mara Limited (Atlas Mara)

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

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

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

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

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

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

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

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

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

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

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

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

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

Consolidated Infrastructure Group (CIG)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our investment rationale can be summarized as follows:

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

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

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

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

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

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

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

GroCapital Holdings (GroCapital)

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

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

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

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

Nova Pioneer Education Group (Nova Pioneer)

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

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

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

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

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

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

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

Philafrica Foods (Philafrica)

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

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

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

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

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

The African Environment

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

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

Foreign direct investment into Africa increased in 2018 for the first time after three consecutive years of decline. However, at a mere $40 billion this represents less than 3.4% of total global FDI, and scarcity of capital remains a core issue for the continent. 2018 saw the parent of Abraaj, the sponsor of one of sub-Saharan Africa's largest private equity firms at nearly $1 billion, file for bankruptcy. This event and the circumstances around it created substantial disruption and instability in several corners of the market, however it reinforced the benefits of Fairfax Africa's permanent capital structure as a listed company on the Toronto Stock Exchange, with the transparency and accountability that comes along with it. We continue to follow the Abraaj situation closely for any opportunities that may emerge for Fairfax Africa. Blackstone also announced plans in 2018 to scale back in Africa, which may similarly open up opportunity for Fairfax Africa.

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

Democratic Republic of Congo (DRC)

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

Kenya

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

Nigeria

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

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

South Africa

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

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

Zimbabwe

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

Share Repurchases

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

Board of Directors

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

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

In Closing

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

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

March 8, 2019

Michael Wilkerson
Chief Executive Officer

Paul Rivett
Vice-Chairman