# FAIRFAX AFRICA
## HOLDINGS CORPORATION

2019 Annual Report

**Contents**

FAIRFAX AFRICA
HOLDINGS CORPORATION

# 2019 Annual Report

## Fairfax Africa Corporate Performance

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

| As at and for the years ended December 31 | Book value per share[2] | Closing share price[1] | Income (loss) | Net earnings (loss) | Total assets | Investments | Common shareholders' equity | Shares outstanding[1] | Earnings (loss) per share |
|---|---|---|---|---|---|---|---|---|---|
| Initial public offering | 10.00 | 10.00[3] | | | | | | | |
| 2017 | 10.21 | 14.16 | 31,851 | 23,484 | 669,111 | 339,052 | 516,736 | 50.6 | 0.54 |
| 2018 | 9.60 | 8.11 | (42,108) | (60,580) | 643,830 | 409,475 | 603,127 | 62.8 | (1.06) |
| 2019 | 8.72 | 5.91 | (46,242) | (61,199) | 520,667 | 458,565 | 518,815 | 59.5 | (1.01) |
| Compound annual decline | (4.7)%[4] | (16.7)% | | | | | | | |

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

*(2) Calculated as common shareholders' equity divided by common shares effectively outstanding.*

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

*(4) The company's book value per share of $8.72 at December 31, 2019 represented a compound annual decline from the initial public offering price of $10.00 per share at February 17, 2017 of 4.7%.*

## Corporate Profile

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

### *African Investments*

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

**Atlas Mara Limited** ("Atlas Mara") is a publicly traded, Sub-Saharan African financial services group listed on the London Stock Exchange under the symbol ATMA. Atlas Mara's vision is to establish itself as a premier financial institution across key markets in Sub-Saharan Africa. Since its inception in 2013, Atlas Mara has acquired control or significant influence in banks across seven Sub-Saharan African countries: Nigeria, Botswana, Zimbabwe, Mozambique, Rwanda, Tanzania and Zambia. Atlas Mara's revenues for the twelve months ended June 30, 2019 were $215 million. At June 30, 2019 Atlas Mara had shareholders' equity of $546 million and there were approximately 3,800 employees at December 31, 2019. Additional information can be accessed from Atlas Mara's website www.atlasmara.com.

**Consolidated Infrastructure Group Limited** ("CIG") is a publicly traded, Pan-African engineering infrastructure company listed on the Johannesburg Stock Exchange under the stock symbol CIL. CIG has a diversified portfolio of operations including services and materials in power and electrical, oil and gas, building materials and the railway sector, with a footprint that spans over 20 African countries and the Middle East. CIG's revenues for the twelve months ended August 31, 2019 were $221 million. At August 31, 2019 CIG had shareholders' equity of $36 million and there were approximately 1,900 employees at December 31, 2019. Additional information can be accessed from CIG's website www.ciglimited.co.za.

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

**AFGRI Holdings Proprietary Limited** is a private holding company based in South Africa and owns 100.0% of AFGRI Group Holdings Proprietary Limited ("AGH"), an investment holding company with interests in a number of agricultural and food-related companies providing products and services to ensure sustainable agriculture. AGH's investment philosophy is to create long term sustainable value by targeting investments in agriculture, food processing and financial services, by building or acquiring equity interests in companies which provide the company with control or significant influence. AGH's long term growth strategy is based on a vision to ensure sustainable agriculture and enable food security across Africa. AGH's core focus is grain commodities and it provides services across the entire grain production and storage cycle, offering financial support and solutions as well as high-tech equipment through the John Deere brand supported by a large retail footprint. In addition to South Africa, AGH currently has operational activities aimed at supporting agriculture in Zambia, Zimbabwe, Mozambique, Congo-Brazzaville, Botswana and Côte d'Ivoire. AGH also has John Deere operations in several markets in Africa and Western Australia, an animal feeds research and development venture in the United Kingdom and an investment in animal feeds in the United States. AGH's revenues for the twelve months ended September 30, 2019 were $963 million. At September 30, 2019, AGH had shareholders' equity of $220 million and there were 6,958 employees at December 31, 2019. Additional information can be accessed from AGH's website www.agh.co.za.

**Philafrica Foods Proprietary Ltd.** ("Philafrica"), the former foods business of AGH, is headquartered in South Africa, where it owns and operates maize mills, wheat mills, animal feed factories, snacking and bread production facilities, and 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). 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 business in Mozambique. Philafrica's vision is to transform the lives of millions of Africans through food processing in Africa. Philafrica has 14 production plants across the South African provinces of Gauteng, KwaZulu-Natal, Mpumalanga, Eastern Cape, Western Cape, the Free State and Limpopo. Philafrica's management believes that the most effective way to transform African agriculture is to create market pull through large-scale food processing, which requires vertical integration throughout the entire food value chain straight back to the farms and ensures consistent quality supply of raw materials into the company's food production sites. Philafrica's revenues for the twelve months ended September 30, 2019 were $441 million. At September 30, 2019, Philafrica had shareholders' equity of $84 million and there were approximately 3,750 employees at December 31, 2019. Additional information can be accessed from Philafrica's website www.philafricafoods.com.

**GroCapital Holdings Proprietary Limited** ("GroCapital Holdings") is a bank holding company that owns 99.9% of Grobank Limited ("Grobank", formerly known as the South African Bank of Athens Limited or "SABA"). Operating as a South African bank since 1947, Grobank is focused on developing and delivering banking services to medium-sized businesses and individuals, specializing in the agri-business value chain and associated industries in the South African market, driven by a unique combination of retail, business and alliance banking and agri-business experience. Grobank 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. Grobank's revenues for the twelve months ended September 30, 2019 were $11 million. At September 30, 2019, Grobank had shareholders' equity of $25 million and there were 198 employees at December 31, 2019. Additional information can be accessed from Grobank's website www.grobank.co.za.

**Nova Pioneer Education Group** ("Nova Pioneer") is a Pan-African independent school network offering preschool through secondary education for students from ages 3 through 19. Nova Pioneer was started in 2013 with its first school opening in South Africa in 2015. Since then, Nova Pioneer has expanded across South Africa and launched its first campus in Kenya in 2016. Nova Pioneer has grown its operations from ten schools with a combined enrollment of approximately 3,850 students in 2018 to thirteen schools with a combined enrollment of approximately 4,500 students in 2019. Additional information can be accessed from Nova Pioneer's website www.novapioneer.com.

**Other –** Fairfax Africa also has an investment in a partially secured loan with PGR2 Investments Proprietary Limited, a significant shareholder of CIG.

**To our shareholders,**

We ended 2019 with book value per share ("BVPS") of $8.72*, down 9.2% from the previous year and 4.7% on a compounded annual basis from our IPO in February 2017. We reported a net loss in 2019 of $61.2 million ($1.01 net loss per diluted share), primarily derived from unrealized losses on our public company investments, which were only partially offset by interest income on our investment portfolio and foreign currency gains. The primary drivers of this disappointing result were the decline of the Atlas Mara Limited ("Atlas Mara") and Consolidated Infrastructure Group ("CIG") share prices, which contributed to unrealized losses on investments of $41.0 million and $29.4 million respectively.

The following table provides a snapshot of Fairfax Africa's performance since inception:

| *US$ millions except per share data* | 2017 | 2018 | 2019 |
|---|---|---|---|
| **BVPS** | $ 10.21 | $ 9.60 | $ 8.72 |
| **Income (loss)** | $ 31,851 | $ (42,108) | $ (46,242) |
| **Net earnings (loss)** | $ 23,484 | $ (60,580) | $ (61,199) |
| **Total assets** | $669,111 | $643,830 | $520,667 |
| **Investments** | $339,052 | $409,475 | $458,565 |
| **Shareholders' equity** | $516,736 | $603,127 | $518,815 |
| **Return on equity** | 4.6% | (10.8)% | (10.9)% |
| **Compounded annual change since IPO** | | | (4.7)% |

We note that Fairfax Africa's book value is based on publicly traded market values for Atlas Mara and CIG, both situations in which the publicly listed shares suffer from market overhang and low trading volumes. We do not believe that the market prices of these investments represent the underlying intrinsic value of these companies. For example, Atlas Mara trades at less than 40% of its tangible book value, whereas CIG trades only about 114,000 shares per day, representing $7,200 in daily value at current market prices.

U.S. markets had an extraordinarily strong performance over the year, and indeed since our IPO. Relatively speaking, emerging markets ("EM") have underperformed, with African (and frontier markets generally) trailing the pack:

| Exchange | 2017-2019 | 2019 |
|---|---|---|
| MSCI Frontier Markets Africa Index | 6.9% | 5.3% |
| MSCI Emerging Frontier Markets Africa Index | 5.8% | 7.9% |
| MSCI Emerging Markets Index | 29.3% | 15.4% |
| S&P 500 | 44.3% | 28.9% |
| NASDAQ | 66.7% | 35.2% |

*Source: Bloomberg*

The challenging environment in EM was particularly reflected in Africa, where the performance of several local and US$ equity indexes in the region substantially lagged other parts of the world:

| | | Local Currency | | US$ | |
|---|---|---|---|---|---|
| **Exchange** | **Country** | **2017-2019** | **2019** | **2017-2019** | **2019** |
| Johannesburg Stock Exchange – *All Share Index* | South Africa | 12.7% | 8.2% | 10.7% | 11.4% |
| Nigerian Stock Exchange – *All Share Index* | Nigeria | (0.1%) | (14.6%) | (13.7%) | (14.9%) |
| Nairobi Securities Exchange – *All Share Index* | Kenya | 24.8% | 18.5% | 26.2% | 19.1% |
| Ghana Stock Exchange – *Composite Index* | Ghana | 33.6% | (9.7%) | 0.1% | (22.5%) |
| Lusaka Stock Exchange – *All Share Index* | Zambia | 1.6% | (18.7%) | (28.3%) | (31.4%) |
| Botswana Gaborone Index – *Domestic Companies Index* | Botswana | (20.3%) | (4.6%) | (19.7%) | (3.4%) |
| Rwanda Stock Exchange – *All Share Index* | Rwanda | 6.5% | 3.3% | (7.9%) | (2.7%) |
| **Sub-Saharan Africa median return** | | **6.5%** | **(4.6%)** | **(7.9%)** | **(3.4%)** |

*Source: Bloomberg*

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

Fairfax Africa's book value performance was less related to the broader market than to portfolio specific issues primarily related to Atlas Mara and CIG.

Since our IPO in 2017, we have made a total of six substantial investments, and by year-end 2019 had deployed (or committed to deploy) $459 million (approximately 72%) of net proceeds from our IPO and follow-on offering. We received a total of $19.4 million in interest, dividend or capital distributions from our investee companies in 2019.

During the course of the year, we made one new platform investment in CIG and two ''top-up'' investments in existing investee companies, GroCapital Holdings (''GroCapital'') and Nova Pioneer Education Group (''Nova Pioneer''). These investments can be summarized as follows:

- CIG: $49.7 million (696 million South African rand) primarily through participation in a rights offering to recapitalize CIG's business, reduce debt and provide resources for growth, along with open market purchases in the fourth quarter, which resulted in Fairfax Africa holding by year-end a 49.3% stake in CIG, a platform investment in energy infrastructure;

- GroCapital: $2.3 million (32.8 million South African rand) to further capitalize Grobank, the bank formerly known as the South African Bank of Athens, which was acquired from the National Bank of Greece in October 2018; and

- Nova Pioneer: $9.2 million in total commitments for debt and warrants, the proceeds of which will be used to fund the expansion of Nova Pioneer's schools and student enrollment.

The year was challenging in many respects. At a high level, the situation we walked into at CIG in January was worse than we expected. The financial restructuring and operational turnaround of that business each required more time and revealed deeper issues in the construction subsidiary (and the industry generally) than we had anticipated, which, combined with a very anemic economic environment in South Africa, further delayed recovery of that business. This resulted in the restatement of previous period results and further impairments as we and new management took a more conservative approach. While these issues are now being fully addressed and the business is showing signs of improvement, we simply did not make the progress in the first twelve months of our investment that we had hoped. At Atlas Mara, we embarked on a change in strategic direction under new leadership, and announced a strategic transaction in the second quarter. The consummation of that transaction has dragged into the new year, which similarly delayed the expectations we had set in the first half of the year. Each situation required a lot of heavy lifting by the management and Boards of each company. While we expect to see benefit from these initiatives in 2020, the progress was not reflected in the share prices of the public companies by year end, or yet in the underlying financial performance of the companies. At Atlas Mara we have shifted focus to a leaner, more efficient holding company structure. And at CIG we have reached agreement on a restructuring of financial debt and reorganized the largest and most challenged subsidiary, creating a new, positive trajectory for that business.

Notwithstanding these challenges and setbacks, we did make good progress by the end of the year on various strategic initiatives at each of AFGRI Group Holdings (''AGH''), Atlas Mara, and CIG. At AGH, management created a strategic infrastructure platform that transferred the company's grain storage assets (silos, warehouses and bunkers) into an investment vehicle which will facilitate consolidation of additional storage and distribution infrastructure managed by AGH. This transaction enabled substantial deleveraging at the company and a large special dividend to its shareholders.

The table below shows the details of Fairfax Africa's investments in chronological order based on the date of the initial investment:

| *US$ millions* | **Date of Initial Investment** | **Ownership** | **Amount Invested** | **Fair Value at Dec. 31, 2019** | **% of Portfolio** | **Return from Inception**[(1)] |
|---|---|---|---|---|---|---|
| AGH | Feb-17 | 46.8% | $ 95 | $ 105 | 31% | 7.6% |
| Atlas Mara* | Aug-17 | Bonds, Warrants & 42.4% | $ 193 | $ 115 | 32% | (22.4%) |
| Nova Pioneer | Aug-17 | Bonds & Warrants[(2)] | $ 34 | $ 44 | 12% | 19.7% |
| CIG*[(3)] | May-18 | Loans & 49.3% | $ 97 | $ 62 | 17% | (28.0%) |
| GroCapital | Oct-18 | 35.0% | $ 14 | $ 10 | 3% | (25.4%) |
| Philafrica | Nov-18 | 26.0% | $ 23 | $ 19 | 5% | (15.7%) |
| **Investments Completed at Dec. 31, 2019** | | | **$456** | **$355** | **100%** | |
| GroCapital | | | $ 3 | | | |
| **Investments Completed and Committed To Date** | | | **$459** | | | |

* *Publicly traded companies*
(1) *Return calculated using internal rate of return*
(2) *15.0% ownership if warrants exercised*
(3) *Includes PGR2 investment*

We now turn to a more detailed review of each of our investment positions.

### African Investments

### AFGRI Group Holdings (AGH)

| ***Fiscal Year Ended Mar. 31 (ZAR millions)*** | **2017** | **2018** | **2019** |
|---|---|---|---|
| Total assets | 9,856 | 10,781 | 10,358 |
| Shareholders' equity | 1,912 | 2,205 | 3,523 |
| Revenue | 11,098 | 11,326 | 12,913 |
| Adjusted EBITDA from continuing operations | 254 | 340 | 328 |
| Net earnings (loss) | (133) | (142) | 1,034 |
| Return on equity | (7.0)% | (6.9)% | 36.1% |

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:

- Creation of AFGRI Silo Company, a strategic storage infrastructure platform ("SiloCo");
- Re-positioning, re-branding, recapitalizing and re-launching Grobank;
- Substantially reducing operating company debt by $136.9 million (1.9 billion South African rand) by December 31, 2019; and
- Returning capital of $21.1 million (320 million South African rand) to its shareholders (indirectly including $10.3 million to Fairfax Africa) in November 2019.

*Creation of Strategic Storage Infrastructure Platform*

In March 2019, AGH launched a new strategic storage infrastructure platform, created to acquire AFGRI's South African portfolio of owned grain silos and bunker facilities, representing approximately 30% of South Africa's grain storage capacity and approximately 80% market share in AFGRI's operating region. The platform provides an entry point to institutional investors interested in long-term investment in agriculture and infrastructure through an attractive yield instrument, while providing AGH with an ongoing income stream through an evergreen management services agreement providing AGH with rights in perpetuity to manage and operate the assets and business of SiloCo for an annual fee. AGH also retained 18% of the equity of SiloCo. The transaction unlocked substantial value for AGH and its shareholders including Fairfax Africa. The transaction was valued at $228.8 million (3.3 billion South African rand) compared with a book value of $125.6 million (1.8 billion South African rand), equating to approximately 15.1x contributed EBITDA excluding the fee arrangement, enabling substantial reduction in secured debt and a $21.1 million (320 million South African rand) distribution to shareholders (including Fairfax Africa). SiloCo is positioned to act as a consolidator of other agriculture and similar infrastructure assets, enabling further investment in the sector on a platform that is expected to benefit from economies of scale and other cost synergies. AGH has benefitted from similar off-balance sheet models in the past, including its successful partnership with the Land Bank in 2011 in which it moved financial assets from AGH to the Land Bank's balance sheet while retaining AGH's close relationships with its farmers (including origination, credit, and servicing).

*Business Review*

AGH's AFGRI division (agri-services including grain management and *John Deere* equipment) performed well in 2019, with strong profitability in the grain management business and stable performance elsewhere. Results from operations outside of South Africa reflected continued strong performance in Western Australia, where AFGRI holds the leading market position as exclusive agent for *John Deere* agricultural equipment, and, most recently, *John Deere* construction and forestry equipment. Results in the rest of Africa were mixed as the company continued to exit or otherwise reduce exposure to underperforming markets including Uganda and Zambia. AFGRI is expanding into the Western Cape of South Africa, a winter crop area (predominantly wheat and citrus), supporting diversification away from reliance on the summer grains market. 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. AFGRI is the largest dealer network of *John Deere* equipment outside of North America. AFGRI remains the main contributor to AGH's performance, representing over half of group profitability.

In Financial Services, UNIGRO achieved a record farmer lending book of $996.4 million (14.0 billion South African rand) and maintained good margins and contribution to AGH's profit and cash flows through its fee-based model (UNIGRO originates and services agricultural sector loans which are then held on the balance sheet of the Land Bank). UNIGRO is currently working with the Land Bank to review the terms of the partnership, including the service level agreement, that has existed between the parties since 2010. This process is intended to lead to a new agreement which will define the terms of this key commercial relationship for the coming years. The Financial Services business continues to build on its strategy to provide a full suite of transactional banking products to its clients in partnership with Grobank. AGH continues to develop and expand its digital platform (GroEx) and product and services offering, which management expects will create a strong foundation for growth within financial services.

AGH's investment in the food processing sector is described below under Philafrica Foods. AGH holds 60% of Philafrica. AGH also holds a 30% stake in a South African banking platform, described below under GroCapital.

The Southern African region (including South Africa) is currently experiencing widespread drought following on from the 2018-19 season, which also experienced widespread drought conditions, resulting in poor agricultural production (including as a result of the cyclones that hit Mozambique in 2019). Rainfall forecasts for 2020 are below average, suggesting that the drought conditions will persist in the region, and will likely translate into elevated food prices and food insecurity, heightening the demand for imports and food assistance. While parts of South Africa continue to experience drought conditions that have led to an anticipated 10% reduction in crop production nationwide, and a 2% reduction in sector GDP, AFGRI's planting area has received ample rainfall, which is expected to result in an above average crop in 2020 and continue to benefit AGH. South Africa (along with Zambia) produces 70% of the regional maize supply, and South Africa is expected to remain a net exporter, underscoring AGH's importance to food security in the region.

*Leadership Transition*

AGH announced on January 29, 2020 that Chris Venter was stepping down from AGH after 11 years as CEO (and a total of 15 years with the company) to pursue other interests. We would like to thank Chris for his leadership and substantial contribution as CEO over this past decade. He was instrumental in re-shaping the Group around a vision to drive food security in the region through a focus on the grain value chain. Chris played a leading role in positioning AGH as a leading agricultural, financial services and foods business in South Africa and beyond. Chris Venter has been a friend and partner to the Fairfax family since we met him in 2013, and we look forward to finding other ways to work together in the future. We are pleased to note that AGH will have a smooth transition of leadership in the coming months, as AFGRI veterans Tinus Prinsloo and Johan Geel assume leadership of the group as Acting CEO and COO respectively. Tinus is a 15 year veteran of AFGRI, serving in a number of roles including as CEO of AGH's largest subsidiary (AFGRI). Johan has served in a number of operational and financial roles over his 22 years with AFGRI, including as CFO and COO. The key strategic priorities for Tinus and Johan in 2020 will be to strengthen the group's relationships with various stakeholders, including commercial farmers, the Land Bank and various government agencies, and other agricultural concerns; align the strategy of the group with shareholder objectives; undertake a cost efficiency program to improve margins and overall profitability; and support the Board in reviewing changes in the agricultural landscape in South Africa to determine AFGRI's best strategic alternatives for the future.

Fairfax Africa held a 46.8% interest in AGH at December 31, 2019.

**Atlas Mara Limited (Atlas Mara)**

| ***Fiscal Year Ended Dec. 31 (US$ thousands)*** | **2016** | **2017** | **2018** |
|---|---|---|---|
| Total assets | 2,755,992 | 3,140,385 | 2,804,726 |
| Shareholders' equity | 526,055 | 813,224 | 688,938 |
| Revenue | 241,740 | 260,453 | 231,369 |
| Net earnings (loss) | 9,289 | 47,786 | 42,217 |
| Return on equity | 1.8% | 7.1% | 5.6% |

Atlas Mara is a sub-Saharan African financial services group which holds a 49.97% position in Union Bank of Nigeria ("UBN"), and controls and operates banks in six additional countries (Botswana, Mozambique, Rwanda, Tanzania, Zambia and Zimbabwe).

Fairfax Africa's CEO assumed the chairmanship of the Board of Atlas Mara in February 2019. This leadership transition reflected our role as the largest shareholder in the company and facilitated our objective to closely oversee this investment and work to generate value creation for Fairfax Africa and all Atlas Mara shareholders.

The reconstituted Board of Directors of Atlas Mara announced in February 2019 that it was undertaking a review of strategic options to drive shareholder value. The process included a review of each banking operation to ensure that top five market leadership was practicably achievable in the near term, and to explore transactions that would reduce risk exposure where market leadership appeared unlikely on a stand-alone basis. This process led to a decision by the Board to enter into a binding term sheet with Equity Group Holdings for a share exchange transaction that aligned with the stated intention to focus on investments in core markets where a path to market leadership is clearly achievable, and to partner, reduce or exit risk exposure elsewhere. Under the terms of the proposed transaction, Atlas Mara would exchange its banking interests in four countries – Mozambique, Rwanda, Tanzania and Zambia – for ordinary shares of Equity Group, and the parties would then merge their banks in Rwanda and Tanzania. This transaction made strategic sense for Atlas Mara as these four countries in aggregate represented less than 2% of total segment profits (before central costs) and a return on equity of only 2%, yet had substantial carrying costs in terms of capital and liquidity support, as well as requiring a disproportionate amount of management time and attention.

The proposed transaction has proved to be highly complex and involved engagement with a number of stakeholders including separate regulatory bodies and creditors in each country. A number of factors led to multiple delays over the course of the eight months from announcement to year-end, including a sharp deterioration in the macro-economic conditions of one of the countries in the fourth quarter. Atlas Mara announced on January 2, 2020 that the parties had yet to sign detailed transaction agreements but that they continued to engage in discussions, with the objective of reaching binding agreements in early 2020.

Atlas Mara's shares closed 2019 at $1.09, down 50.7% from Fairfax Africa's average investment cost basis of $2.21 per share, 3.5% from $1.13 at third quarter-end 2019, and down 34.3% from $1.66 at year-end 2018. This decline resulted in a $3.2 million unrealized loss, or a $0.05 decrease in our BVPS, from the third quarter of 2019. The year-end 2019 share price represented a price to book value of 0.39x for Atlas Mara's most recently reported BVPS.

Atlas Mara announced adjusted profit after tax of $17.0 million for the six months ended June 2019 ($13.5 million in 2018) with adjusted earnings per share of $0.10 ($0.08 in 2018). Atlas Mara's BVPS was $2.96 and tangible book value per share was $2.84 at June 30, 2019, compared with $3.83 and $3.00 respectively at December 31, 2018. On a reported basis, Atlas Mara announced a net loss after tax for the first half of 2019 of $126.4 million (almost entirely as a result of IFRS 5 remeasurement related to the proposed transaction with Equity Group), compared to $28.6 million profit for the prior year period. As a result of these accounting impacts, the net loss for the full year is expected to be broadly in line with these previously announced results.

Operational performance in core markets showed signs of improvement, especially in Nigeria.

Nigeria is Africa's largest economy and the largest financial services market in Africa outside of South Africa, and remains an important market for Atlas Mara through its investment in Union Bank of Nigeria. UBN, 49.97% owned by Atlas Mara at year-end 2019, is a leading Nigerian bank with a rich 100-year history and strong brand awareness. Today, UBN has over $5.0 billion (1.8 trillion Nigerian naira) in assets and nearly 6 million customers (including 2.1 million mobile banking customers) which it serves across over 300 sales and service centers. UBN's operating results continue to show positive trends across several core metrics including growth in customers, growth across all digital channels, growth in deposits and loans, lower non-performing loans (''NPLs''), lower operating expenses, and improving returns on equity. UBN performed very well through 2019 and reported net earnings of $54.3 million (19.6 billion Nigerian naira) for the year ended December 31, 2019.

UBN reported the following year over year key results as at December 31, 2019 (except where annotated * as at September 30, 2019):

- Gross earnings up 14%
- Non-interest income up 25%
- Cost to income ratio declined from 80% to 74%
- Earnings after income tax up 10%
- NPLs declined from 8.7% to 5.8%
- Capital adequacy ratio up to 19.7% from 16.4%
- Return on average equity up to 10.2% from 6.2%
- Oil & gas sector exposure reduced from 36.2% to 31.7%*

UBN has achieved the following key results (compounded annual growth) over the past 5 years under new management and shareholders (including Atlas Mara):

- Total customers up 33%*
- Active mobile banking customers up 114%
- Active online banking customers up 135%
- Active debit cards up 40%*
- Gross loans up 11%
- Customer deposits up 12%
- Oil & gas sector exposure reduced from 38.0% to 31.7%*

Following year-end, UBN announced an agreement (subject to regulatory approval) to sell 100% of its UK subsidiary bank to MBU Capital following a competitive process. This transaction is aligned with Union Bank's strategy to streamline its business operations to focus on growth opportunities in Nigeria. The Nigerian market presents robust long-term opportunities for UBN, and the proposed divestment will allow management to more fully focus its efforts and capital towards those opportunities as it seeks to deliver greater value to its stakeholders. The terms of the transaction are favorable and provide substantial value to shareholders. Additionally, on March 5, 2020, UBN received central bank approval to pay a dividend to its shareholders of approximately $20 million (7.3 billion Nigerian naira), of which half will be paid to Atlas Mara. This is the first dividend to be declared by UBN in over 10 years since the financial crisis and central bank intervention of 2009, and hopefully the first of many more to come.

Zimbabwe suffered a severe currency devaluation in 2019, and continues to experience deep macro-economic stress. The exchange rate against the U.S. dollar, which stood at 1:1 at December 31, 2018, closed 2019 at 16.8:1. The country has officially entered into hyperinflation, with estimated monthly inflation in December 2019 running at over 15%. Notwithstanding these very difficult headwinds, BancABC Zimbabwe has continued to perform admirably at a local operating level. A new CEO, Lance Mambondiani, was appointed in July 2019 following the retirement of his predecessor. Lance, the former CEO of Steward Bank (a subsidiary of Econet Wireless), has already begun to make a substantial impact at BancABC, in particular by launching several digital initiatives and helping the bank navigate through the difficult macro-economic environment with both currency hedging and hard asset accumulation strategies. On a local currency basis, the bank expects to report a substantial increase in profits and return on equity, and to have gained market share over the period. However, these positive gains will be largely undermined by currency translation effects upon consolidation at the Atlas Mara level, and as a result U.S. dollar profit contribution will be flat or only slightly up compared with 2018.

BancABC Botswana struggled in the first half of the year, primarily as a result of the revamp of its markets and treasury team, and from soft market conditions generally. The second half showed markedly improved results, with strong momentum in attracting new customers and a 28% increase in profit over the first half. During the second half, the bank was able to declare a dividend to shareholders for the first time under Atlas Mara's ownership. Initiatives are underway in 2020 which focus on diversifying the customer base (for both assets and liabilities), prudently growing assets and increasing fee income, and reducing cost of funding by building the retail deposit franchise. Atlas Mara owned 78.3% of BancABC Botswana at December 31, 2019.

Atlas Mara's banking operations in Mozambique, Rwanda, Tanzania and Zambia were reclassified as available for sale/discontinued operations in 2019 as a result of the proposed transaction with Equity Group. In accordance with IFRS 5, Atlas Mara took an accounting impairment loss, primarily related to goodwill and other intangibles, of $125.6 million as part of its results announced for the first half of 2019.

Fairfax Africa held a 42.4% interest in Atlas Mara at December 31, 2019.

**Consolidated Infrastructure Group (CIG)**

| ***Fiscal Year Ended Aug. 31 (ZAR millions)*** | **2017** | **2018** | **2019** |
|---|---|---|---|
| Total assets | 7,012 | 5,332 | 4,822 |
| Shareholders' equity | 3,839 | 1,091 | 552 |
| Revenue | 4,369 | 3,137 | 3,169 |
| EBITDA | 5 | (593) | (818) |
| Net earnings (loss) | (150) | (1,678) | (1,343) |
| Return on equity | (3.9)% | (68.1)% | (163.5)% |

CIG is a pan-African infrastructure-focused group founded and listed on the Johannesburg Stock Exchange in 2007. Fairfax Africa completed its investment in CIG in January 2019, investing $53.8 million (752.4 million South African rand) in ordinary shares representing a 49.1% shareholding in CIG, in addition to a $23.9 million (300 million South African rand) secured convertible loan made in May 2018. Over the course of 2019, Fairfax Africa acquired a small number of shares in the open market representing an additional 0.2% by year-end.

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. CIG operates in four divisions:

- *Power:* 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; Conlog is a leading smart metering business; and renewable power project developer CIGenCo was formed in 2017 to capitalize on the substantial opportunity in renewable energy project development;
- *Building Materials:* Drift Supersand (74.0% held by CIG) provides crushed stone for the construction industry for application in roads, readymix, concrete and aggregates for stabilization, while 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:* Tractionel is the leading railway electrification company in South Africa.

The recapitalization of CIG through the $23.9 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 in turning around the business.

The Board of Directors was reconstituted in January 2019, with Fairfax Africa nominating four of the directors including the Chairman. The new directors provide broad experience of operating across the African continent, specifically including in construction and power related business, as well as financial management, capital allocation, and governance expertise. John Beck, the Founder and Chairman of Canada's own Aecon, has been very helpful in providing industry sector perspective as a newly appointed director. Under the direction of the Board, the company hired a new group CFO, Cristina Teixeira, in April 2019. Cristina brings substantial expertise in the construction sector and experience in navigating through turnaround situations.

CIG reached general terms of agreement with its lenders in the fourth quarter of 2019, and is in the process of finalising binding legal agreements, with respect to the restructuring of the group's interest-bearing liabilities. The impact of the restructuring is that a substantial portion of the debt owed by CIG and a portion of the debt owed by Conco will be converted to long-term debt. The lenders will continue to support the group by maintaining other short-term lending facilities, including performance bonds and guarantees, in place under the group's current term agreement and conditions. In return, CIG will provide certain assets as security for the term debt.

CIG had disappointing results in 2019, primarily related to poor performance in the first half of the year. Performance improved somewhat in the second half and especially in the fourth quarter as a number of initiatives began to take hold, however the benefit of these actions are only expected to be realized in 2020. Specifically, the performance of the group's building materials segment and Conlog business show signs of improvement, although the construction business remains soft.

CIG's results were impacted by a tough macro-economic environment, which placed pressure on most of the group's operations, especially in the engineering, procurement and construction ("EPC") businesses within the Power and Rail segments (which includes CIG's largest subsidiary, Conco). The results were also impacted by impairments resulting from unrecoverable work in progress and receivables, mainly in the Conco business, as well as impairments to goodwill and intangibles and the reassessment of deferred taxation liabilities earlier in the financial year. These impairments and adjustments were primarily related to historical projects and investments and did not represent future cash outflows and therefore do not impact the group's forecasts.

*Conco*

The steps to restructure Conco undertaken in 2018 proved to be insufficient in the face of increasing industry pressures, including the struggle to procure locally key components for contracts at acceptable quality standards and on time. Poorly priced projects contracted in previous periods resulted in projected losses that were reflected in the current year.

Under the direction of the newly constituted Board, CIG and Conco senior management implemented Project Visibility, a comprehensive program to address four key areas: reliability and accuracy of financial reporting (including contract profit recognition); contract delivery (including tendering, execution, and commercial management); liquidity management and forecasting; and business sustainability. To assist with the implementation of Project Visibility, CIG appointed independent construction experts with a track record of successful contract management and construction business leadership who are well regarded in the industry. This included Andrew McJannet, the former CEO of the Power Group, as acting head of operations. John Beck provided valuable insight into the process based on his own experience in navigating similar situations. The project is progressing well and is now into its second phase.

Key remedial action plans have been implemented to mitigate any negative cashflow impact and any further earnings impact. These actions are now monitored regularly by CIG management and the Board. Recovery plans have been implemented on all projects for which this review indicated a completion date later than the initial timeline. These actions have resulted in an improvement in commercial contracting practices, addressing claim management and recovery.

The lack of policy certainty in South Africa has limited the ability of state-owned entities, municipalities and distribution companies to move forward on the substantial electrical power work backlog which exists in the country. This has resulted in a historically low rate of new project acquisition for Conco, and consequently the order book has not kept pace with the existing cost structure. A significant cost reduction and restructuring plan is being developed with implementation scheduled for the first quarter of 2020. This should result in the business returning to profitability and is expected to reduce the amount of cash funding required from the group.

*Conlog*

Conlog struggled to meet its revenue targets as a result of delays in orders from its largest customer and the failure to speedily replace this business in new markets. In spite of this disappointing result, the business made good progress in new product development and two new products are expected for commercial launch in 2020. The growth of annuity business (by supplying a software platform on which clients could run their prepaid metering) gathered momentum, as illustrated by Conlog's market entry in Nigeria.

Conlog successfully entered Nigeria in 2019, and has positioned itself to benefit from the changing Nigerian power market. Nigeria has the possibility of becoming the largest market for Conlog with a focus on long-term annuity returns. In July, Conlog commenced with the supply of prepaid meters directly to the consumer and successfully achieved the first hurdle of installing over 10,000 meters by the end of the year.

Other key initiatives include the successful completion of the transition of its ERP system to the Cloud, relocation to new manufacturing premises in a tax-advantaged development zone, and the installation of new assembly lines, which will allow Conlog to treble its production capacity and de-risk the business with more efficient and longer-lived capacity.

*Building Materials*

Building Materials delivered respectable returns in a very tough market by growing volumes and maintaining tight control of expenses and cashflow. Operationally, lower cost products were specifically designed and manufactured to absorb overhead, and innovative transport solutions were implemented.

Building Materials agreed to acquire (subject to various regulatory approvals and other conditions) an adjacent granite quarry that produces sand, stone and other normal aggregates for the road and building industry and produces building and river sand. The transaction is expected to be earnings and cash flow accretive to the group as a result of the operational synergies between the acquired quarry and the group's existing quarries. Both operations mine the same orebody with the same physical rock properties, thus enhancing the synergies and operational flexibility between the two operations. CIG has already begun mining under an interim royalty agreement while approval of the acquisition remains pending.

*Oil & Gas (AES)*

Earnings from the AES business improved on the back of slightly better operating conditions, and AES expects to have strong near-term growth. The business successfully retained all key clients which are typically multi-year contracts with global oil majors. During the year AES successfully remitted dividends from Angola to CIG. The number of oil drilling rigs is expected to increase from five to ten in 2020, which is expected to result in improved margins and overall operating results.

A key risk facing AES is the potential inability of the business to obtain a renewal in 2020 of its operating license from the Angolan environmental authorities and the continued pressure being applied by certain authorities to relocate the business from its current operating premises in Luanda's oil and gas logistics base. This risk is being managed, and management expects that the situation will be resolved on acceptable terms. AES operates under best practice ISO standards which have had independent verification on quality and compliance.

*Looking forward*

Management's key objectives for 2020 include finalizing term debt agreements with Conco and CIG creditors; right-sizing the Conco business (focusing on profitability and cash generation); partnering with a strategic investor for

Conco which can provide both complementary industry expertise and strategic funding; continued migration of the group away from EPC construction contracting into sustainable, annuity-like platforms to supply power needs across Africa, capitalizing on increasing renewable energy opportunities; diversification of the Conlog business across geographies; and successfully resolving the licensing and other matters in Angola.

Fairfax Africa had a difficult first year of our investment in CIG, but we remain confident in the underlying investment thesis and the long-term opportunity in electrical power infrastructure growth in Africa. The primary benefit of being long-term, value oriented investors is the ability to see beyond short-term challenges and the noise of market dislocations. We appreciate that CIG is a leading developer of energy infrastructure in Africa, with a highly skilled and award-winning technical team. Africa's energy needs are enormous, and we believe CIG is well-positioned to capitalize on its development over the next several years.

Fairfax Africa held a 49.3% interest in CIG at December 31, 2019.

### GroCapital Holdings (GroCapital)

| ***Fiscal Year Ended Dec. 31 (ZAR millions)*** | **2018** |
|---|---|
| Total assets | 3,358 |
| Shareholders' equity | 444 |
| Revenue | 38 |
| Net earnings (loss) | (23) |
| Return on equity | (5.2)% |

GroCapital, a bank holding company, acquired 99.8% of the South African Bank of Athens ("SABA") from the National Bank of Greece in October 2018 pursuant to an agreement entered into in March 2017. SABA was subsequently renamed Grobank in April 2019 to reflect its re-positioning as an agricultural sector focused bank. 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 Public Investment Corporation ("PIC") (35.0%) and AGH (30.0%).

The bank was established and has been operational in South Africa since 1947, offering comprehensive traditional business banking such as lending, transactional banking and treasury functions, as well as alliance, business and international banking. The bank is known for its focus on the development of market-leading, niche alliance transactional banking offerings in partnership with businesses. As an affiliate of AGH, GroCapital is strategically linked to a group that has an established track record in financial services, offering bespoke financial products and services to the agribusiness and food sectors. AGH maintains approximately $1.1 billion (15.6 billion South African rand) in farmer and corporate loan portfolios, with a history of negligible bad debts through multiple agricultural cycles.

Grobank appointed Bennie van Rooy as Chief Executive Officer in July 2019. Prior to joining Grobank, Bennie served as acting CEO of South Africa's Land Bank, where he was previously CFO. Grobank also appointed Nhlanhla Nene and Patrick Mathidi as non-executive directors. Nhlanhla served as Minister of Finance for the Republic of South Africa on two occasions and previously held the position of Deputy Minister of Finance. Patrick is a fund manager at Aluwani, a South African based institutional investor. We welcome the new team to their roles.

Bennie spent the first six months of his tenure as CEO mapping out a strategy for the bank, which is to focus on serving enterprises operating in the agriculture and food production value chain, offering debt origination, receivables financing, forex and commodity trading, specialised finance and broking services, and providing an array of financial and insurance products and services to the agricultural sector. At the same time, he is focused on diversifying the bank's liability funding and capital structure to reduce overall cost of funding and to identify additional sources of growth capital.

Grobank's initial credit rating was confirmed as investment grade at a national scale level. Having already issued its first 12-month Negotiable Certificate of Deposits and Step-up Rate Deposit Instruments into the local market, Grobank is in the process of finalizing its listed financial markets' debt program, to be launched on the JSE in May 2020. A major focus for Grobank is to grow its business banking client depositor base. To this end, two deposit campaigns were launched in 2019 through which approximately $22.1 million (319 million South African rand) in new deposits were raised, exceeding the target and providing positive momentum in building a stable liabilities franchise.

Fairfax Africa invested an additional $2.3 million (32.8 million South African rand) in 2019 to provide growth capital and $3.1 million (49 million South African rand) in February 2020 to fund the acquisition of a platform which provides foreign exchange dealing, trade finance instruments, specialty finance and debt origination products and services to the agricultural and food processing sectors. In 2020, Fairfax Africa has committed to an additional investment of approximately $7 million (104 million South African rand) expected to be funded during the course of the year, which is intended to support various growth initiatives of the bank, including upgrading of the core banking system and other technologies, and to maintain regulatory capital requirements.

Fairfax Africa held a 35.0% interest in GroCapital at December 31, 2019. GroCapital held a 99.9% interest in Grobank at that date.

### Nova Pioneer Education Group (Nova Pioneer)

| ***Fiscal Year Ended Dec. 31 (US$ thousands)*** | **2017** | **2018** |
|---|---|---|
| Total assets | 24,259 | 32,414 |
| Shareholders' equity | (2,860) | (12,526) |
| Revenue | 3,841 | 7,557 |
| EBITDAR | (3,477) | (7,212) |
| Net earnings (loss) | (4,437) | (13,052) |

Nova Pioneer was founded as Ascendant Learning Limited and is run by CEO Chinezi Chijioke (who previously led McKinsey's educational practice in Africa) and CFO Damany Gibbs. 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 13 schools with a combined enrollment of approximately 4,500 students, comprised of approximately 2,100 students in Kenya across six campuses and approximately 2,400 students in South Africa across seven campuses. These 13 campuses represent a future total capacity of over 13,000 students.

Nova Pioneer continued to demonstrate solid operating performance in 2019, highlighted by the opening of three new campuses (bringing the total number of campuses to 13), strong growth in enrollment in both South Africa (increase of 22% year-over-year) and Kenya (increase of 14% year-over-year), and approximately 74% revenue growth group wide, representing a very strong result for Chinezi and his management team. Schools from the 2015 and 2016 vintages are now cash flow positive, and all 13 schools are expected to achieve cash flow positive positions at maturity. Operating costs have remained in line with budgeted expectations.

Average tuition per student is about $3,600 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.

Fairfax Africa invested an additional $9.2 million in 2019 to support Nova Pioneer's continued growth.

We are pleased to report that Nova Pioneer produced its first graduating class in 2019 in both Kenya and South Africa. Alongside this important milestone, Chinezi and his team continued to focus in 2019 on system profitability, including further strengthening school unit economics (through management of capital and operating expenses and revenue diversification), which resulted in reaching a profitability milestone for the first two vintages of schools. Management continues to invest in curriculum to further improve 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), while remaining highly selective in its hiring, with less than 3% of applicants receiving offers.

Over the next three years, Nova Pioneer expects to grow from 13 to 20 schools, including expansion to West Africa in 2021, and is already working on the detailed development plans for these campuses. 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.

Pro forma for the exercise of its warrants, Fairfax Africa would have held a 15.0% interest in Nova Pioneer at December 31, 2019.

**Philafrica Foods (Philafrica)**

| ***Fiscal Year Ended Mar. 31 (ZAR millions)*** | **2017** | **2018** | **2019** |
|---|---|---|---|
| Total assets | 559 | 2,348 | 3,000 |
| Shareholders' equity | (87) | 75 | 1,306 |
| Revenue | 1,142 | 4,444 | 5,406 |
| EBITDA | (8) | 75 | 49 |
| Net earnings (loss) | (40) | (39) | (121) |
| Return on equity | NM | (51.6)% | (17.5)% |

Philafrica Foods ("Philafrica") was formed in April 2017 to hold AFGRI's legacy food 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 (40.0%) spun-out of AGH in November 2018 through a direct investment by Fairfax Africa (26.0%) and the PIC (14.0%).

Led by Roland Decorvet, a seasoned Nestlé senior executive (including as CEO of Nestlé China), Philafrica is a leading food processing company investing in food categories across Africa, focused on raw materials locally sourced from small holder farmers, and supporting the entire value chain to unlock the potential of African agriculture through food processing. Philafrica's main assets include:

- AFGRI Animal Feeds, the largest independent animal feed producer in South Africa
- AFGRI Milling, the industrial milling of yellow maize and wheat
- Nedan, a soybean crushing and oil extraction business in South Africa
- Pakworks, a snack manufacturer producing snacks exclusively for PepsiCo in sub-Saharan Africa, owned 60% by Philafrica
- Novos Horizontes, an integrated poultry producer in Mozambique, owned 94% by Philafrica
- Sunshine Bakery, a bakery group in South Africa, owned 68% by Philafrica
- DADTCO Philafrica, a cassava processor in Côte d'Ivoire and Mozambique, owned 73% by Philafrica

All of the legacy businesses of AFGRI Foods, including Animal Feeds, Nedan and Milling, continued to perform well in fiscal 2019.

Philafrica integrated two acquisitions over the course of the year, including the snacking company Pakworks, PepsiCo's largest co-manufacturer in Africa, which produces the popular *Nik Naks* brand of maize snacks, and Sunshine Bakeries, a regional baker in the KwaZulu Natal province in South Africa. Both these businesses are highly exposed to consumer food markets, and have managed to weather the lackluster South African economy fairly well despite consumer weakness and pricing pressures. Pakworks continues to innovate on new SKUs and flavour profiles alongside PepsiCo, while Sunshine continues to grow sales volume and expand its markets despite flat bread volume sales in South Africa.

Greenfield developments have been more challenging for Philafrica. Philafrica built the largest mussels farm and processing plant in Africa but experienced multiple environmental challenges and underperformance since inception. Management took the difficult but right decision in 2019 to exit the business rather than face ongoing challenges unlikely to be favorably resolved. DADTCO, a unique cassava processing technology with mobile factories in Mozambique and Côte d'Ivoire, and Novos Horizontes, a poultry producer in Mozambique, both have taken much longer than originally planned to get to profitability and required additional funding support in 2019. However, management believes that both are now on track towards cash flow breakeven in 2020, and that proof-of-concept has been achieved, albeit somewhat delayed from the original business plans. This experience has led Roland and his team to fundamentally change their approach to greenfield development in Africa.

Fairfax Africa held a 26.0% interest in Philafrica at December 31, 2019.

**The African Environment**

Africa continues to represent one of the most attractive long-term investment opportunities in the world. Our core investment thesis is based on several compelling macro trends: strong underlying GDP growth; favorable demographics including a rising middle class, rapid urbanization, and improvements in human capital; emergence, represented by improved governance, stability, transparency, as well as regional and international integration; and the supply-demand imbalance represented by the ongoing scarcity of capital relative to investment opportunities in many parts of the continent. Both public and private company valuations in Africa remain quite low relative to most markets – developed or emerging – around the world.

We summarize some of these key themes and developments in Africa below:

**Inflation is moderating:**

| Country / Region | 2017 | 2018 | 2019F |
|---|---|---|---|
| South Africa | 5.3% | 4.6% | 4.4% |
| Kenya | 8.2% | 4.7% | 6.0% |
| Nigeria | 16.3% | 12.2% | 11.7% |
| Mozambique | 15.4% | 3.9% | 2.9% |
| Botswana | 3.3% | 3.2% | 3.2% |
| Ghana | 12.3% | 9.9% | 9.2% |
| *Sub-Saharan Africa* | *11.0%* | *8.4%* | *8.4%* |
| *World* | *3.2%* | *3.6%* | *3.5%* |

*Source: RMB Global Markets, IMF*

**Growth in human capital:** Africa's population is expected to almost double by the year 2050, with population growth rate of 2.5% per annum, which is high when compared across the globe.

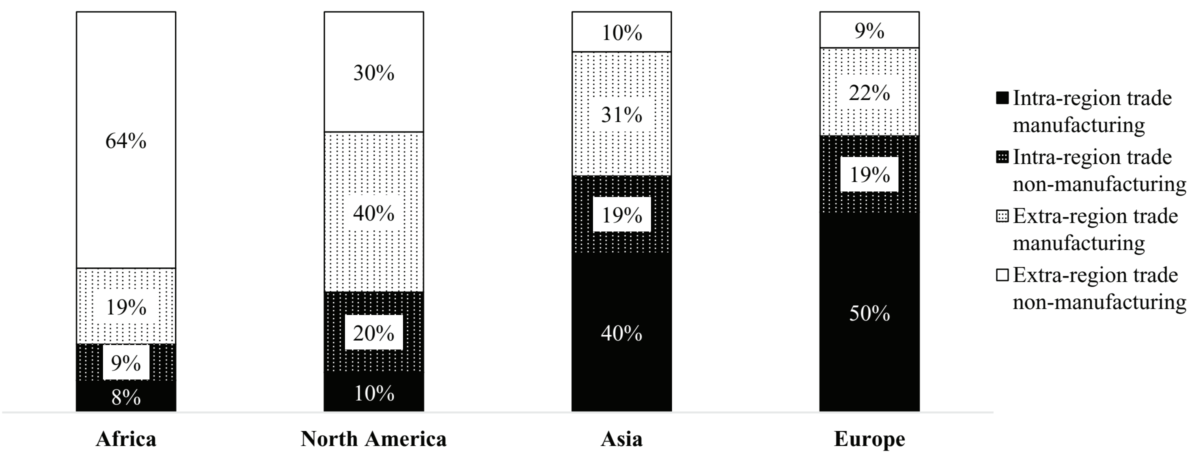
| Region | 2017 | 2018 | 2019-2024 |
|---|---|---|---|
| *Africa* | *2.7%* | *2.5%* | *2.5%* |
| *North Africa* | *3.3%* | *1.9%* | *1.9%* |
| *Sub-Saharan Africa* | *2.6%* | *2.6%* | *2.6%* |
| India | 1.3% | 1.3% | 1.3% |
| China, People's Republic of | 0.5% | 0.4% | 0.2% |
| Emerging and Developing Asia | 1.0% | 0.9% | 0.8% |
| Emerging Market and Developing Economies | 1.3% | 1.2% | 1.2% |
| Emerging and Developing Europe | 0.2% | 0.2% | 0.1% |
| World | 1.2% | 1.1% | 1.1% |
| Major Advanced economies (G7) | 0.4% | 0.4% | 0.3% |

*Source: IMF*

Strong demographics and skills development on the continent are expected to contribute to a productive and growing workforce. A Bloomberg analysis of the United Nations World Population Division shows that by 2100, the working-age (15-to-64 year old) population in Africa will surpass Asia, which will be confronted by an aging population, while the shift in Africa will be toward more youth in need of employment.

**Regional and economic integration – African Continental Free Trade Agreement ("AfCFTA"):** On May 30, 2019, history's largest free trade agreement (a market size of $3 trillion) was launched, now with 54 African countries as signatories. The objective is to create a single continental market for goods and services, with free movement of business, persons and investments, and eventually an Africa-wide customs union. The AfCFTA will allow Africa to become more competitive in global trade and value chains and for industries to develop across borders – creating economies of scale for investors as they look at wider integrated markets. It could be the key to unlocking growth in manufacturing on the continent and ease the process of importing goods and raw materials between countries. Africa lags far behind Asia and Europe in terms of continental intra-regional trade and manufactured goods make up a small share of traded goods, signalling opportunities for rapid growth and development.

**Intra- and extra- regional trade and manufacturing exports (%)**

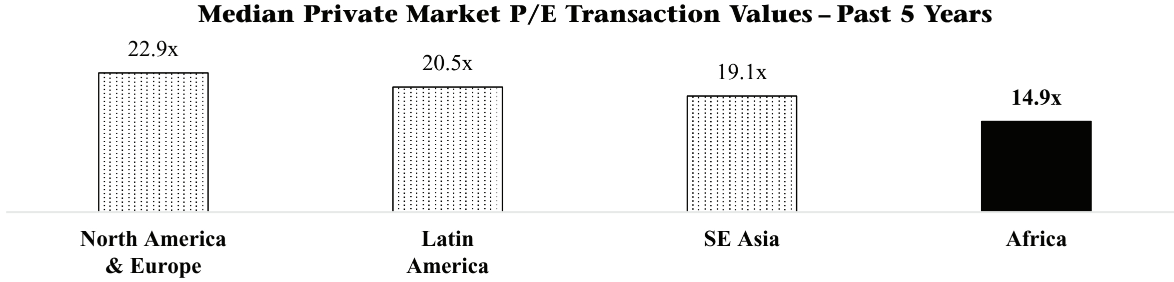



*Source: UNCTAD, Foresight Africa*

**Scarcity of capital:** Following 2018, the first year since 2015 of increased foreign direct investment ("FDI") in Africa, FDI flows amounted to $49 billion in 2019, an increase of 3%. This is contrary to negative 6% FDI growth in developing Asia and 0% FDI growth in developing economies globally. However, of the global pie, Africa represents only 3.5% of total FDI and only 7% of FDI in developing economies. As such, scarcity of capital remains a core issue for the continent and reinforces the benefits of Fairfax Africa's permanent capital investment structure.

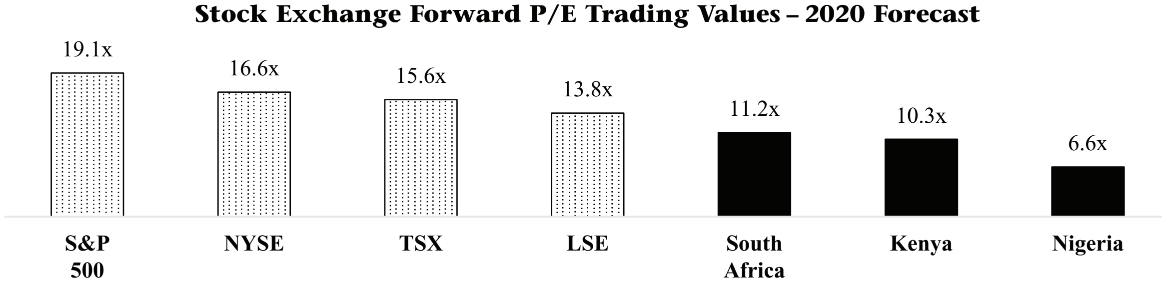
**Valuations remain attractive:**

**Median Private Market P/E Transaction Values – Past 5 Years**




*Source: S&P Capital IQ*

**Stock Exchange Forward P/E Trading Values – 2020 Forecast**




*Source: Bloomberg Analyst Consensus Estimates*

Africa's two largest economies (Nigeria and South Africa) underperformed in 2019, with GDP below 3% and 1%, respectively. This under-performance brought down continent-wide growth to 3.2%. However, excluding these markets Africa continued to grow at an estimated 4.5%, with East Africa leading the way at 5.0%.

*Kenya & East Africa*

Kenya, and East Africa generally (a region which includes Tanzania, Uganda, Rwanda and Ethiopia), continue to represent one of the fastest growing regions in the world, let alone Africa, with recent and projected annual GDP growth consistently above 5%. Regional growth is supported by advances in the manufacturing, telecom, energy, financial services and other sectors. GDP per capita is expected to increase by over 6% in 2020, supporting a thesis of investing behind the emerging middle class as household wealth and disposable income increases.

Fairfax Africa is invested in the region through Nova Pioneer (Kenya), AGH (Uganda), Atlas Mara (Rwanda and Tanzania) and CIG (Kenya, Ethiopia). The region will continue to be of interest for us going forward.

*Nigeria & West Africa*

West Africa remains a high growth region at approximately 3.7% despite the underperformance of its largest economy. Nigeria is the most populous country and largest economy in Africa (representing close to 20% of total GDP), however its growth has been muted in recent years. Historically dependent on oil and gas revenues, the country is slowly migrating its economy towards other sectors, but challenges persist, including insufficient infrastructure, inadequate power supply and lack of industrialization. These realities all present opportunities for Fairfax Africa. Regionally, smaller countries such as Côte d'Ivoire, Ghana and Senegal continue to offer examples of positive economic development, illustrated by improving business environments and government emphasis on diversifying their economies.

Fairfax Africa is invested in Nigeria through Atlas Mara's 49.97% stake in UBN, and CIG has recently entered the market through its Conlog subsidiary.

*South Africa & SADC*

South Africa's GDP growth slowed to 0.2% in 2019 from 0.8% in 2018. The World Bank recently cut South Africa's growth forecast to below 1% for 2020, and reduced long-term forecasts to 1.4% average through 2022. Electricity supply constraints (evidenced in 2019 by the resumption of rolling blackouts), stalled infrastructure projects, challenges at state-owned enterprises, and weaker global conditions (weighing on export demand) all impacted the local growth outlook. South African GDP has not expanded by more than 2% since 2014, and the currency has devalued by over 25% during this time. Moody's downgraded its outlook from stable to negative in November. As a result of these and other factors, Fairfax Africa is taking a more cautious approach to investment in the country. Excluding South Africa, the SADC region is expected to grow at 3.3% in 2020.

On a more positive note, there are recent signs that the energy sector is liberalizing and that legal and regulatory barriers to renewable energy and electrical power self-generation (i.e. by mines, municipalities, manufacturing facilities and other users) are being removed. The government published its Integrated Resource Plan in October 2019, which provided belated clarity on the future of South African electricity generation. Specifically, 11 gigawatts of the country's aging coal fleet will be shut down over the next 20 years and replaced by new capacity dominated by renewables (solar and wind) and by developing gas infrastructure. A number of policy actions have been announced in the first quarter of 2020 intended to address the near- and long-term power generation capacity shortfall in South Africa. While certainly aiding the SA economy generally, we expect that these developments could have a specific and substantially positive benefit for CIG as a leading provider and developer of electrical grid infrastructure in the country.

Fairfax Africa is invested in South Africa through AGH (incl. GroCapital and Philafrica), CIG, and Nova Pioneer, and the broader SADC region through Atlas Mara (Botswana, Zambia, Zimbabwe, Mozambique), AGH (Zambia, Zimbabwe, Mozambique, Botswana), and CIG (Angola and Namibia among others).

*Egypt & North Africa*

North Africa is projected to grow at 4.4% through 2024. While not currently invested in the region, Fairfax Africa finds Egypt and Morocco particularly attractive within the region, with growth rates above 5.5% and 3.5%

respectively, and generally favorable conditions for foreign investment. We're keeping an eye out for interesting opportunities that might provide a strong point of entry to the region.

**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 2019, Fairfax Africa purchased for cancellation 3,315,484 subordinate voting shares at an average price of $8.15 per share. These purchases were made at a substantial discount to the then prevailing book value and therefore were mildly accretive to book value per share. As such, management views these repurchases as a sensible use of Fairfax Africa's capital.

**Additions to Our Team**

Just prior to the start of the year, we welcomed Ahmad Mazhar as Managing Director of Investments. Ahmad was previously Head of the Abraaj Group's Southern African Investment team, and has nearly a decade of African investing experience. His insights and relationships have been very valuable as we continue to pursue value in Africa. Dmitri Navaratnam also joined the investments team from a similar role at George Weston, and is working closely with Ahmad. Amy Sherk was appointed as CFO in August 2019 following Jennifer Allen's promotion to CFO of Fairfax Financial. No stranger to Fairfax Africa, Amy has been involved from the beginning in various financial and valuation roles. Please join us in welcoming Amy, Ahmad and Dmitri when you see them at our AGM. And a word of thanks to Keir Hunt (General Counsel and Corporate Secretary) and Dylan Buttrick (MD Mauritius and South Africa), who lead our legal and regulatory teams in Toronto and Mauritius respectively, for their tireless efforts on behalf of the company.

**In Closing**

The underlying investment thesis for Fairfax Africa remains intact. While 2019 performance was disappointing, we remain confident in Fairfax Africa's ability to deliver value for its shareholders. Our focus in 2020 will be on building underlying book value at our investee companies, and closing the gaps between the market price and our book value, and between book value and the true potential of the company to deliver long-term value for shareholders.

Paul Rivett will continue to be actively involved with Fairfax Africa through his role on the board and other support.

On behalf of our colleagues at Fairfax Africa and our investee companies, we want to thank you for your continued support and confidence. We hope to see many of you at our annual meeting at 2:30 p.m. (Eastern time) on Wednesday, April 15 at the *Fairmont Royal York Hotel*, 100 Front Street West, Toronto, Canada.

March 6, 2020

Michael Wilkerson
Chief Executive Officer

Paul Rivett
Vice-Chairman

**Management's Responsibility for the Consolidated Financial Statements**

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

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

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

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

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

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

March 6, 2020

Michael Wilkerson
*Chief Executive Officer*

Amy Sherk
*Chief Financial Officer*

## Independent Auditor's Report

To the Shareholders of Fairfax Africa Holdings Corporation

*Our opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Fairfax Africa Holdings Corporation and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

### What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

*Basis for opinion*

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

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

### Independence

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

*Other information*

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

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

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

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

*Responsibilities of management and those charged with governance for the consolidated financial statements*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers LLP

**Chartered Professional Accountants, Licensed Public Accountants**
Toronto, Ontario
March 6, 2020

## Consolidated Financial Statements

### Consolidated Balance Sheets

*as at December 31, 2019 and December 31, 2018*
*(US$ thousands)*

| | Notes | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 6, 15 | 44,334 | 230,858 |
| Restricted cash | 12 | 7,500 | – |
| Short term investments | 6 | 104,008 | 38,723 |
| Loans | 5, 6 | 41,984 | 38,595 |
| Bonds | 5, 6 | 78,820 | 59,856 |
| Common stocks | 5, 6 | 232,212 | 270,284 |
| Derivatives | 5, 6 | 1,541 | 2,017 |
| Total cash and investments | | 510,399 | 640,333 |
| Interest receivable | | 5,835 | 2,472 |
| Deferred income taxes | 10 | 1,665 | – |
| Income tax refundable | 10 | 380 | – |
| Other assets | | 2,388 | 1,025 |
| Total assets | | 520,667 | 643,830 |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | | 297 | 531 |
| Derivative obligation | 5, 6 | – | 5,724 |
| Payable to related parties | 12 | 1,555 | 1,658 |
| Income taxes payable | 10 | – | 3,263 |
| Borrowings | 7 | – | 29,527 |
| Total liabilities | | 1,852 | 40,703 |
| **Equity** | | | |
| Common shareholders' equity | 8 | 518,815 | 603,127 |
| | | 520,667 | 643,830 |

See accompanying notes.

Signed on behalf of the Board

V. P. Watsa
Director

Chris [illegible]
Director

**Consolidated Statements of Earnings and Comprehensive Income**
*for the years ended December 31, 2019 and 2018*
*(US$ thousands except per share amounts)*

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Income** | | | |
| Interest | 6 | 22,606 | 20,848 |
| Dividends | 6 | 2,381 | – |
| Net realized gains (losses) on investments | 6 | (4,838) | 3,661 |
| Net change in unrealized losses on investments | 6 | (73,223) | (40,690) |
| Net foreign exchange gains (losses) | 6 | 6,832 | (25,927) |
| | | (46,242) | (42,108) |
| **Expenses** | | | |
| Investment and advisory fees | 12 | 6,572 | 6,440 |
| Performance fee recovery | 12 | – | (319) |
| General and administration expenses | 14 | 3,677 | 4,281 |
| Interest expense | 7 | 977 | 3,200 |
| | | 11,226 | 13,602 |
| **Loss before income taxes** | | (57,468) | (55,710) |
| Provision for income taxes | 10 | 3,731 | 4,870 |
| **Net loss and comprehensive loss** | | (61,199) | (60,580) |
| **Net loss per share (basic and diluted)** | 9 | $ (1.01) | $ (1.06) |
| **Shares outstanding** (weighted average) | 9 | 60,688,854 | 57,249,901 |

See accompanying notes.

**Consolidated Statements of Changes in Equity**
*for the years ended December 31, 2019 and 2018*
*(US$ thousands)*

| | Subordinate voting shares | Multiple voting shares | Share-based payments, net | Retained earnings (deficit) | Common shareholders' equity |
|---|---|---|---|---|---|
| **Balance as of January 1, 2019** | 340,518 | 300,000 | (364) | (37,027) | 603,127 |
| Net loss | – | – | – | (61,199) | (61,199) |
| Purchases for cancellation (note 8) | (34,408) | – | – | 7,390 | (27,018) |
| Purchases and amortization | – | – | (63) | – | (63) |
| Tax benefit on share issuance costs (note 10) | 3,968 | – | – | – | 3,968 |
| **Balance as of December 31, 2019** | 310,078 | 300,000 | (427) | (90,836) | 518,815 |
| **Balance as of January 1, 2018** | 193,326 | 300,000 | – | 23,410 | 516,736 |
| Net loss | – | – | – | (60,580) | (60,580) |
| Issuance of shares, net of issuance costs (note 8) | 148,316 | – | – | – | 148,316 |
| Purchases for cancellation (note 8) | (1,124) | – | – | 143 | (981) |
| Purchases and amortization | – | – | (364) | – | (364) |
| **Balance as of December 31, 2018** | 340,518 | 300,000 | (364) | (37,027) | 603,127 |

See accompanying notes.

**Consolidated Statements of Cash Flows**
*for the years ended December 31, 2019 and 2018*
*(US$ thousands)*

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Operating activities** | | | |
| Net loss | | (61,199) | (60,580) |
| Items not affecting cash and cash equivalents: | | | |
| Net bond discount accretion | | (2,359) | (3,613) |
| Capitalized interest on loans and bonds | 5 | (8,687) | (4,148) |
| Deferred income taxes | 10 | (114) | – |
| Amortization of share-based payment awards | | 108 | 71 |
| Net realized (gains) losses on investments | 6 | 4,838 | (3,661) |
| Net change in unrealized losses on investments | 6 | 73,223 | 40,690 |
| Net foreign exchange (gains) losses | 6 | (6,832) | 25,927 |
| Net purchases of short term investments | | (64,016) | (3,613) |
| Purchases of investments | 15 | (74,141) | (155,950) |
| Disposals of investments | 5, 15 | 20,875 | 37,986 |
| Decrease (increase) in restricted cash in support of investments | 12 | (7,500) | 162,519 |
| Changes in operating assets and liabilities: | | | |
| Interest receivable | | (3,363) | 1,034 |
| Income taxes payable | | (3,643) | 3,181 |
| Payable to related parties | | (103) | 176 |
| Other | | 1,200 | (919) |
| Cash provided by (used in) operating activities | | (131,713) | 39,100 |
| **Financing activities** | | | |
| Borrowings: | 7 | | |
| Proceeds | | – | 30,000 |
| Issuance costs | | – | (690) |
| Repayment | | (30,000) | (150,000) |
| Decrease in restricted cash in support of term loan | | – | 150,481 |
| Subordinate voting shares: | 8 | | |
| Issuances | | – | 150,675 |
| Issuance costs | | – | (2,359) |
| Purchases for cancellation | | (27,018) | (981) |
| Cash provided by (used in) financing activities | | (57,018) | 177,126 |
| **Increase (decrease) in cash and cash equivalents** | | (188,731) | 216,226 |
| Cash and cash equivalents – beginning of year | | 230,858 | 13,012 |
| Foreign currency translation | | 2,207 | 1,620 |
| **Cash and cash equivalents – end of year** | | 44,334 | 230,858 |

See accompanying notes.

## Index to Notes to Consolidated Financial Statements

## Notes to Consolidated Financial Statements

*for the years ended December 31, 2019 and 2018*
*(in US$ and thousands except share and per share amounts and as otherwise indicated)*

### 1. Business Operations

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

Fairfax Financial Holdings Limited (''Fairfax'') is Fairfax Africa's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and the associated investment management. Hamblin Watsa Investment Counsel Ltd. (the ''Portfolio Advisor''), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments. Refer to note 12 for details on Fairfax's voting rights and equity interest in the company.

The company is federally incorporated and is domiciled in Ontario, Canada. The principal office of the company, Fairfax and the Portfolio Advisor is located at 95 Wellington Street West, Suite 800, Toronto, Ontario M5J 2N7.

### 2. Basis of Presentation

The company's consolidated financial statements for the year ended December 31, 2019 have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB''). The company has determined that it continues to meet the definition of an investment entity under IFRS (see note 3).

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

The preparation of the company's consolidated financial statements requires management to make a number of estimates and judgments that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the reported amounts of income and expenses during the reporting periods covered by the consolidated financial statements and the related note disclosures. Critical accounting estimates and judgments are described in note 4.

These consolidated financial statements were approved for issue by the company's Board of Directors on March 6, 2020.

### 3. Summary of Significant Accounting Policies

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

***Determination of investment entity status***

An entity that meets the IFRS 10 *Consolidated Financial Statements* (''IFRS 10'') definition of an investment entity is required to measure its investments in subsidiaries at FVTPL rather than consolidate them (other than those subsidiaries that provide services to the company).

An investment entity is an entity that obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The company continues to meet the definition of an investment entity, as its strategic objective of investing in African Investments and providing investment management services to investors for the purpose of generating returns in the form of long term capital appreciation, remains unchanged. The company has determined that SA Sub and Mauritius Sub continue to provide investment related services to the company and should continue to be consolidated.

The company may from time to time seek to realize on any of its African Investments. The circumstances under which the company may sell some or all of its investments include: (i) where the company believes that the African Investments are fully valued or that the original investment thesis has played out; or, (ii) where the company has identified other investment opportunities which it believes present more attractive risk-adjusted return opportunities and additional capital is needed to make such alternative investments.

The company would exit its private African Investments ("Private African Investments", as disclosed later in note 5) either through initial public offerings or private sales. For publicly traded African Investments ("Public African Investments", as disclosed later in note 5), exit strategies may include selling the investments through private placements or in public markets.

### *Consolidation*

**Subsidiaries –** A subsidiary is an entity over which the company has control. The company controls an entity when the company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. As an investment entity the company is required to account for its investments in subsidiaries (Joseph Investment Holdings ("Joseph Holdings") and Consolidated Infrastructure Group Limited ("CIG")) at fair value through profit or loss ("FVTPL") rather than by consolidation.

As SA Sub and Mauritius Sub continue to be consolidated all intercompany balances, profits and transactions with these subsidiaries are eliminated in full.

**Investments in associates and joint ventures –** An associate is an entity over which the company has the ability to exercise significant influence, but not control, over the financial and operating policies. A joint venture is a joint arrangement whereby the decisions about the relevant activities require the unanimous consent of the parties sharing control and the parties have rights to the net assets of the arrangement. As an investment entity, the company accounts for its investments in associates and joint ventures (Atlas Mara Limited ("Atlas Mara"), Philafrica Foods Proprietary Ltd. ("Philafrica"), and GroCapital Holdings Proprietary Limited ("GroCapital Holdings")) at FVTPL rather than under the equity method of accounting.

### *Foreign currency translation*

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

Although the company's African Investments are denominated in various currencies, its primary financial reporting objective is to measure long term capital appreciation in U.S. dollars. Accordingly, the company presents its consolidated financial statements in U.S. dollars to provide comparability with other North American investment entities.

**Foreign currency transactions –** Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in net foreign exchange gains (losses) in the consolidated statements of earnings and comprehensive income. Income and expenses are translated at the average rate of exchange for the period.

### *Consolidated statements of cash flows*

The company's consolidated statements of cash flows are prepared in accordance with the indirect method, classifying cash flows by operating, investing and financing activities.

**Cash and cash equivalents –** Cash and cash equivalents consists of cash on hand, demand deposits with banks and other short term highly liquid investments with maturities of three months or less when purchased, and exclude cash that is restricted. The carrying value of cash and cash equivalents approximates fair value.

**Restricted cash –** Restricted cash consists of amounts required to be maintained on deposit for a fixed period of time with an African bank (see note 12). The carrying value of restricted cash approximates fair value.

***Total cash and investments***

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

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

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

Subsequent to initial recognition, investments classified at FVTPL are measured at fair value with changes in fair value reported in the consolidated statements of earnings and comprehensive income as income, comprised of interest, dividends, net realized gains (losses) on investments and net change in unrealized gains (losses) on investments. Interest represents interest income on short term investments, loans and bonds calculated using the effective interest method, net of investment expenses and includes bank interest. Calculation of a debt instrument's effective interest rate does not consider expected credit losses and requires estimates of future cash flows considering all contractual terms of the financial instrument including the stated interest rate, discount or premium, and any origination or structuring fees. Interest receivable is shown separately on the consolidated balance sheets based on the debt instrument's stated rate of interest. Dividends represent dividends received on common and preferred stock holdings and are recognized when the company's right to receive payment is established. All other changes in fair value are reported in net realized gains (losses) on investments and net change in unrealized gains (losses) on investments in the consolidated statements of earnings and comprehensive income. For short term investments, loans and bonds, the sum of interest income and net realized gains (losses) on investments and net change in unrealized gains (losses) on investments is equal to their total change in fair value for the reporting period.

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

**Derecognition –** An investment is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the company has transferred substantially all the risks and rewards of ownership.

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

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

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

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

**Determination of fair value –** Fair values for substantially all of the company's investments are measured using market or income approaches. Considerable judgment may be required in interpreting market data used to develop estimates of fair value. Accordingly, actual values realized in future market transactions may differ from the estimates presented in these consolidated financial statements. The use of different market assumptions and/or valuation methodologies may have a material effect on the estimated fair values. The fair values of investments are based on bid prices for financial assets and ask prices for financial liabilities. The company categorizes its fair value measurements using a three level hierarchy in accordance with IFRS (''fair value hierarchy'') as described below:

Level 1 – Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets. The fair values of the company's Public African Investments are based on published quotes in active markets.

Level 2 – Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level 3 – Inputs include unobservable inputs used in the measurement of financial instruments. Management is required to use its own assumptions regarding unobservable inputs as there is little, if any, market activity in these instruments or related observable inputs that can be corroborated at the measurement date. The fair values of the company's Private African Investments are based on discounted cash flow models and option pricing models which utilize inputs that are not market observable such as after-tax discount rates, discount rates, long term growth rates, historical share price volatilities, share prices and credit spreads.

Transfers between fair value hierarchy categories are considered effective from the beginning of the reporting period in which the transfer is identified.

Valuation techniques used by the company's independent pricing service providers and third party broker-dealers include use of prices from similar instruments where observable market prices exist, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants. The company assesses the reasonableness of pricing received from these third party sources by comparing the fair values received to recent transaction prices for similar assets where available, to industry accepted discounted cash flow models (that incorporate estimates of the amount and timing of future cash flows and market observable inputs such as credit spreads and discount rates) and to option pricing models (that incorporate market observable inputs including the quoted price, volatility and dividend yield of the underlying security and the risk free rate).

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

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

### *Performance fees*

Performance fees are estimated and accrued at the end of each reporting period within the calculation period. An estimate is also made for the number of shares to be issued, if any, on settlement for the purposes of the calculation of diluted earnings per share based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the reporting period. The amount of the performance fee payable and the subordinate voting shares to be issued which are determined at the end of each calculation period, if any, may differ when performance fee is settled in accordance with the terms as disclosed in note 12.

### *Income taxes*

The provision for income taxes for the period comprises current and deferred income taxes. Income taxes are recognized in the consolidated statements of earnings and comprehensive income, except to the extent that they relate to items recognized directly in equity. In those cases, the related taxes are also recognized directly in equity.

Current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company and its subsidiaries operate and generate taxable income.

Deferred income tax is calculated under the liability method whereby deferred income tax assets and liabilities are recognized for temporary differences between the financial statements carrying amounts of assets and liabilities and their respective income tax bases at current substantively enacted tax rates. Changes in deferred income tax are included in the provision for income taxes in the consolidated statements of earnings and comprehensive income.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Carry forwards of unused losses or unused tax credits are tax effected and recognized as deferred tax assets when it is probable that future taxable profits will be available against which these losses or tax credits can be utilized.

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

Current and deferred income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and there is a legally enforceable right of offset.

### *Borrowings*

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

### *Equity*

Common stock issued by the company is classified as equity when there is no contractual obligation to transfer cash or other financial assets to the holder of the shares. Incremental costs directly attributable to the issue or purchase for cancellation of equity instruments are recognized in equity, net of tax.

Dividends and other distributions to holders of the company's equity instruments are recognized directly in equity.

### *Share-based payments*

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

### *Net earnings (loss) per share*

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

### *Net earnings (loss) per diluted share*

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

***New accounting pronouncement adopted in 2019***

The company adopted the following amendment, effective January 1, 2019 in accordance with the applicable transitional provisions.

*IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (''IFRIC 23'')*
IFRIC 23 clarifies how IAS 12 Income Taxes should be applied when there is uncertainty over income tax treatments. Adoption of IFRIC 23 on January 1, 2019 did not have a significant impact on the company's consolidated financial statements.

*IFRS Annual Improvements 2015-2017*
The Annual Improvements amended IAS 12 Income Taxes to clarify that the income tax consequences (if any) of dividend distributions are recognized at the same time as the liability to pay those dividends, and that the income tax consequences are recorded in profit or loss, other comprehensive income, or in equity, according to where the past transactions or events that generated those distributable profits were recorded. Adoption of this amendment on January 1, 2019 did not have a significant impact on the company's consolidated financial statements.

*Classification of Liabilities as Current or Non-current (Amendments to IAS 1)*
On January 23, 2020 the IASB issued amendments to IAS 1 *Presentation of Financial Statements* to clarify the criteria for classifying a liability as non-current. The amendments are applied retrospectively on or after January 1, 2022 and are not expected to have a significant impact on the company's consolidated financial statements.

***New accounting pronouncements issued but not yet effective***

The following new standards and amendments have been issued by the IASB and were not yet effective for the fiscal year beginning January 1, 2019. The company does not expect to adopt any of them in advance of their respective effective dates.

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

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

## 4. Critical Accounting Estimates and Judgments

In the preparation of the company's consolidated financial statements, management has made a number of critical accounting estimates and judgments which are discussed below. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Where estimates were made, the reported amounts of assets, liabilities, income and expenses may differ from the amounts that would otherwise be reflected if the ultimate outcome of all uncertainties and future earnings were known at the time the consolidated financial statements were prepared.

***Valuation of Private African Investments***

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

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

Estimates and judgments for Private African Investments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company utilizes Fairfax's valuation personnel to assist with the valuation of its investment portfolio. Detailed valuations are performed for those financial instruments that are priced internally, while external pricing received from independent pricing service providers and third party broker-dealers are evaluated by the company for reasonableness. The company does not use independent valuation experts to determine the fair value of its Private Africa Investments. The company's Chief Financial Officer oversees the valuation function and regularly reviews valuation processes and results, including at each quarterly reporting period. Significant valuation matters, particularly those requiring extensive judgment, are communicated to the company's Audit Committee.

Notwithstanding the rigour of the company's valuation processes, the valuation of Private African Investments inherently has estimation uncertainty and different assumptions could lead to materially different fair values. Significant judgements and assumptions are required to determine the discounted cash flow, including discount rates, long term growth rates and working capital requirements. Discounted cash flows are subject to sensitivity analysis given that the variability of future-oriented financial information. Refer to notes 5 and 6 for additional disclosure related to the valuation of the company's Private African Investments.

***Income taxes***

The company is subject to income taxes in Canada, Mauritius and South Africa, and the company's determination of its tax liability or receivable is subject to review by those applicable tax authorities. The company exercised judgment in assessing that unremitted earnings related to its subsidiaries holdings of Africa Investments, as disclosed in note 10, are not expected to result in taxable amounts as the company has determined it is not probable that those unremitted earnings will be repatriated in the foreseeable future; as a consequence no tax has been recorded in the consolidated financial statements on these unremitted earnings. While the company believes its tax positions to be reasonable, where the company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience. The company has Fairfax tax specialist personnel responsible for assessing the income tax consequences of planned transactions and events, and undertaking the appropriate tax planning.

Realization of deferred income tax assets is dependent upon the generation of taxable income in those jurisdictions where the relevant tax losses and temporary differences exist. Tax legislation of each jurisdiction in which the company operates is interpreted to determine the provision for (recovery of) income taxes and expected timing of the reversal of deferred income tax assets and liabilities. The company exercised judgment that certain carryforwards of unused losses disclosed in note 10 should not be recognized as an asset as it was considered not probable that those losses could be utilized by the company.

***Determination of functional currency***

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

## 5. African Investments

Throughout the company's consolidated financial statements for the year ended December 31, 2019, the term "African Investments" refers to deployed capital invested in Public and Private African Investments as disclosed within this note.

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

A summary of changes in the fair value of the company's Public and Private African Investments during 2019 and 2018 were as follows:

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Balance as of January 1** | **Purchases** | **Repayments/ (Redemptions)** | **Accretion of discount/ (amortization of premium)(1)** | **Net realized loss on investments** | **Net change in unrealized gains (losses) on investments(2)** | **Net foreign exchange gains (losses) on investments** | **Balance as of December 31** |
| **Public African Investments:** | | | | | | | | |
| Common stocks: | | | | | | | | |
| Atlas Mara | 119,092 | – | – | – | – | (41,017) | – | 78,075 |
| CIG | 3,886 | 44,974 | – | – | – | (29,436) | 138 | 19,562 |
| Other(3) | 28 | – | – | – | – | (24) | (4) | – |
| Total Public African Investments | 123,006 | 44,974 | – | – | – | (70,477) | 134 | 97,637 |
| **Private African Investments:** | | | | | | | | |
| Loans: | | | | | | | | |
| AGH Facility | – | 12,813 | (12,939) | 257 | – | – | (131) | – |
| CIG | 21,068 | – | – | 97 | – | (996) | 575 | 20,744 |
| PGR2(4) | 17,527 | 2,943 | – | – | – | 112 | 658 | 21,240 |
| | 38,595 | 15,756 | (12,939) | 354 | – | (884) | 1,102 | 41,984 |
| Bonds: | | | | | | | | |
| Atlas Mara 11.0% Convertible Bonds(5) | 16,334 | 1,845 | – | (80) | – | 197 | – | 18,296 |
| Atlas Mara 7.5% Bonds | 17,499 | – | – | 762 | – | 170 | – | 18,431 |
| Nova Pioneer Bonds(6) | 26,023 | 12,620 | – | 103 | – | 3,347 | – | 42,093 |
| | 59,856 | 14,465 | – | 785 | – | 3,714 | – | 78,820 |
| Common stocks: | | | | | | | | |
| Indirect equity interest in AGH(7) | 111,888 | – | (7,936) | – | – | (1,239) | 2,263 | 104,976 |
| Philafrica | 23,463 | – | – | – | – | (4,841) | 649 | 19,271 |
| GroCapital Holdings | 11,927 | 2,288 | – | – | – | (4,285) | 398 | 10,328 |
| | 147,278 | 2,288 | (7,936) | – | – | (10,365) | 3,310 | 134,575 |
| Derivatives: | | | | | | | | |
| Atlas Mara Warrants | 1,016 | – | – | – | – | (933) | – | 83 |
| Nova Pioneer Warrants | 1,001 | 506 | – | – | – | (49) | – | 1,458 |
| | 2,017 | 506 | – | – | – | (982) | – | 1,541 |
| Derivative Obligation: | | | | | | | | |
| CIG forward derivative liability(8) | (5,724) | – | 4,839 | – | (4,839) | 5,724 | – | – |
| Total Private African Investments | 242,022 | 33,015 | (16,036) | 1,139 | (4,839) | (2,793) | 4,412 | 256,920 |
| **Total African Investments** | 365,028 | 77,989 | (16,036) | 1,139 | (4,839) | (73,270) | 4,546 | 354,557 |

(1) *Recorded in interest within 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, with the exception of the $5,724 reversal of the prior period unrealized losses recorded on settlement of the CIG forward derivative liability.*

(3) *Comprised of common shares of a public company listed on the Johannesburg Stock Exchange. During the first quarter of 2019 the common shares of the public company were de-listed.*

(4) *Purchases in 2019 of $2,943 related to capitalized interest.*

(5) *Purchases in 2019 of $1,845 related to capitalized interest.*

(6) *Purchases in 2019 included $3,899 related to capitalized interest.*

(7) *Invested through the company's ownership in Joseph Holdings.*

(8) *Related to the company's obligation to subscribe for 178,995,353 common shares of CIG as part of the CIG Rights Offer, which was settled on January 4, 2019.*

| | 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance as of January 1 | Purchases | Repayments | Accretion of discount/ (amortization of premium)(1) | Net realized gain on investments | Net change in unrealized gains (losses) on investments(2) | Net foreign exchange gains (losses) on investments | Balance as of December 31 |
| **Public African Investments:** | | | | | | | | |
| Common stocks: | | | | | | | | |
| Atlas Mara | 168,671 | – | – | – | – | (49,579) | – | 119,092 |
| CIG | 2,563 | 1,599 | – | – | – | 98 | (374) | 3,886 |
| Other(3) | 2,369 | 69 | – | – | – | (2,100) | (310) | 28 |
| Total Public African Investments | 173,603 | 1,668 | – | – | – | (51,581) | (684) | 123,006 |
| **Private African Investments:** | | | | | | | | |
| Loans: | | | | | | | | |
| AGH Facility | 24,233 | – | (25,399) | – | – | – | 1,166 | – |
| Philafrica Facility | – | 41,153 | (35,841) | 818 | – | – | (6,130) | – |
| CIG | – | 23,270 | – | 46 | – | 694 | (2,942) | 21,068 |
| PGR2(4) | – | 20,996 | – | – | – | (1,545) | (1,924) | 17,527 |
| | 24,233 | 85,419 | (61,240) | 864 | – | (851) | (9,830) | 38,595 |
| Bonds: | | | | | | | | |
| Atlas Mara 7.5% Convertible Bonds | – | 33,840 | (36,182) | 464 | 1,878 | – | – | – |
| Atlas Mara 11.0% Convertible Bonds(5) | – | 16,280 | – | (9) | – | 63 | – | 16,334 |
| Atlas Mara 7.5% Bonds | – | 17,676 | – | 104 | – | (281) | – | 17,499 |
| Nova Pioneer Bonds(6) | 19,414 | 6,697 | – | 27 | – | (115) | – | 26,023 |
| | 19,414 | 74,493 | (36,182) | 586 | 1,878 | (333) | – | 59,856 |
| Common stocks: | | | | | | | | |
| Indirect equity interest in AGH(7) | 88,314 | 21,712 | – | – | – | 18,082 | (16,220) | 111,888 |
| Philafrica | – | 23,254 | – | – | – | 870 | (661) | 23,463 |
| GroCapital Holdings | – | 12,141 | – | – | – | – | (214) | 11,927 |
| | 88,314 | 57,107 | – | – | – | 18,952 | (17,095) | 147,278 |
| Derivatives: | | | | | | | | |
| Atlas Mara Warrants | – | 2,324 | – | – | – | (1,308) | – | 1,016 |
| Nova Pioneer Warrants | 520 | 326 | – | – | – | 155 | – | 1,001 |
| | 520 | 2,650 | – | – | – | (1,153) | – | 2,017 |
| Derivative Obligation: | | | | | | | | |
| CIG forward derivative liability(8) | – | – | – | – | – | (5,724) | – | (5,724) |
| Total Private African Investments | 132,481 | 219,669 | (97,422) | 1,450 | 1,878 | 10,891 | (26,925) | 242,022 |
| **Total African Investments** | 306,084 | 221,337 | (97,422) | 1,450 | 1,878 | (40,690) | (27,609) | 365,028 |

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

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

*(3) Comprised of common shares of a public company listed on the Johannesburg Stock Exchange. During the first quarter of 2019 the common shares of the public company were de-listed.*

*(4) Purchases in 2018 included $1,027 related to capitalized interest.*

*(5) Purchases in 2018 included $98 related to capitalized interest.*

*(6) Purchases in 2018 included $2,250 related to capitalized interest.*

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

*(8) Related to the company's obligation to subscribe for 178,995,353 common shares of CIG as part of the CIG Rights Offer, which was settled on January 4, 2019.*

**Public African Investments**

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

***Investment in Atlas Mara Limited (Common Shares)***

Atlas Mara Limited (''Atlas Mara'') is a Sub-Saharan African financial services group listed on the London Stock Exchange under the symbol ATMA. Since its inception, Atlas Mara has acquired control or significant influence in banks across seven Sub-Saharan African countries: Nigeria, Botswana, Zimbabwe, Mozambique, Rwanda, Tanzania and Zambia.

The company's investment in Atlas Mara is comprised of common shares, debt instruments and warrants. The debt instruments and warrants are classified as Level 3 investments in the fair value hierarchy and are discussed in the Private African Investments section under the heading Investment in Atlas Mara Limited (Debt Instruments and Warrants) later in note 5. The company has also entered into related party transactions with Atlas Mara which are discussed later in note 12.

*Atlas Mara Common Shares*

In August and December 2017 the company acquired an aggregate of 71,958,670 common shares of Atlas Mara representing a 43.3% equity interest for net consideration of $159,335.

At December 31, 2019 the fair value of the company's investment in Atlas Mara was $78,075 (December 31, 2018 – $119,092), comprised of 71,958,670 common shares representing a 42.4% equity interest (December 31, 2018 – 42.4%). The changes in fair value of the company's investment in Atlas Mara in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

***Investment in Consolidated Infrastructure Group Limited (Common Shares)***

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

The company's investment in CIG is comprised of common shares and a debt instrument. At December 31, 2018 the company's investment in CIG also included a derivative obligation which was settled on January 4, 2019 upon closing of the CIG Rights Offer (described below). 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 Limited (Debt Instrument and Derivative Obligation) later in note 5.

*CIG Common Shares*

In 2017 and 2018 the company acquired 15,527,128 common shares representing a 7.9% equity interest in CIG for cash consideration of $4,041 (56.4 million South African rand).

On January 4, 2019 upon closing of the previously announced CIG Rights Offer the company acquired 178,995,353 common shares of CIG for net consideration of $44,905 (628.3 million South African rand), which was comprised of net cash consideration of $49,744 (696.0 million South African rand), partially offset by the settlement of the derivative obligation (refer to the Private African Investments section under the heading Investment in Consolidated Infrastructure Group Limited (Debt Instrument and Derivative Obligation) later in note 5) of $4,839 (67.7 million South African rand).

In December 2019 the company acquired an additional 867,841 common shares of CIG for net consideration of $69 (1.0 million South African rand). At December 31, 2019 the company held 195,390,322 common shares of CIG, representing a 49.3% equity interest in CIG for net consideration of $49,015 (685.7 million South African rand).

At December 31, 2019 the fair value of the company's investment in CIG was $19,562 (December 31, 2018 – $3,886), comprised of 195,390,322 common shares representing a 49.3% equity interest (December 31, 2018 – 7.9%). The changes in fair value of the company's investment in CIG in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

### *Investment in an Other Public African Investment*

In 2017 and 2018 the company acquired less than 5.0% of the 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. In the first quarter of 2019 the Other Public African Investment was de-listed from the Johannesburg Stock Exchange. The company does not expect to recover any of its initial investment.

At December 31, 2019 the fair value of the company's investment in the Other Public African Investment was nil (December 31, 2018 – $28). The changes in fair value of the company's investment in the Other Public African Investment in 2019 and 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 (''AFGRI Holdings'') is a private holding company based in South Africa that owns 100.0% of AFGRI Group Holdings Proprietary Limited (''AGH''), an investment holding company with interests in a number of agricultural and food-related companies providing products and services to ensure sustainable agriculture. AGH's core focus is grain commodities and it provides services across the entire grain production and storage cycle, offering financial support and solutions as well as high-tech equipment through the John Deere brand supported by a large retail footprint.

*Indirect Equity Interest in AGH*

In February 2017 Fairfax Africa acquired a 42.2% indirect equity interest in AGH for $74,968 through its purchase of 156,055,775 common shares and 49,942,549 Class A shares of Joseph Investment Holdings (''Joseph Holdings'') for $25,001 and $49,967 in a non-cash transaction. In January 2018 the company participated in an AGH rights offer and invested an additional $20,304 (inclusive of a non-cash realized gain of $1,803) in AGH through its purchase of 79,743,201 common shares of Joseph Holdings. In November 2018 the company acquired an additional 5,260,679 common shares and 270,362 Class A shares of Joseph Holdings for aggregate cash consideration of $1,408 from an employee of the company's portfolio sub-advisor, Pactorum Ltd.

On December 13, 2019 Joseph Holdings redeemed and canceled 10,769,231 of its Class A shares on a pro rata basis at a price of $1.30 per share. The company received $10,317 on the redemption of 7,936,284 of its Class A shares of Joseph Holdings and as a result has recorded a return of capital of $7,936 and dividend income of $2,381 within the consolidated statements of earnings and comprehensive income. The redemption principally reflected a November 2019 distribution from AGH of the proceeds received on the contribution of its grain storage assets to a strategic infrastructure platform during the first quarter of 2019.

At December 31, 2019 Fairfax Africa had invested $88,744 in Joseph Holdings (comprised of 74.6% of the common shares and 73.7% of the Class A shares of Joseph Holdings, providing an aggregate of 74.6% voting interest). Fairfax Africa is the largest beneficial shareholder of AGH, through its investment in Joseph Holdings, with a 46.8% indirect equity interest (December 31, 2018 – 44.7%).

At December 31, 2019 the company estimated the fair value of its indirect equity interest in AGH using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.1% to 26.9% and a long term growth rate of 2.5% (December 31, 2018 – 11.7% to 26.0% and 3.0% respectively). At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for AGH's business units prepared in the fourth quarter of 2019 (December 31, 2018 – fourth quarter of 2018) by AGH's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which AGH operates. At December 31, 2019 the company's internal valuation model indicated that the fair value of its 46.8% indirect equity interest in AGH, acquired through the company's ownership in Joseph Holdings, was $104,976 (December 31, 2018 – $111,888), comprised of the Class A and common shares of Joseph Holdings. The changes in fair value of the company's indirect equity interest in AGH in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

*AGH Facilities*

In June 2017 Fairfax Africa entered into a secured lending arrangement with AGH, pursuant to which Fairfax Africa provided $23,255 (300 million South African rand) of financing. On January 31, 2018 the facility was fully repaid with cash of $25,399 and the company recorded a realized foreign exchange gain of $1,166 in the consolidated statements of earnings and comprehensive income in 2018.

On January 21, 2019 the company completed a second secured lending arrangement with AGH pursuant to which Fairfax Africa provided $12,813 (176.4 million South African rand) of financing (the ''AGH Facility''). The AGH Facility earned interest at a rate of South African prime plus 2.0% payable on maturity. On July 19, 2019 the AGH Facility was fully repaid with cash of $12,939 (180 million South African rand, inclusive of raising fees) and $485 (6.7 million South African rand) of accrued interest for total cash consideration of $13,424 (186.7 million South African rand).

In 2019 the company recorded interest income of $1,013 (2018 – $383) related to AGH Facilities within the consolidated statements of earnings and comprehensive income.

***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 and bread production facilities, and 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). 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 business in Mozambique. Philafrica has 14 production plants across the South African provinces of Gauteng, KwaZulu-Natal, Mpumalanga, Eastern Cape, Western Cape, the Free State and Limpopo.

*Philafrica Common Shares*

In November 2018 Fairfax Africa converted $23,254 (325 million South African rand) of its previously existing Philafrica secured lending facility into 26,000 common shares of Philafrica with the remainder of the facility fully paid with cash. Upon closing of this transaction the company held a 26.0% equity interest in Philafrica, a third party investor held a 14.0% equity interest and AGH's equity interest decreased from 100.0% to 60.0%. AGH continues to control Philafrica.

At December 31, 2019 the company estimated the fair value of its investment in Philafrica using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.8% to 23.0% and a long term growth rate of 2.5% (December 31, 2018 – 13.7% to 24.4% and 3.0%). At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for Philafrica's business units prepared in the fourth quarter of 2019 (December 31, 2018 – fourth quarter of 2018) by Philafrica's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Philafrica operates. At December 31, 2019 the company's internal valuation model indicated that the fair value of its investment in Philafrica was $19,271 (December 31, 2018 – $23,463) for the 26.0% equity interest. The changes in fair value of the company's equity interest in Philafrica in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

***Investment in GroCapital Holdings Proprietary Limited***

GroCapital Holdings Proprietary Limited (''GroCapital Holdings'') is a bank holding company that owns 99.9% of Grobank Limited (''Grobank'', formerly known as the South African Bank of Athens Limited or ''SABA''). Operating as a South African bank since 1947, Grobank is focused on developing and delivering banking services to medium-sized businesses and individuals, specializing in the agri-business value chain and associated industries in the South African market, driven by a unique combination of retail, business and alliance banking and agri-business experience.

*GroCapital Holdings Common Shares*

In the third and fourth quarters of 2018 Fairfax Africa acquired a 35.0% equity interest in GroCapital Holdings and funded the company's pro rata contribution on capital calls, investing aggregate cash consideration of $12,141 (171.6 million South African rand).

On April 16, 2019 GroCapital Holdings issued a capital call to its shareholders to fund their pro rata contribution, which was invested by GroCapital Holdings into Grobank to support the bank's capital adequacy requirements under South African regulations. On April 23, 2019 Fairfax Africa funded its pro rata contribution of GroCapital Holdings' capital call of $2,288 (32.8 million South African rand) in order to maintain its 35.0% equity interest in GroCapital. Upon closing of this transaction, the company had invested aggregate cash consideration of $14,429 (204.4 million South African rand) in GroCapital Holdings.

At December 31, 2019 the company estimated the fair value of its investment in GroCapital Holdings by estimating the fair value of GroCapital Holdings' 99.9% investment in Grobank using a discounted cash flow analysis based on multi-year free cash flow projections with an assumed discount rate of 17.3% and a long term growth rate of 2.5%. At December 31, 2019 free cash flow projections were based on pre-tax income estimates derived from financial information prepared in the fourth quarter of 2019 by Grobank's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Grobank operates. At December 31, 2019 the company's internal valuation model indicated that the fair value of the company's investment in GroCapital Holdings was $10,328 for the 35.0% equity interest.

At December 31, 2018 the initial transaction price for the company's investment in GroCapital Holdings was considered to approximate fair value as there were no significant changes to its investment in Grobank's business, capital structure or operating environment and the key assumptions in the company's acquisition valuation model continue to be valid. At December 31, 2018 the fair value of the company's investment in GroCapital Holdings was $11,927.

The changes in fair value of the company's equity interest in GroCapital Holdings in 2019 and 2018 are presented in the table disclosed earlier in note 5.

*Capital Commitment*

Pursuant to the terms of GroCapital Holdings' Subscription and Shareholders' Agreement and as required under South African banking regulations, the company is committed to fund its share of additional capital contributions in the event that GroCapital Holdings requires those capital contributions in order to meet capital adequacy requirements imposed by the South African Reserve Bank. At December 31, 2019 and 2018 no capital commitments to GroCapital Holdings (as required by the Subscription and Shareholders' Agreement and South African banking regulations) were recognized within the company's consolidated balance sheets.

*Subsequent to December 31, 2019*

On February 13, 2020 GroCapital Holdings issued a capital call to its shareholders to fund their pro rata contribution to provide capital which will be used to acquire the foreign exchange brokerage business from GroCapital Advisory Services Proprietary Limited, a wholly-owned subsidiary of AGH. On February 28, 2020 Fairfax Africa funded its pro rata contribution of GroCapital Holdings' capital call of $3,133 (49.3 million South African rand) in order to maintain its 35.0% equity interest in GroCapital. Upon closing of this transaction, the company had invested aggregate cash consideration of $17,562 (253.7 million South African rand) in GroCapital Holdings.

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

The company's investment in CIG is comprised of common shares classified as Level 1 in the fair value hierarchy and a debt instrument and derivative obligation (at December 31, 2018) 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 Limited (Common Shares) earlier in note 5.

*CIG Loan*

In May 2018 the company entered into a secured lending arrangement with CIG, pursuant to which the company provided CIG with $23,270 (292.5 million South African rand, plus a 2.5% raising fee for aggregate financing of 300 million South African rand) (the "CIG Loan"). In August 2018 the conversion features in the CIG Loan were approved, setting the interest at a rate of South African prime plus 2.0% per annum and a maturity date of June 4, 2023.

At December 31, 2019 the company estimated the fair value of its investment in the CIG Loan using an industry accepted discounted cash flow and option pricing model that incorporated the security's estimated credit spread of 6.8% (December 31, 2018 – 7.8%) and estimated historical share price volatility of 112.3% (December 31, 2018 –

60.9%). The estimated credit spread was based on a peer group of comparable companies adjusted for credit risk specific to CIG. At December 31, 2019 the company's internal valuation model indicated that the estimated fair value of the CIG Loan was $20,744 (December 31, 2018 – $21,068). The changes in fair value of the CIG Loan in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

In 2019 the company recorded interest income of $2,629 (2018 – $1,630) in interest within the consolidated statements of earnings and comprehensive income related to the CIG Loan.

*CIG Rights Offer (Derivative Obligation)*

At September 30, 2018 the company's obligation to subscribe for 178,995,353 CIG common shares as part of the CIG Rights Offer (refer to the Public African Investments section under the heading Investment in Consolidated Infrastructure Group Limited (Common Shares) earlier in note 5) gave rise to a forward derivative liability. On January 4, 2019 upon closing of the CIG Rights Offer the company settled the forward derivative liability with a fair value of $4,839, reducing the net consideration recorded for the shares acquired by the company in the CIG Rights Offer.

In 2019 the company's consolidated statements of earnings and comprehensive income included a net gain on investments of $885 relating to the CIG forward derivative liability which was comprised of: (i) an inception to date realized loss of $4,839 reported in net realized losses on investments; and (ii) a reversal of prior period unrealized losses of $5,724 reported in net change in unrealized gains on investments.

***Investment in the PGR2 Loan (Debt Instrument)***

In May 2018, in conjunction with the CIG Loan, Fairfax Africa entered into a partially secured lending agreement with PGR2 Investments Proprietary Limited ("PGR2"), the largest shareholder of CIG at the time of the transaction, pursuant to which the company provided PGR2 with $19,969 (260 million South African rand) of financing (the "PGR2 Loan"). The PGR2 Loan is partially secured by common shares of CIG held by PGR2 and associated parties and bears interest at a rate of 15.0% per annum, payable semi-annually in cash or in kind at PGR2's option, with a maturity date of May 24, 2021.

At December 31, 2019 the company estimated the fair value of its investment in the PGR2 Loan using an industry accepted discounted cash flow and option pricing model that incorporated PGR2's estimated credit spread of 13.7% (December 31, 2018 – 11.9%). The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to PGR2. At December 31, 2019 the company's internal valuation model indicated that the estimated fair value of its investment in the PGR2 Loan was $21,240 (December 31, 2018 – $17,527). The changes in fair value of the PGR2 Loan in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

In 2019 the company recorded interest income of $2,987 (2018 – $1,222) in interest within the consolidated statements of earnings and comprehensive income related to the PGR2 Loan.

***Investment in Atlas Mara Limited (Debt Instruments and Warrants)***

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

*Atlas Mara 11.0% Convertible Bonds*

In April 2018 Fairfax Africa entered into a placing agreement pursuant to which the company invested $16,000 in Atlas Mara 7.5% convertible bonds (the "Atlas Mara 7.5% Convertible Bonds") and then in December 2018 amended the terms of the bonds. The amended bonds bear interest at a rate of 11.0% per annum accrued quarterly and payable in kind ("Atlas Mara 11.0% Convertible Bonds"). On December 10, 2019, pursuant to the terms of the agreement, Atlas Mara extended the maturity of the bonds by an additional year to December 11, 2020, under substantially the same terms, with the exception that Atlas Mara can now repay the principal at any time prior to maturity.

At December 31, 2019 the company estimated the fair value of its investment in Atlas Mara 11.0% Convertible Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Atlas Mara's estimated credit spread of 10.7% (December 31, 2018 – 10.3%) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the implied spread of a peer group of comparable companies adjusted for credit risk specific to Atlas Mara. At December 31, 2019 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara 11.0% Convertible Bonds was $18,296 (December 31, 2018 – $16,334).

*Atlas Mara 7.5% Bonds plus Warrants*

In July 2018 Fairfax Africa amended the terms of the placing agreement to provide an additional $20,000 in funding to Atlas Mara and then in November 2018 amended the terms for the $20,000 funding which included replacing the conversion feature of the bonds with 6,200,000 Atlas Mara warrants. The bonds bear interest at a rate of 7.5% per annum, with interest payable semi-annually and mature on November 6, 2021 with the option of Atlas Mara to extend the maturity by an additional year to November 6, 2022 (''Atlas Mara 7.5% Bonds''). The Atlas Mara warrants can be exercised by the company at a price of $3.20 per common share of Atlas Mara. In December 2019 the company provided Atlas Mara an extension to March 31, 2020 to pay $900 in interest, due on December 31, 2019. The unpaid amounts will accrue interest at 11%.

At December 31, 2019 the company estimated the fair value of its investment in the Atlas Mara 7.5% Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Atlas Mara's estimated credit spread of 10.7% (December 31, 2018 – 10.3%) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Atlas Mara. At December 31, 2019 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara 7.5% Bonds was $18,431 (December 31, 2018 – $17,499).

At December 31, 2019 the company estimated the fair value of its investment in the Atlas Mara warrants using an industry accepted discounted cash flow and option pricing model that incorporated estimated historical share price volatility of 33.3% (December 31, 2018 – 34.5%). At December 31, 2019 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara warrants was $83 (December 31, 2018 – $1,016).

The changes in fair value of the company's bond and warrant investments in Atlas Mara during 2019 and 2018 are presented in the tables disclosed earlier in note 5.

In 2019 the company recorded interest income of $4,252 (2018 – $2,441) in interest within the consolidated statements of earnings and comprehensive income related to the Atlas Mara Bonds.

### *Investment in Nova Pioneer Education Group*

Nova Pioneer Education Group (''Nova Pioneer'') is a Pan-African independent school network offering preschool through secondary education for students from ages 3 through 19. Nova Pioneer was started in 2013 with its first school opening in South Africa in 2015. Since then, Nova Pioneer has expanded across South Africa and launched its first campus in Kenya in 2016. Nova Pioneer has grown its operations from ten schools with a combined enrollment of approximately 3,850 students in 2018 to thirteen schools with a combined enrollment of approximately 4,500 students in 2019.

*Nova Pioneer Bonds and Warrants*

In December 2017 and the last six months of 2018 the company invested an aggregate of $27,023 in Ascendant Learning Limited (''Ascendant''), the Mauritius-based parent entity of Nova Pioneer, which consisted of: (i) $26,242 in 20.0% debentures (inclusive of capitalized interest) due on December 31, 2024 (the ''Nova Pioneer Bonds''); and (ii) $781 for 2,477,293 warrants (the ''Nova Pioneer Warrants'') with an exercise price of $2.06 per common share of Ascendant. In the absence of circumstances relating to a change of control or a value realization event, the Nova Pioneer Warrants may only be exercised after June 30, 2021. At December 31, 2018 the company's remaining investment commitment was $9,227 to invest in Nova Pioneer Bonds and Warrants.

In January, April and June 2019 the company funded its remaining investment commitment of $9,227 comprised of Nova Pioneer Bonds and 922,707 Warrants with aggregate fair values on the dates of investment of $8,721 and $506 relating to the Nova Pioneer Bonds and Warrants respectively. At December 31, 2019 Fairfax Africa had invested an aggregate of $40,149 in Nova Pioneer, comprised of $38,862 in Nova Pioneer Bonds (inclusive of capitalized accrued interest on the principal amount owing) and $1,287 in 3,400,000 Nova Pioneer Warrants.

At December 31, 2019 the company estimated the fair value of its investment in the Nova Pioneer Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Nova Pioneer's estimated credit spread of 14.6% (December 31, 2018 – 18.5%). The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Ascendant and certain other assumptions related to the options embedded in the Nova Pioneer Bonds. At December 31, 2019 the company's internal valuation model indicated that the fair value of the investment in Nova Pioneer Bonds was $42,093 (December 31, 2018 – $26,023). The changes in fair value of the Nova Pioneer Bonds in 2019 and 2018 are presented in the tables disclosed earlier in note 5.

In 2019 the company recorded interest income of $7,455 (2018 – $4,772) in interest within the consolidated statements of earnings and comprehensive income related to the Nova Pioneer Bonds.

At December 31, 2019 the company estimated the fair value of its investment in the Nova Pioneer Warrants using an industry accepted discounted cash flow and option pricing model that incorporated an estimated share price of $1.72 (December 31, 2018 – $1.46). At December 31, 2019 the company's internal valuation model indicated that the fair value of the investment in the Nova Pioneer Warrants was $1,458 (December 31, 2018 – $1,001). The changes in fair value of the Nova Pioneer Warrants during 2019 and 2018 are presented in the tables disclosed earlier in note 5.

## 6. Cash and Investments

### *Fair Value Disclosures*

The company's use of quoted market prices (Level 1), valuation models using observable market information as inputs (Level 2) and valuation models without observable market information as inputs (Level 3) in the valuation of securities by type of issuer was as follows:

| | December 31, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 44,334 | – | – | 44,334 | 230,858 | – | – | 230,858 |
| Restricted cash | 7,500 | – | – | 7,500 | – | – | – | – |
| | 51,834 | – | – | 51,834 | 230,858 | – | – | 230,858 |
| Short term investments – U.S. treasury bills and notes | 104,008 | – | – | 104,008 | 38,723 | – | – | 38,723 |
| Loans: | | | | | | | | |
| CIG | – | – | 20,744 | 20,744 | – | – | 21,068 | 21,068 |
| PGR2 | – | – | 21,240 | 21,240 | – | – | 17,527 | 17,527 |
| | – | – | 41,984 | 41,984 | – | – | 38,595 | 38,595 |
| Bonds: | | | | | | | | |
| Atlas Mara 11.0% Convertible Bonds | – | – | 18,296 | 18,296 | – | – | 16,334 | 16,334 |
| Atlas Mara 7.5% Bonds | – | – | 18,431 | 18,431 | – | – | 17,499 | 17,499 |
| Nova Pioneer Bonds | – | – | 42,093 | 42,093 | – | – | 26,023 | 26,023 |
| | – | – | 78,820 | 78,820 | – | – | 59,856 | 59,856 |
| Common stocks: | | | | | | | | |
| Atlas Mara | 78,075 | – | – | 78,075 | 119,092 | – | – | 119,092 |
| CIG | 19,562 | – | – | 19,562 | 3,886 | – | – | 3,886 |
| Other | – | – | – | – | 28 | – | – | 28 |
| Indirect equity interest in AGH | – | – | 104,976 | 104,976 | – | – | 111,888 | 111,888 |
| Philafrica | – | – | 19,271 | 19,271 | – | – | 23,463 | 23,463 |
| GroCapital Holdings | – | – | 10,328 | 10,328 | – | – | 11,927 | 11,927 |
| | 97,637 | – | 134,575 | 232,212 | 123,006 | – | 147,278 | 270,284 |
| Derivatives: | | | | | | | | |
| Atlas Mara Warrants | – | – | 83 | 83 | – | – | 1,016 | 1,016 |
| Nova Pioneer Warrants | – | – | 1,458 | 1,458 | – | – | 1,001 | 1,001 |
| | – | – | 1,541 | 1,541 | – | – | 2,017 | 2,017 |
| Total cash and investments | 253,479 | – | 256,920 | 510,399 | 392,587 | – | 247,746 | 640,333 |
| Derivative obligation: | | | | | | | | |
| CIG forward derivative liability(1) | – | – | – | – | – | – | (5,724) | (5,724) |
| Total cash and investments, net of derivative obligation | 253,479 | – | 256,920 | 510,399 | 392,587 | – | 242,022 | 634,609 |
| | 49.7% | – | 50.3% | 100.0% | 61.9% | – | 38.1% | 100.0% |

*(1) Related to the company's obligation to subscribe for 178,995,353 common shares of CIG as part of the CIG Rights Offer, which was settled on January 4, 2019.*

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2019 and 2018 there were no transfers of financial instruments between Level 1 and Level 2 and there were no transfers of financial instruments into or out of Level 3 as a result of changes in the observability of valuation inputs. The changes in fair value of the company's Private African Investments (classified as Level 3) are disclosed in note 5.

The table that follows illustrates the potential impact on net earnings of various combinations of changes in unobservable inputs in the company's internal valuation model for its Private African Investments classified as Level 3 at December 31, 2019. The analysis assumes quarterly 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.

| 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)(2) |
|---|---|---|---|---|---|---|
| **Loans:** | | | | | | |
| CIG Loan | $20,744 | Discounted cash flow and option pricing model | Credit spread<br>Historical share price volatility | 6.8%<br>112.3% | (476) / 491<br>– / (86) | (413) / 426<br>– / (75) |
| PGR2 Loan | $21,240 | Discounted cash flow and option pricing model | Credit spread | 13.7% | (261) / 265 | (192) / 195 |
| **Bonds:** | | | | | | |
| Atlas Mara 11.0% Convertible Bond | $18,296 | Discounted cash flow and option pricing model | Credit spread | 10.7% | (145) / 145 | (126) / 126 |
| Atlas Mara 7.5% Bonds | $18,431 | Discounted cash flow and option pricing model | Credit spread | 10.7% | (302) / 308 | (262) / 267 |
| Nova Pioneer Bonds | $42,093 | Discounted cash flow and option pricing model | Credit spread | 14.6% | (526) / 538 | (387) / 395 |
| **Common stocks:** | | | | | | |
| Indirect equity interest in AGH | $104,976 | Discounted cash flow | After-tax discount rate<br>Long-term growth rate | 11.1% to 26.9%<br>2.5% | (6,510) / 7,187<br>2,424 / (2,307) | (5,648) / 6,235<br>2,103 / (2,001) |
| Philafrica | $19,271 | Discounted cash flow | After-tax discount rate<br>Long-term growth rate | 11.8% to 23.0%<br>2.5% | (1,596) / 1,764<br>594 / (564) | (1,385) / 1,530<br>515 / (489) |
| GroCapital Holdings | $10,328 | Discounted cash flow | Discount rate<br>Long-term growth rate | 17.3%<br>2.5% | (1,390) / 1,506<br>572 / (553) | (1,206) / 1,306<br>496 / (480) |
| **Derivatives:** | | | | | | |
| Atlas Mara Warrants | $83 | Discounted cash flow and option pricing model | Historical share price volatility | 33.3% | 132 / (33) | 115 / (29) |
| Nova Pioneer Warrants | $1,458 | Discounted cash flow and option pricing model | Share price | $1.72 | 158 / (151) | 116 / (111) |
| **Total Level 3 investments** | **$256,920** | | | | | |

(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), discount rate (50 basis points), long term growth rates (25 basis points), estimated share price volatility (minimum and maximum historical volatility over a two year period from the balance sheet date), changes in share price (5.0%) and credit spreads (100 basis points), each in isolation, would hypothetically change the fair value of the company's investments as noted in the table above. Generally, an increase (decrease) in long term growth rates, estimated share price volatility or estimated share price, or a decrease (increase) in after-tax discount rates, discount rate, 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.*

(2) *For the purpose of this sensitivity analysis, the hypothetical $ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.*

### *Fixed Income Maturity Profile*

Loans and bonds are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of call and put features. At December 31, 2019 loans and bonds with fair values of $41,984 and $60,389 (December 31, 2018 – $38,595 and $42,357) contained call features. At December 31, 2019 there were no debt instruments containing put features (December 31, 2018 – nil).

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Amortized cost | Fair value | Amortized cost | Fair value |
| Loans: | | | | |
| Due after 1 year through 5 years | 47,354 | 41,984 | 44,313 | 38,595 |
| Effective interest rate | | 13.9% | | 14.1% |
| Bonds: | | | | |
| Due in 1 year or less | 18,036 | 18,296 | 16,271 | 16,334 |
| Due after 1 year through 5 years | 57,534 | 60,524 | 44,049 | 43,522 |
| | 75,570 | 78,820 | 60,320 | 59,856 |
| Effective interest rate | | 16.6% | | 15.3% |

### *Investment Income*

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

| | 2019 | 2018 |
|---|---|---|
| Interest: | | |
| Cash and cash equivalents | 2,348 | 2,360 |
| Restricted cash | 15 | 1,947 |
| Short term investments | 1,907 | 2,190 |
| Loans | 6,629 | 7,138 |
| Bonds | 11,707 | 7,213 |
| | 22,606 | 20,848 |
| Dividends: Common stocks | 2,381 | – |

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) |
| **Net gains (losses) on investments:**[1] | | | | | | |
| Short term investments – U.S. treasury bills and notes | 1 | 47 | 48 | (20) | – | (20) |
| Loans | – | (884) | (884) | – | (851) | (851) |
| Bonds | – | 3,714 | 3,714 | 1,878 | (333) | 1,545 |
| Common stocks | – | (80,842) | (80,842) | 1,803 | (32,629) | (30,826) |
| Derivatives | (4,839) | 4,742 | (97) | – | (6,877) | (6,877) |
| | (4,838) | (73,223) | (78,061) | 3,661 | (40,690) | (37,029) |
| **Net foreign exchange gains (losses) on:**[1] | | | | | | |
| Cash and cash equivalents | 2,207 | – | 2,207 | 1,620 | – | 1,620 |
| Loans | (131) | 1,233 | 1,102 | (4,964) | (4,866) | (9,830) |
| Common stocks | – | 3,444 | 3,444 | – | (17,779) | (17,779) |
| Other | – | 79 | 79 | – | 62 | 62 |
| | 2,076 | 4,756 | 6,832 | (3,344) | (22,583) | (25,927) |

*(1) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private African Investments during 2019 and 2018.*

## 7. Borrowings

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Principal | Carrying value[1] | Fair value | Principal | Carrying value[1] | Fair value[2] |
| Revolving Credit Facility, floating rate | – | – | – | 30,000 | 29,527 | 30,000 |
| | – | – | – | 30,000 | 29,527 | 30,000 |

*(1) Principal net of unamortized issue costs. At December 31, 2019 the revolving credit facility was undrawn, therefore unamortized issue costs are recognized in other assets on the consolidated balance sheets.*

*(2) Principal approximated fair value.*

*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''). The Credit Facility was secured by way of a general lien on the holding company's assets. The Credit Facility contained a financial covenant that required the company to maintain common shareholders' equity of not less than $600,000. On March 28, 2019 the Credit Facility was amended by reducing the financial covenant for common shareholders' equity to $500,000.

On December 21, 2018 the company drew $30,000 from the Credit Facility with a 3-month term that were repaid on March 21, 2019 along with accrued interest of $509. On September 7, 2019 the Credit Facility matured.

On December 20, 2019 the company entered into an $80,000 secured, revolving demand credit facility with a syndicate of Canadian lenders bearing interest at a rate of LIBOR plus 450 basis points (the ''Second Credit Facility'') and containing a financial covenant that requires the company to maintain common shareholders' equity of not less than $450,000 when amounts under the Second Credit Facility are drawn. The Second Credit Facility is secured by way of a general lien on the holding company's assets. At December 31, 2019 the Second Credit Facility was undrawn.

*Interest Expense*

In 2019 consolidated interest expense of $977 (2018 – $3,200) was comprised of interest expense of $478 (2018 – $2,983) and amortization of issuance costs of $499 (2018 – $217).

## 8. Common Shareholders' Equity

*Authorized Capital*

The company's authorized share capital consists of: (i) an unlimited number of multiple voting shares that may only be issued to Fairfax or its affiliates; (ii) an unlimited number of subordinate voting shares; and, (iii) an unlimited number of preference shares, issuable in series. Except as provided in any special rights or restrictions attaching to any series of preference shares issued from time to time, the preference shares will not be entitled to vote at any meeting of the shareholders of the company.

*Issued Capital*

Issued capital at December 31, 2019 included 30,000,000 (December 31, 2018 – 30,000,000) multiple voting shares and 29,496,481 (December 31, 2018 – 32,811,965) subordinate voting shares. Each subordinate voting share carries one vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax Africa's subordinate voting shares trade on the Toronto Stock Exchange ("TSX") under the symbol FAH.U. Each multiple voting share carries fifty votes per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax, through its subsidiaries, owns all the issued and outstanding multiple voting shares, which are not publicly traded. At December 31, 2019 and December 31, 2018 there were no preference shares outstanding.

*Common Stock*

The number of shares outstanding was as follows:

| | **2019** | **2018** |
|---|---|---|
| Subordinate voting shares – January 1 | 32,811,965 | 20,620,189 |
| Issuances of shares | – | 12,300,000 |
| Purchases for cancellation | (3,315,484) | (108,224) |
| Subordinate voting shares – December 31 | 29,496,481 | 32,811,965 |
| Multiple voting shares – December 31 | 30,000,000 | 30,000,000 |
| Common shares effectively outstanding – December 31 | 59,496,481 | 62,811,965 |

*Capital Transactions*

On June 18, 2018 the company completed an underwritten public offering of 12,300,000 subordinate voting shares at a price of $12.25 per share (the "Secondary Offering") and raised gross proceeds of $150,675 (net proceeds of $148,316 after commission and expenses of $2,359). Fairfax purchased, directly or through its affiliates, 4,100,000 subordinate voting shares for $50,225. Subsequently, Fairfax purchased additional subordinate voting shares through open market purchases. Net proceeds from the Secondary Offering were used to acquire additional African Investments and for general corporate purposes. At December 31, 2019 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 6,885,421 subordinate voting shares (December 31, 2018 – 30,000,000 and 6,885,421 respectively) of Fairfax Africa.

*Purchase of Shares*

On July 3, 2018 the company announced that the TSX had accepted its intention to commence a normal course issuer bid to purchase up to 2,536,996 subordinate voting shares, representing approximately 10% of the public float of its subordinate voting shares, over a twelve month period from July 6, 2018 to July 5, 2019. On June 28, 2019 the company announced that the TSX had accepted its intention to commence a normal course issuer bid to purchase up to 2,324,723 subordinate voting shares, representing approximately 10% of the public float of its subordinate voting shares, over a twelve month period from July 8, 2019 to July 7, 2020. Any subordinate voting shares that may be purchased under the normal course issuer bid will be canceled. The actual number of subordinate voting shares that may be purchased under the normal course issuer bid and the timing of such purchases will be determined at the discretion of the company, with no assurances that any such purchases will be completed.

During 2019, under the terms of the normal course issuer bids, the company purchased for cancellation 3,315,484 subordinate voting shares (2018 – 108,224) for a net cost of $27,018 (2018 – $981) and $7,390 was recorded as a benefit in retained earnings (2018 – $143).

*Dividends*

The company did not pay any dividends on its outstanding multiple and subordinate voting shares during 2019 and 2018.

## 9. Net Earnings per Share

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

| | **2019** | **2018** |
|---|---|---|
| Net earnings (loss) – basic and diluted | (61,199) | (60,580) |
| Weighted average common shares outstanding – basic and diluted | 60,688,854 | 57,249,901 |
| Net earnings (loss) per share – basic and diluted | $ (1.01) | $ (1.06) |

At December 31, 2019 the company determined that there was no performance fee payable and as a result there were no contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax (December 31, 2018 – nil). The performance fee is assessed quarterly and the first calculation period relates to the period from February 17, 2017 to December 31, 2019 (see note 12).

## 10. Income Taxes

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

| | **2019** | **2018** |
|---|---|---|
| Current income tax: | | |
| Current year expense | 2,115 | 4,870 |
| Adjustment to prior years' income taxes | 1,730 | – |
| | 3,845 | 4,870 |
| Deferred income tax: | | |
| Origination (reversal) of temporary differences | (114) | (52) |
| Adjustments to prior years' deferred income taxes | – | 52 |
| | (114) | – |
| Provision for income taxes | 3,731 | 4,870 |

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

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

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for income taxes for 2019 and 2018 is summarized in the following table:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | Mauritius | South Africa | Total | Canada | Mauritius | South Africa | Total |
| Earnings (loss) before income taxes | 4,307 | (27,439) | (34,336) | (57,468) | (6,333) | (41,978) | (7,399) | (55,710) |
| Provision for income taxes | 3,245 | 221 | 265 | 3,731 | 3,214 | 91 | 1,565 | 4,870 |
| Net earnings (loss) | 1,062 | (27,660) | (34,601) | (61,199) | (9,547) | (42,069) | (8,964) | (60,580) |

The earnings before income taxes in Canada in 2019 compared to loss before income taxes in 2018 primarily reflected increased foreign exchange gains (principally related to the company's intercompany loans), increased intercompany interest income and decreased interest expense.

The decrease in loss before income taxes in Mauritius in 2019 compared to 2018 primarily reflected foreign exchange gains on African Investments, increased interest income on the company's investments in the Nova Pioneer and Atlas Mara Bonds, and dividend income related to the company's indirect equity investment in AGH, partially offset by net change in unrealized losses on the company's investments in Atlas Mara common shares and indirect equity investment in AGH.

The increase in loss before income taxes in South Africa in 2019 compared to 2018 primarily reflected net change in unrealized losses on the company's investments in common shares of CIG, Philafrica, and GroCapital, foreign exchange losses on intercompany loan payables and increased intercompany interest expense, partially offset by foreign exchange gains on African Investments.

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

| | 2019 | 2018 |
|---|---|---|
| Canadian statutory income tax rate | 26.5% | 26.5% |
| Recovery of income taxes at the Canadian statutory income tax rate | (15,229) | (14,763) |
| Tax rate differential on losses incurred outside of Canada | 9,550 | 14,869 |
| Provision relating to prior years | 1,730 | 52 |
| Change in unrecorded tax benefit of losses and temporary differences | 9,818 | (2,017) |
| Foreign exchange effect | (2,187) | 6,710 |
| Other including permanent differences | 49 | 19 |
| Provision for income taxes | 3,731 | 4,870 |

The tax rate differential on losses incurred outside of Canada of $9,550 in 2019 (2018 – $14,869) principally reflected the impact of net investment losses taxed in Mauritius at lower rates, partially offset by losses incurred in South Africa taxed at marginally higher rates.

The provision relating to prior years of $1,730 in 2019 (2018 – $52) principally reflected a reclassification of the tax benefit on share issuance costs recorded directly in shareholders' equity.

The change in unrecorded tax benefit of losses and temporary differences of $9,818 in 2019 principally reflected deferred tax assets in South Africa on investments of $9,774 and changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $59 with respect to the company's wholly-owned subsidiaries, offset by temporary timing differences of $14 and net capital loss carryforward utilization in Canada of $1 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 $2,017 in 2018 principally reflected changes in unrecorded deferred tax assets incurred related to the utilization of net operating loss carryforwards in Canada of $4,388, partially offset by foreign accrual property losses of $2,371 with respect to the company's wholly-owned subsidiaries that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS. At December 31, 2019 deferred tax assets in Canada of $10,009 (December 31, 2018 – $4,626) were not recorded by the company as it was not probable that those losses could be utilized by the company.

Foreign exchange effect of $2,187 in 2019 (2018 – $6,710) principally reflected the impact of fluctuations in the value of the Canadian dollar relative to the U.S. dollar as the company computes its corporate tax liability in Canadian dollars pursuant to the requirements of Canadian tax authorities, whereas the functional currency of the company and its subsidiaries is the U.S. dollar.

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

| | **2019** | **2018** |
|---|---|---|
| Balance – January 1 | 3,263 | 82 |
| Amounts recorded in the consolidated statements of earnings and comprehensive income | 3,845 | 4,870 |
| Amounts recorded in total equity | (2,417) | – |
| Payments made during the year | (5,071) | (1,689) |
| Balance – December 31 | (380) | 3,263 |

Changes in net deferred income tax asset for the years ended December 31 were as follows:

| | **2019** | | | **2018** | | |
|---|---|---|---|---|---|---|
| | **Investments** | **Other** | **Total** | **Investments** | **Other** | **Total** |
| Balance – January 1 | – | – | – | – | – | – |
| Amounts recorded in the consolidated statements and earnings and comprehensive income | 114 | – | 114 | – | – | – |
| Amounts recorded in equity | – | 1,551 | 1,551 | – | – | – |
| Balance – December 31 | 114 | 1,551 | 1,665 | – | – | – |

Management expects that the deferred income tax asset will be realized in the normal course of operations. The temporary differences included in the deferred income tax asset at December 31, 2019 primarily related to share issuance costs.

Management reviews the recoverability of the potential deferred tax assets on an ongoing basis and adjusts, as necessary, to reflect its anticipated realization. At December 31, 2019 deferred tax assets not recorded by the company of $10,009 (December 31, 2018 – $4,626) were principally comprised of: (i) mark-to-market losses on South African investments of $9,774 (December 31, 2018 – nil) (ii) foreign accrual property losses of $114 (December 31, 2018 – $2,371); (iii) net capital loss carryforwards of $111 (December 31, 2018 – nil); and (iv) share issuance costs of $10 (December 31, 2018 – $2,259). The net operating loss carryforwards expire in 2038 and the foreign accrual property losses expire in 2039.

At December 31, 2019 and 2018 net unrealized loss related to the company's African Investments resulted in no deferred income tax consideration for withholding and other taxes that could be payable on unremitted earnings of African Investments.

## 11. Financial Risk Management

### *Overview*

The primary goals of the company's financial risk management are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheet from events that have the potential to materially impair its financial strength. The company's activities expose it to certain financial risks during or at the end of the reporting period. There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at December 31, 2019 compared to those identified at December 31, 2018, except as discussed below.

### *Market Risk*

Market risk (comprised of foreign currency risk, interest rate risk and other price risk) is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market price. The company is exposed to market risk principally in its investing activities and to the extent that those activities expose the company to foreign currency risk. The valuation of the company's investment portfolio is dependent upon the underlying performance of the companies within the portfolio, but may also be affected, along with other financial statement items, by fluctuations in interest rates, foreign currency exchange rates, and market prices.

*Foreign Currency Risk*

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or another asset or liability will fluctuate due to 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.

In 2019 the company increased its holdings in African Investments which are partially denominated in South African rand and decreased its cash and cash equivalents balances denominated in South African rand. The increase in holdings of African Investments denominated in South African rand was more than offset by unrealized losses on African Investments, primarily on the company's equity interests in CIG, Philafrica, and GroCapital Holdings, indirect equity interest in AGH and the CIG Loan.

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

| | December 31, 2019 | | | | December 31, 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Cash and cash equivalents | Investments | Interest receivable | Net exposure | Cash and cash equivalents | Investments | Interest receivable | Derivative obligation | Net exposure |
| Canadian dollars | 87 | – | – | 87 | 254 | – | – | – | 254 |
| South African rand[1] | 23,343 | 196,121 | 465 | 219,929 | 64,883 | 189,787 | 421 | (5,724) | 249,367 |
| Mauritian rupees | 104 | – | – | 104 | 15 | – | – | – | 15 |
| Total | 23,534 | 196,121 | 465 | 220,120 | 65,152 | 189,787 | 421 | (5,724) | 249,636 |

*(1) At December 31, 2019 the company was exposed to the South African rand primarily due to its indirect equity interest in AGH, equity interests in CIG, Philafrica, and GroCapital Holdings and the PGR2 and CIG Loans. At December 31, 2018 the company was exposed to the South African rand primarily due to its indirect equity interest in AGH, equity interests in Philafrica and GroCapital Holdings and the CIG and PGR2 Loans, partially offset by the CIG Rights Offer derivative obligation.*

The table above shows the company's net exposure to all other currencies, other than the U.S. dollar. The company's net exposure to the South African rand decreased at December 31, 2019 compared to December 31, 2018 due to the factors discussed above.

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

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **Net foreign currency exposure** | **Hypothetical $ change effect on pre-tax earnings** | **Hypothetical $ change effect on net earnings(1)** | **Net foreign currency exposure** | **Hypothetical $ change effect on pre-tax earnings** | **Hypothetical $ change effect on net earnings(1)** |
| **Changes in South African rand exchange rate** | | | | | | |
| 10.0% appreciation | 241,922 | 21,993 | 16,165 | 274,304 | 24,937 | 18,329 |
| 5.0% appreciation | 230,925 | 10,996 | 8,082 | 261,835 | 12,468 | 9,164 |
| No change | 219,929 | – | – | 249,367 | – | – |
| 5.0% depreciation | 208,933 | (10,996) | (8,082) | 236,899 | (12,468) | (9,164) |
| 10.0% depreciation | 197,936 | (21,993) | (16,165) | 224,430 | (24,937) | (18,329) |

*(1) For the purpose of this analysis, the hypothetical $ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.*

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

*Interest Rate Risk*

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Typically, as interest rates rise, the fair value of fixed income investments decline and, conversely, as interest rates decline, the fair value of fixed income investments rise. In each case, the longer the maturity of the financial instrument, the greater the consequence of a change in interest rates. The company's interest rate risk management strategy is to position its fixed income portfolio based on its view of future interest rates and the yield curve, balanced with liquidity requirements. General economic conditions, political conditions and many other factors can also adversely affect the bond markets and, consequently, the value of fixed income securities held. Interest rate movements in African countries may affect the company's common shareholders' equity and net earnings. The Portfolio Advisor and Fairfax actively monitor interest rates in African countries for the potential impact changes in interest rates may have on the company's investment portfolio. There were no significant changes to the company's framework to monitor, evaluate and manage interest rate risk at December 31, 2019 compared to December 31, 2018.

The company's exposure to interest rate risk increased in 2019 primarily reflecting additional investments in Nova Pioneer Bonds, Atlas Mara 11.0% Convertible Bond and the PGR2 Loan. 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.

| | December 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | **Fair value of fixed income portfolio** | **Hypothetical $ change effect on net earnings(1)** | **Hypothetical % change in fair value** | **Fair value of fixed income portfolio** | **Hypothetical $ change effect on net earnings(1)** | **Hypothetical % change in fair value** |
| **Change in interest rates** | | | | | | |
| 200 basis point increase | 117,418 | (2,730) | (2.8)% | 94,720 | (2,874) | (3.8)% |
| 100 basis point increase | 119,093 | (1,380) | (1.4)% | 96,488 | (1,510) | (2.0)% |
| No change | 120,804 | – | – | 98,451 | – | – |
| 100 basis point decrease | 122,490 | 1,409 | 1.4% | 100,552 | 1,612 | 2.1% |
| 200 basis point decrease | 124,045 | 2,598 | 2.7% | 102,363 | 3,012 | 4.0% |

*(1) For the purpose of this analysis, the hypothetical $ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.*

Certain shortcomings are inherent in the method of analysis presented above. Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions, including the maintenance of the level and composition of fixed income securities at the indicated date and these should not be relied on as indicative of future results. Actual values may differ from the projections presented should market conditions vary from assumptions used in the calculation of the fair value of individual securities; these variations include non-parallel shifts in the term structure of interest rates and a change in individual issuer credit spreads.

*Market Price Fluctuations*

Market price fluctuation is the risk that the fair value or future cash flows of an equity investment will fluctuate due to changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market. The company's exposure to equity price risk through its equity investments at December 31, 2019 compared to December 31, 2018 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 to $232,212 at December 31, 2019 from $270,284 at December 31, 2018 due to unrealized losses on the company's investments in Atlas Mara and CIG (Level 1 investments in the fair value hierarchy), as well as unrealized losses on the company's investments in Philafrica, GroCapital Holdings and indirect equity interest in AGH (Level 3 investments in the fair value hierarchy), partially offset by additional investments in CIG common shares upon closing of the CIG Rights Offer. 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 Public African Investments.

| | **December 31, 2019** | | **December 31, 2018** | |
|---|---|---|---|---|
| **Change in equity markets** | +10.0% | − 10.0% | +10.0% | − 10.0% |
| Public African Investments, fair value at December 31 | 97,637 | 97,637 | 123,006 | 123,006 |
| Hypothetical $ change effect on pre-tax earnings (loss) | 9,764 | (9,764) | 12,301 | (12,301) |
| Hypothetical $ change effect on net earnings (loss)[1] | 8,470 | (8,470) | 10,619 | (10,619) |

(1) *For the purpose of this analysis, the hypothetical $ change effect on net earnings includes an income tax impact that is calculated using the company's marginal tax rate. Actual income tax expense (recovery) may differ significantly when earnings (losses) are realized.*

### ***Credit Risk***

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company and arises predominantly with respect to cash and cash equivalents, restricted cash, short term investments and investments in debt instruments. There were no significant changes to the company's framework used to monitor, evaluate and manage credit risk at December 31, 2019 compared to December 31, 2018. Significant changes in the company's exposure to credit risk are discussed below:

*Cash and Cash Equivalents, and Short Term Investments*

At December 31, 2019 the company's cash and cash equivalents of $44,334 (December 31, 2018 – $230,858) were comprised of $9,621 (December 31, 2018 – $169,398) at the holding company (principally in major Canadian financial institutions) and $34,713 (December 31, 2018 – $61,460) at the company's wholly-owned subsidiaries, of which $13,298 (December 31, 2018 – $55,032) was held in deposit accounts with Grobank. The company monitors risks associated with cash and cash equivalents, and short term investments by regularly reviewing the financial strength and creditworthiness of these financial institutions. From these reviews, the company may transfer balances from financial institutions where it perceives heightened credit risk to others considered to be more stable.

At December 31, 2019 the company's short term investments in U.S. treasury notes of $104,008 (December 31, 2018 – U.S. treasury bills of $38,723) were rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AA+ by Standard & Poor's Financial Services LLC ("S&P").

*Restricted Cash*

On December 13, 2019 the company agreed to place up to $15,000 cash on deposit with African Banking Corporation Zambia Limited ("Atlas Mara Zambia"), a wholly owned subsidiary of Atlas Mara (see note 12). At December 31, 2019 the company had placed $7,500 on deposit (December 31, 2018 – nil), which was recorded in restricted cash within the consolidated balance sheet. Subsequent to December 31, 2019 the company funded an additional $4,892, for an aggregate fixed deposit of $12,392, and received Government of Zambia Eurobonds ("Zambia Eurobonds") from Atlas Mara Zambia with a fair value of $16,296 (at the date of the second deposit) as collateral for the benefit of the company. The company monitors risks associated with restricted cash by regularly reviewing the financial strength and creditworthiness of these financial institutions and the collateral provided.

*Guarantees*

On December 31, 2019 the company agreed to guarantee up to $20,000 in principal on a facility provided to Atlas Mara by TLG Credit Opportunities Fund ("TLG Capital") (the "TLG Facility"). Atlas Mara requires the company's consent in order to draw more than $10,000 on the TLG Facility. The TLG Facility will be available until January 31, 2021 with the option for Atlas Mara to extend by an additional year. As consideration for providing the guarantee, the company will earn a fee of 1.1% per annum on the drawn amount of the TLG Facility, which is to be secured by Atlas Mara's shares in African Banking Corporation Botswana Limited. This contract is a financial guarantee contract with a fair value of nil at December 31, 2019 as the TLG Facility was undrawn at December 31, 2019.

Subsequent to December 31, 2019 Atlas Mara has drawn $5,000 on the TLG Facility.

*Investments in Debt Instruments*

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

At December 31, 2019 the company's debt instruments were all considered to be subject to credit risk with a fair value of $120,804 (December 31, 2018 – $98,451) representing 23.7% (December 31, 2018 – 15.5%) of the total cash and investments portfolio, net of the derivative obligation.

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

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Loans:(1) | | |
| CIG | 20,744 | 21,068 |
| PGR2 | 21,240 | 17,527 |
| Bonds:(1) | | |
| Atlas Mara 11.0% Convertible Bonds | 18,296 | 16,334 |
| Atlas Mara 7.5% Bonds | 18,431 | 17,499 |
| Nova Pioneer Bonds | 42,093 | 26,023 |
| Total loans and bonds | 120,804 | 98,451 |

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

The company's exposure to credit risk from its investment in fixed income securities increased at December 31, 2019 compared to December 31, 2018 primarily reflecting additional investments in and capitalized interest on the Nova Pioneer Bonds, Atlas Mara 11.0% Convertible Bonds and the PGR2 Loan, all of which have specific collateral arrangements or guarantees that mitigate the company's exposure to credit risk. The company assesses the creditworthiness of each new counterparty prior to entering into contracts. Management monitors credit risk from its African investments in debt instruments through reviewing financial performance of its counterparties, collateral arrangements, diversification, and other credit risk mitigation techniques.

### *Liquidity Risk*

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The company manages liquidity risk by maintaining sufficient liquid assets to enable settlement of financial commitments on their respective due dates. All accounts payable and accrued liabilities are due within three months, and income taxes payable, if any, must be remitted to the respective tax jurisdictions as they are due. There were no significant changes to the company's exposure to liquidity risk (except as set out in the discussion below) or the framework used to monitor, evaluate and manage liquidity risk at December 31, 2019 compared to December 31, 2018.

The undeployed cash and investments at December 31, 2019 provides adequate liquidity to meet the company's known significant commitments in 2020, which are principally comprised of investment and advisory fees and general and administration expenses. On March 21, 2019 the company repaid the $30,000 of the drawn amount of the Credit Facility (which matured on September 7, 2019), along with accrued interest of $509. On December 20, 2019 the company entered into the Second Credit Facility (see note 7), which remains undrawn at December 31, 2019. 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 composition of the company's total cash and investments, net of the derivative obligation, by the regions where the primary underlying risk of the issuer's businesses resides is presented in the following table. The fair values of African Investments were allocated based on the issuer's revenue from each region. Prior year comparatives have been reclassified to conform with the current year's presentation which the company believes is a better reflection of the issuer's primary underlying risk.

| | December 31, 2019 | | | | | December 31, 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | South Africa | Sub-Saharan Africa(1) | Canada and U.S. | Other | Total | South Africa | Sub-Saharan Africa(1) | Canada and U.S. | Other | Total |
| Cash and cash equivalents | 23,224 | 11,489 | 9,621 | – | 44,334 | 55,139 | 6,321 | 169,398 | – | 230,858 |
| Restricted cash | – | 7,500 | – | – | 7,500 | – | – | – | – | – |
| Short term investments – U.S. treasury bills and notes | – | – | 104,008 | – | 104,008 | – | – | 38,723 | – | 38,723 |
| Loans: | | | | | | | | | | |
| CIG(2) | 8,084 | 12,192 | – | 468 | 20,744 | 11,151 | 9,768 | – | 149 | 21,068 |
| PGR2 | 21,240 | – | – | – | 21,240 | 17,527 | – | – | – | 17,527 |
| | 29,324 | 12,192 | – | 468 | 41,984 | 28,678 | 9,768 | – | 149 | 38,595 |
| Bonds: | | | | | | | | | | |
| Atlas Mara 11.0% Convertible Bonds(3) | – | 18,296 | – | – | 18,296 | – | 16,334 | – | – | 16,334 |
| Atlas Mara 7.5% Bonds(3) | – | 18,431 | – | – | 18,431 | – | 17,499 | – | – | 17,499 |
| Nova Pioneer Bond(4) | 20,015 | 22,078 | – | – | 42,093 | 13,101 | 12,922 | – | – | 26,023 |
| | 20,015 | 58,805 | – | – | 78,820 | 13,101 | 46,755 | – | – | 59,856 |
| Common stocks: | | | | | | | | | | |
| Atlas Mara(3) | – | 78,075 | – | – | 78,075 | – | 119,092 | – | – | 119,092 |
| CIG(2) | 7,624 | 11,497 | – | 441 | 19,562 | 2,057 | 1,802 | – | 27 | 3,886 |
| Other(5) | – | – | – | – | – | 28 | – | – | – | 28 |
| Indirect equity interest in AGH(6) | 55,246 | 26,011 | – | 23,719 | 104,976 | 71,783 | 18,870 | – | 21,235 | 111,888 |
| Philafrica(7) | 14,328 | 4,943 | – | – | 19,271 | 19,324 | 4,139 | – | – | 23,463 |
| GroCapital Holdings | 10,328 | – | – | – | 10,328 | 11,927 | – | – | – | 11,927 |
| | 87,526 | 120,526 | – | 24,160 | 232,212 | 105,119 | 143,903 | – | 21,262 | 270,284 |
| Derivatives: | | | | | | | | | | |
| Atlas Mara Warrants(3) | – | 83 | – | – | 83 | – | 1,016 | – | – | 1,016 |
| Nova Pioneer Warrants(4) | 693 | 765 | – | – | 1,458 | 504 | 497 | – | – | 1,001 |
| | 693 | 848 | – | – | 1,541 | 504 | 1,513 | – | – | 2,017 |
| Total cash and investments | 160,782 | 211,360 | 113,629 | 24,628 | 510,399 | 202,541 | 208,260 | 208,121 | 21,411 | 640,333 |
| Derivative Obligation(8) | – | – | – | – | – | (3,030) | (2,654) | – | (40) | (5,724) |
| Total cash and investments, net of derivative obligation | 160,782 | 211,360 | 113,629 | 24,628 | 510,399 | 199,511 | 205,606 | 208,121 | 21,371 | 634,609 |

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

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

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

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

*(5) Comprised of common shares of a public company listed on the Johannesburg Stock Exchange. During the first quarter of 2019 the common shares of the public company were de-listed.*

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

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

*(8) Related to the company's obligation to subscribe for 178,995,353 common shares of CIG as part of the CIG Rights Offer, which was settled on January 4, 2019.*

The company's holdings of Public and Private African Investments (see note 5) at December 31, 2019 and 2018 are summarized by the issuer's primary sector in the table below:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Financial services | 125,213 | 165,868 |
| Food and agriculture | 124,247 | 135,351 |
| Education | 43,551 | 27,024 |
| Infrastructure | 40,306 | 19,258 |
| Other | 21,240 | 17,527 |
| | 354,557 | 365,028 |

During 2019 the company's concentration risk in the financial services sector decreased primarily due to change in unrealized losses on Atlas Mara common shares and GroCapital Holdings common shares, partially offset by net foreign exchange gains. The company's concentration risk in the food and agriculture sector decreased as a result of a return of capital of $7,936 and the change in unrealized losses on the company's indirect equity investment in AGH and the direct investment in Philafrica, partially offset by net foreign exchange gains. The company's concentration risk in the education sector increased primarily due to the additional investments in Nova Pioneer Bonds and Warrants. The company's concentration risk in the infrastructure sector increased primarily due to additional equity interest acquired in CIG as a result of the exercise of the CIG Rights Offer, partially offset by change in unrealized loss on CIG common shares. The company's concentration risk in the other sector related to the PGR2 Loan.

The company will not make an African Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% of the company's total assets at the time of the investment, provided, however, that the company is permitted to complete up to two African Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25.0% of the company's total assets (the ''Investment Concentration Restriction''). The company's investment limit for an African Investment in accordance with the Investment Concentration Restriction decreased at December 31, 2019 from December 31, 2018 principally as a result of unrealized losses on African Investments (see note 5) and the repayment of the Credit Facility, partially offset by net foreign exchange gains arising as a result of the strengthening of the South African rand relative to the U.S. dollar.

African Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders. At December 31, 2019 the company determined that it was in compliance with the Investment Concentration Restriction.

### *Capital Management*

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern, and to maintain an optimal capital structure to reduce the cost of capital in order to optimize returns for common shareholders. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital, comprised of common shareholders' equity and any funds drawn on the credit facilities, was $518,815 at December 31, 2019 (December 31, 2018 – $632,654). The decrease was principally related to a net loss of $61,199, repayment of the Credit Facility on March 21, 2019 and purchases for cancellation of 3,315,484 subordinate voting shares (2018 – 108,224) for a net cost of $27,018 (2018 – $981).

On March 21, 2019 the company repaid the $30,000 of the drawn amount of the Credit Facility (which matured on September 7, 2019), along with accrued interest of $509. On December 20, 2019 the company entered into the Second Credit Facility (see note 7), which remains undrawn at December 31, 2019. At December 31, 2019 the company was in compliance with the financial covenant requirement to maintain common shareholders' equity of not less than $450,000 when the Second Credit Facility is drawn (see note 7 for details).

## 12. Related Party Transactions

### *Payable to Related Parties*

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

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Investment and advisory fees | 1,524 | 1,550 |
| Other | 31 | 108 |
| | 1,555 | 1,658 |

*Investment Advisory Agreement*

The company and its subsidiaries have entered into an agreement with Fairfax and the Portfolio Advisor to provide administration and investment advisory services to the company (the ''Investment Advisory Agreement''). As compensation for the provision of these services, the company pays an investment and advisory fee, and if applicable, a performance fee. Such fees are determined with reference to the company's common shareholders' equity.

*Performance Fee*

The performance fee, if applicable, is accrued quarterly and is calculated, on a cumulative basis, as 20% of any increase (including distributions) in book value per share above a 5.0% per annum increase. On any date, book value per share is calculated as common shareholders' equity at the end of the reporting period, divided by the total number of common shares of the company effectively outstanding on that date. The amount of book value 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''.

*First Calculation Period*

The period from February 17, 2017 to December 31, 2019 (the ''first calculation period'') was the first period for which a performance fee was calculated. At December 31, 2019 the company determined that there was no performance fee accrual (December 31, 2018 – nil) as the book value per share of $8.72 (before factoring in the impact of the performance fee) at December 31, 2019 was less than the hurdle per share at that date of $11.55. At December 31, 2019 there were no contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax (December 31, 2018 – nil). In 2019 the company did not record a performance fee (2018 – recovery of $319) within the consolidated statements of earnings and comprehensive income.

*Second Calculation Period*

The period from January 1, 2020 to December 31, 2022 (the ''second calculation period'') will be the next consecutive three-year period after December 31, 2019 for which a performance fee, if applicable, will be accrued. The calculation of the performance fee will be calculated on a cumulative basis, as 20% of any increase (including distributions) in book value per share above a 5% per annum increase. Under the Investment Advisory Agreement, the performance fee, if applicable, will be paid within 30 days after the company issues its annual audited consolidated financial statements for the year ended December 31, 2022, in subordinate voting shares of the company unless the market prices per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash. The number of subordinate voting shares to be issued will be calculated based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the second calculation period.

*Investment and Advisory Fees*

The investment and advisory fees are calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. In 2019 the company determined a significant portion of its assets were invested in African investments, which are considered deployed capital. In 2019 the investment and advisory fee recorded in the consolidated statements of earnings and comprehensive income was $6,572 (2018 – $6,440).

*Other*

Other payable of $31 at December 31, 2019 (December 31, 2018 – $108) was primarily comprised of amounts due to related parties for expenses incurred by Fairfax and the Portfolio Advisor on behalf of the company.

### *Fairfax's Voting Rights and Equity Interest*

At December 31, 2019 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 6,885,421 subordinate voting shares (December 31, 2018 – 30,000,000 and 6,885,421 respectively) of Fairfax Africa.

At December 31, 2019 Fairfax's holdings of multiple and subordinate voting shares represented 98.5% of the voting rights and 62.0% of the equity interest in Fairfax Africa (December 31, 2018 – 98.3% and 58.7%).

### *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. In addition, all compensation payable to the company's Vice President is borne by Fairfax.

### *Director Compensation*

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

| | **2019** | **2018** |
|---|---|---|
| Retainers and fees | 146 | 138 |
| Share-based payments | 108 | 71 |
| | 254 | 209 |

### *Other*

*Partial Redemption of Indirect Investment in AGH*

On December 13, 2019 Joseph Holdings redeemed and canceled 10,769,231of its Class A shares on a pro rata basis at a price of $1.30 per share. The company received $10,317 on the redemption of 7,936,284 of its Class A shares of Joseph Holdings and as a result has recorded a return of capital of $7,936 and dividend income of $2,381 within the consolidated statements of earnings and comprehensive income. The redemption principally reflected a November 2019 distribution from AGH of the proceeds received on the contribution of its grain storage assets to a strategic infrastructure platform during the first quarter of 2019.

*Atlas Mara Zambia Fixed Deposit*

On December 13, 2019 the company entered into a fixed deposit agreement with Atlas Mara Zambia whereby the company agreed to place up to $15,000 with Atlas Mara Zambia as a fixed deposit, bearing interest at a rate of LIBOR plus 400 basis points and maturing no later than six months from the date of initial deposit. The fixed deposit will be used to fund a potential African Investment that is subject to finalization. On December 19, 2019 the company funded $7,500 as a fixed deposit with Atlas Mara Zambia, which was recorded in restricted cash within the consolidated balance sheet.

Subsequent to December 31, 2019 the company funded an additional $4,892, for an aggregate fixed deposit of $12,392, and received Zambia Eurobonds from Atlas Mara Zambia with a fair value of $16,296 (at the date of the second deposit) as collateral for the benefit of the company.

*Guarantor for Atlas Mara Loan from TLG Capital*

On December 31, 2019 the company agreed to guarantee up to $20,000 in principal on a facility provided to Atlas Mara by TLG Capital. Atlas Mara requires the company's consent in order to draw more than $10,000 on the TLG

Facility. The TLG Facility will be available until January 31, 2021 with the option for Atlas Mara to extend by an additional year. As consideration for providing the guarantee, the company will earn a fee of 1.1% per annum on the drawn amount of the TLG Facility, which is to be secured by Atlas Mara's shares in African Banking Corporation Botswana Limited. This contract is a financial guarantee contract with a fair value of nil at December 31, 2019 as the TLG Facility was undrawn at December 31, 2019.

Subsequent to December 31, 2019 Atlas Mara has drawn $5,000 on the TLG Facility.

*Deposits on Account with Grobank*

At December 31, 2019 the company held $13,298 (December 31, 2018 – $55,032) in deposit accounts with Grobank.

## 13. Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns, that are different from those of segments operating in other economic environments.

The company has concluded that Fairfax Africa is engaged in a single geographic and business segment, that of investing in Africa and African investments.

## 14. General and Administration Expenses

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

| | **2019** | **2018** |
|---|---|---|
| Audit, legal and tax professional fees | 1,765 | 1,940 |
| Salaries and employee benefit expenses | 1,331 | 984 |
| Administrative expenses | 539 | 1,307 |
| Brokerage fees | 42 | 50 |
| | 3,677 | 4,281 |

## 15. Supplementary Cash Flow Information

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

| | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Cash and balances with banks | 44,334 | 76,389 |
| U.S. treasury bills | – | 154,469 |
| | 44,334 | 230,858 |

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

| | 2019 | 2018 |
|---|---|---|
| **Purchases of investments** | | |
| Loans | (12,813) | (84,392) |
| Bonds | (8,721) | (37,545) |
| Common stocks | (52,101) | (33,718) |
| Derivatives | (506) | (295) |
| | (74,141) | (155,950) |
| **Disposals of investments** | | |
| Loans | 12,939 | 37,986 |
| Common stocks | 7,936 | – |
| | 20,875 | 37,986 |
| **Net interest received** | | |
| Interest received | 9,039 | 16,639 |
| Interest paid on borrowings | (509) | (3,275) |
| Financing fees paid on borrowings | (800) | (690) |
| | 7,730 | 12,674 |
| **Dividend received** | 2,381 | – |
| **Income taxes paid** | 5,071 | 1,689 |

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

**Management's Discussion and Analysis of Financial Condition and Results of Operations (as of March 6, 2020)**

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

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

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations (''MD&A'') should review the entire Annual Report for additional commentary and information. Additional information relating to the company, including its annual information form, can be found on SEDAR at www.sedar.com. Additional information can also be accessed from the company's website www.fairfaxafrica.ca.

(2) Unless otherwise noted, consolidated financial information of the company within this MD&A is derived from the consolidated financial statements of the company prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB''), and is presented in U.S. dollars which is also the functional currency of the company and its consolidated subsidiaries.

(3) The MD&A contains references to book value per share. On any date, book value per share is calculated as common shareholders' equity at the end of the reporting period, determined in accordance with IFRS, divided by the total number of common shares of the company effectively outstanding on that date. Those amounts are presented in the consolidated balance sheet and note 8 (Common Shareholders' Equity under the heading Common Stock) respectively within the consolidated financial statements for the year ended December 31, 2019. Book value per share is a key performance measure of the company and is closely monitored as it is used to calculate the performance fee, if any, to Fairfax Financial Holdings Limited (''Fairfax'').

(4) Throughout this MD&A, the term ''African Investments'' refers to deployed capital invested in Public and Private African Investments as disclosed in note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2019.

**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 engaged in property and casualty insurance and reinsurance and the associated investment management. Hamblin Watsa Investment Counsel Ltd. (the ''Portfolio Advisor''), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments. Fairfax Africa's subordinate voting shares commenced trading on February 17, 2017 on the Toronto Stock Exchange (''TSX'') under the symbol FAH.U. The multiple voting shares are not publicly traded.

The book value per share at December 31, 2019 was $8.72 compared to $9.60 at December 31, 2018 representing a decrease in 2019 of 9.2%, primarily reflecting a net loss of $61,199 (principally related to net change in unrealized losses on investments and net realized losses on investments, investment and advisory fees, income taxes, general and administration expenses and interest expense, partially offset by interest and dividend income and net foreign exchange gains on investments denominated in South African rand).

The following narrative sets out the company's key business developments in 2019 and 2018.

**Capital Transactions**

On September 7, 2018 the company entered into a $90,000 secured, revolving demand credit facility with a syndicate of Canadian lenders, bearing interest at a rate of LIBOR plus 400 basis points (the ''Credit Facility''). The Credit Facility was secured by way of a general lien on the holding company's assets. The Credit Facility contained a financial covenant that required the company to maintain common shareholders' equity of not less than $600,000. On March 28, 2019 the Credit Facility was amended by reducing the financial covenant for common shareholders' equity to $500,000.

On December 21, 2018 the company drew $30,000 from the Credit Facility with a 3-month term that were repaid on March 21, 2019 along with accrued interest of $509. On September 7, 2019 the Credit Facility matured.

On December 20, 2019 the company entered into an $80,000 secured, revolving demand credit facility with a syndicate of Canadian lenders bearing interest at a rate of LIBOR plus 450 basis points (the ''Second Credit Facility'') and containing a financial covenant that requires the company to maintain common shareholders' equity of not less than $450,000 when amounts under the Second Credit Facility are drawn. The Second Credit Facility is secured by way of a general lien on the holding company's assets. At December 31, 2019 the Second Credit Facility was undrawn.

## African Investments

Full descriptions of the African Investments committed to and acquired in 2019 and 2018 are provided in the African Investments section of this MD&A.

## Operating Environment

### *Overview*

Africa's GDP growth has declined slightly in recent years, from 3.6% in 2017 to 3.4% in 2018 to 3.2% in 2019. The International Monetary Fund (''IMF'') forecasts that Africa's GDP growth will reach 3.8% in 2020 and continue trending upwards in years to come, outpacing other emerging and developing economies, but still growing slower than China and India. In 2020, 47% of African countries are projected to see growth of at least 5%, led by accelerated growth, particularly in Ethiopia, Rwanda, Côte d'Ivoire, and the Republic of South Sudan, partially offset by slower growth in certain smaller economies and below average growth rates in South Africa and Nigeria, the continent's two largest economies.

The African Continental Free Trade Agreement (''AfCFTA'') was launched on May 30, 2019 with the main objectives of: (i) creating a single continental market for goods and services, with free movement of business persons and investments; (ii) expanding intra-African trade through coordination of trade policies; and (iii) enhancing competitiveness at the industry and enterprise level through exploitation of opportunities for scale production, continental market access and better reallocation of resources. At December 31, 2019 the AfCFTA had 54 African countries as signatories. The AfCFTA will bring together the member states of the African Union, covering a market of over 1.2 billion people and a combined gross domestic product (''GDP'') of more than $3.4 trillion.

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

### *Sub-Saharan Africa*

After a two-year period of lagging GDP growth in SSA, the IMF reported in January 2020 that GDP growth in the region had reached 3.3% in 2019, up from 3.2% in 2018 and 2.7% in 2017, and is expected to strengthen to 3.5% in 2020 and 2021. These figures include certain low-growth markets where Fairfax Africa's portfolio companies do not operate. In its September 2019 research report, ''African Markets Revealed'', Standard Bank indicated that economic growth remains persistently high among non-commodity-exporting countries, and is expected to accelerate in 2020 and 2021 among commodity-exporting countries as they rebound from recession. Growth in SSA excluding Nigeria, South Africa and Angola is expected to remain robust although it has softened in some countries.

South Africa and Nigeria account for approximately half of the SSA region's GDP, the remainder of which is driven primarily by Angola, Kenya, Ethiopia, Ghana, Tanzania, and Cote d'Ivoire. Approximately half of the company's African Investments operate in South Africa, with the remainder primarily in Nigeria and Kenya.

### *South Africa*

Fairfax Africa is invested in South Africa through its indirect equity interests in AFGRI Group Holdings (''AGH'') and Grobank Limited (''Grobank'', formerly known as the South African Bank of Athens Limited or ''SABA''), and direct investments in Philafrica Foods Proprietary Ltd. (''Philafrica''), Consolidated Infrastructure Group Limited (''CIG'') and Nova Pioneer Education Group (''Nova Pioneer'').

South Africa is the SSA region's second largest economy and is driven primarily by agriculture, mining and manufacturing. South Africa's GDP growth of 0.2% in 2019 (down from 0.8% in 2018) is forecast to recover to 0.8% in 2020 and 1.0% in 2021 based on the IMF's World Economic Outlook Update (January 2020). This modest growth is reflective of structural constraints and weak economic growth, particularly in private investment and exports, resulting in an elevated unemployment rate of 29% as reported by Trading Economics as well as inequities in income and economic opportunities. Despite the South African Reserve Bank (''SARB'') trimming its benchmark rate by 25 basis points on January 16, 2020, uncertainty remains over potential reforms to boost growth and stabilize debt, which continues to constrain growth in South Africa.

According to Statistics South Africa, South Africa's GDP contracted by 1.4% in the fourth quarter of 2019, putting the economy into its second technical recession in two years. The contraction in GDP was primarily due to declines in the transport and communication, trade, agriculture, and construction industries. In particular the 7.6% decline in the agriculture sector was driven by late rains and heat wave conditions across the country, which affected the production of field crops. The construction industry continued to underperform. The decline in GDP was partially offset by the finance industry (comprised of banking and insurance services), which posted 2.7% growth, maintaining consistent growth over the last decade and demonstrating the resilience of the industry against adverse economic conditions.

The foreign currency credit rating of the Government of South Africa bonds applies to U.S. dollar currency debt and the local currency credit rating applies to debt raised in South African rand through the domestic market. All three major credit rating agencies maintained their ratings in the fourth quarter of 2019. In November 2019, Moody's Corporation (''Moody's'') reaffirmed its credit rating for the Government of South Africa's bonds at Baa3, though with a shift to a negative outlook, citing the deterioration in economic growth trends and strong fiscal pressures, partially offset by the country's deep, stable financial sector and robust macroeconomic policy framework. The IMF further cites inefficiencies in the operations of state-owned enterprises as a persistent challenge for South Africa. Standard & Poor's Financial Services LLC (''S&P'') maintained its credit rating at BB in November 2019, with a negative outlook, and Fitch Ratings Inc. (''Fitch'') maintained its credit rating at BB+, with a negative outlook.

In contrast to credit ratings and macroeconomic outlook, the South African rand relative to the U.S. dollar strengthened from 14.39 at December 31, 2018 to 13.98 at December 31, 2019. Despite the uncertainties present in the South African market, the IMF believes that the 2.8% year-over-year appreciation of the South African rand and 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.

On February 26, 2020 Finance Minister Tito Mboweni presented the 2020 South African government budget with a focus on fiscal sustainability in the near to medium term. To achieve this the budget laid the framework to implement key measures such as the reform and restructuring of certain state-owned enterprises and made firm decisions to reduce non-interest expenditures of approximately 156 billion South African rand over the next three years through reduced program spending and lowering public sector wages.

***Nigeria***

Fairfax Africa is invested in Nigeria through Atlas Mara Limited's (''Atlas Mara'') 49.97% stake in Union Bank of Nigeria (''UBN'') and CIG is also actively pursuing a number of opportunities in the country.

Nigeria is the SSA region's most populous country and has the largest economy, half of which is accounted for by the services sector, dwarfing the country's traditional oil and agriculture GDP drivers. In its World Economic Outlook Update (January 2020), the IMF forecasted GDP growth of 2.5% in each of 2020 and 2021, up from growth of 2.3% in 2019 and 1.9% in 2018. The low growth forecast is driven by insufficient policy adjustment, a large infrastructure gap, low private investment, and banking sector vulnerabilities.

Moody's affirmed its rating of Nigeria's sovereign credit at B2 in December 2019, with a shift to negative outlook, citing greater reliance by the government on bank funding as opposed to public funding and vulnerability to an adverse change in foreign capital investments. While Nigeria's revenue base continues to be narrow, its economic strength is supported by the improved diversification of non-oil and gas economic activity and significant oil and gas endowments. Fitch maintained its credit rating at B+, though with a negative outlook as of December 2019. S&P maintained its credit rating at B with a shift to negative outlook in 2020.

***Kenya***

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

The Kenyan economy is diverse relative to its SSA peers, though agriculture and manufacturing continue to remain important economic drivers. Despite adverse weather conditions throughout 2019, the agricultural sub-sector has proven resilient, supporting Kenya's position as one of the world's most consistent high-growth economies. In its African Markets Revealed (September 2019) report, Standard Bank forecasted GDP growth of 6.2% in 2020, up from 5.8% in 2019 though a slight dip from 6.3% in 2018. 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 and drive strong economic growth. While the Kenyan government debt levels remain elevated, the African Development Bank reports that the government plans to continue fiscal consolidation and stabilize public debt.

In August 2019, Moody's affirmed its rating of Kenya's credit at B2, with a stable outlook. Kenya's weak policy effectiveness and fiscal struggles evidenced by the rapid increase in the government's debt burden and poor revenue collection, is tempered by Kenya's economic strength as a result of relative diversification of its economy, favourable growth prospectus, and resilience to shocks. Fitch's credit rating for Kenya remains at B+ with a stable outlook. S&P maintained its credit rating at B+ with a stable outlook.

***The Mauritius Finance Act 2018***

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

**Business Objectives**

**Investment Objective**

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

**Investment Strategy**

The company invests in businesses that are expected to benefit from Africa's demographic trends which are expected to drive growth in the future. Sectors of the African economy that the company believes will benefit most from such trends include the energy, food and agricultural, financial services, infrastructure and logistics, consumer products and retail sectors. The company, however, is not limited to investing solely in these sectors and intends to invest in other sectors as and when opportunities arise.

The company utilizes and expects to benefit significantly from, the experience and expertise of its management, Fairfax (the Portfolio Advisor), and Pactorum Ltd. ("Pactorum", a Mauritius and South African-based third-party strategic consultant), and their respective networks in Africa, to source and evaluate investment opportunities for the company.

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

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

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

The company may from time to time seek to realize on any of its African Investments. The circumstances under which the company may sell some or all of its investments include: (i) where the company believes that the African Investments are fully valued or that the original investment thesis has played out; or, (ii) where the company has identified other investment opportunities which it believes present more attractive risk-adjusted return opportunities and additional capital is needed to make such alternative investments.

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

### Investment Selection

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

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

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

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

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

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

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

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

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

### Investment Restrictions

The company will not make an African Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% of the company's total assets at the time of the investment, provided, however, that the company is permitted to complete up to two African Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25.0% of the company's total assets (the ''Investment Concentration Restriction''). The company's investment limit for an African Investment in accordance with the Investment Concentration Restriction decreased at December 31, 2019 from December 31, 2018 principally as a result of unrealized losses on African Investments and the repayment of the Credit Facility, partially offset by net foreign exchange gains arising as a result of the strengthening of the South African rand relative to the U.S. dollar. African Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders.

The company intends to make multiple different investments as part of its prudent investment strategy in a manner that complies with the Investment Concentration Restriction. At December 31, 2019 the company determined that it was in compliance with the Investment Concentration Restriction.

## African Investments

### Cautionary Statement Regarding Financial Information of Significant African Investments

Fairfax Africa has agreed to voluntarily provide within its MD&A, summarized unaudited financial information prepared for all of its African Investments for which it had previously filed a business acquisition report in accordance with section 8.2 of *National Instrument 51-102 Continuous Disclosure Obligations*. AGH and CIG (a listed entity on the Johannesburg Stock Exchange), prepare their financial statements in accordance with IFRS as issued by the IASB. Atlas Mara, a listed entity on London Stock Exchange, prepares its financial statements in accordance with IFRS as adopted by the European Union (AGH, Atlas Mara and CIG collectively, ''Significant African Investments''). The company is limited in respect to the amount of independent verification it is able to perform with respect to the financial statements of the Significant African Investments. Such unaudited financial information is the responsibility of the respective managements and has been prepared by them using recognition, measurement and presentation principles consistent with IFRS, and provided to the company in their underlying functional currencies.

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

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

### Summary of African Investments

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

| | | December 31, 2019 | | | | December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Date Acquired | Ownership % | Net cash consideration | Fair value | Net change | Ownership % | Net cash consideration | Fair value | Net change |
| **Public African Investments:** | | | | | | | | | |
| Common stocks: | | | | | | | | | |
| Atlas Mara | August and December 2017 | 42.4% | 159,335 | 78,075 | (81,260) | 42.4% | 159,335 | 119,092 | (40,243) |
| CIG | Fourth quarters of 2017 and 2018, January and December 2019 | 49.3% | 53,854 | 19,562 | (34,292) | 7.9% | 4,041 | 3,886 | (155) |
| Other[1] | Various | <5% | 2,055 | – | (2,055) | <5% | 2,055 | 28 | (2,027) |
| | | | 215,244 | 97,637 | (117,607) | | 165,431 | 123,006 | (42,425) |
| **Private African Investments:** | | | | | | | | | |
| Loans: | | | | | | | | | |
| CIG | June 2018 | | 23,270 | 20,744 | (2,526) | | 23,270 | 21,068 | (2,202) |
| PGR2 | June and December 2018 | | 19,969 | 21,240 | 1,271 | | 19,969 | 17,527 | (2,442) |
| | | | 43,239 | 41,984 | (1,255) | | 43,239 | 38,595 | (4,644) |
| Bonds: | | | | | | | | | |
| Atlas Mara 11.0% Convertible Bonds | December 2018 | | 15,040 | 18,296 | 3,256 | | 15,040 | 16,334 | 1,294 |
| Atlas Mara 7.5% Bonds | November 2018 | | 16,476 | 18,431 | 1,955 | | 16,476 | 17,499 | 1,023 |
| Nova Pioneer Bonds | Third and fourth quarters of 2017 and 2018, and first and second quarters of 2019 | | 32,713 | 42,093 | 9,380 | | 23,992 | 26,023 | 2,031 |
| | | | 64,229 | 78,820 | 14,591 | | 55,508 | 59,856 | 4,348 |
| Common stocks: | | | | | | | | | |
| Indirect equity interest in AGH[2] | February 2017, January and November 2018 | 46.8% | 86,941 | 104,976 | 18,035 | 44.7% | 94,877 | 111,888 | 17,011 |
| Philafrica | November 2018 | 26.0% | 23,254 | 19,271 | (3,983) | 26.0% | 23,254 | 23,463 | 209 |
| GroCapital Holdings | Fourth quarter of 2018 and April 2019 | 35.0% | 14,429 | 10,328 | (4,101) | 35.0% | 12,141 | 11,927 | (214) |
| | | | 124,624 | 134,575 | 9,951 | | 130,272 | 147,278 | 17,006 |
| Derivatives: | | | | | | | | | |
| Atlas Mara Warrants | November 2018 | | 2,324 | 83 | (2,241) | | 2,324 | 1,016 | (1,308) |
| Nova Pioneer Warrants | Third and fourth quarters of 2017 and 2018, and first and second quarters of 2019 | | 1,287 | 1,458 | 171 | | 781 | 1,001 | 220 |
| | | | 3,611 | 1,541 | (2,070) | | 3,105 | 2,017 | (1,088) |
| Derivative Obligation: | | | | | | | | | |
| CIG forward derivative liability[3] | May 2018 | | – | – | – | | – | (5,724) | (5,724) |
| | | | 235,703 | 256,920 | 21,217 | | 232,124 | 242,022 | 9,898 |
| **Total African Investments** | | | 450,947 | 354,557 | (96,390) | | 397,555 | 365,028 | (32,527) |

(1) *Comprised of common shares of a public company listed on the Johannesburg Stock Exchange. During the first quarter of 2019 the common shares of the public company were de-listed.*

(2) *Net cash consideration includes a return of capital of $7,936 related to Joseph Holdings' December 2019 redemption of 7,936,284 Class A shares (see note 5 to the consolidated financial statements for the year ended December 31, 2019.)*

(3) *Related to the company's obligation to subscribe for 178,995,353 common shares of CIG as part of the CIG Rights Offer, which was settled on January 4, 2019.*

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

A summary of changes in the fair value of the company's Public and Private African Investments during 2019 and 2018 were as follows:

| | 2019 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Balance as of January 1 | Purchases | Repayments/ (Redemptions) | Accretion of discount/ (amortization of premium)[1] | Net realized loss on investments | Net change in unrealized gains (losses) on investments | Net foreign exchange gains (losses) on investments | Balance as of December 31 |
| **Public African Investments:** | | | | | | | | |
| Common stocks: | | | | | | | | |
| Atlas Mara | 119,092 | – | – | – | – | (41,017) | – | 78,075 |
| CIG | 3,886 | 44,974 | – | – | – | (29,436) | 138 | 19,562 |
| Other[2] | 28 | – | – | – | – | (24) | (4) | – |
| Total Public African Investments | 123,006 | 44,974 | – | – | – | (70,477) | 134 | 97,637 |
| **Private African Investments:** | | | | | | | | |
| Loans: | | | | | | | | |
| AGH Facility | – | 12,813 | (12,939) | 257 | – | – | (131) | – |
| CIG | 21,068 | – | – | 97 | – | (996) | 575 | 20,744 |
| PGR2[3] | 17,527 | 2,943 | – | – | – | 112 | 658 | 21,240 |
| | 38,595 | 15,756 | (12,939) | 354 | – | (884) | 1,102 | 41,984 |
| Bonds: | | | | | | | | |
| Atlas Mara 11.0% Convertible Bonds[4] | 16,334 | 1,845 | – | (80) | – | 197 | – | 18,296 |
| Atlas Mara 7.5% Bonds | 17,499 | – | – | 762 | – | 170 | – | 18,431 |
| Nova Pioneer Bonds[5] | 26,023 | 12,620 | – | 103 | – | 3,347 | – | 42,093 |
| | 59,856 | 14,465 | – | 785 | – | 3,714 | – | 78,820 |
| Common stocks: | | | | | | | | |
| Indirect equity interest in AGH[6] | 111,888 | – | (7,936) | – | – | (1,239) | 2,263 | 104,976 |
| Philafrica | 23,463 | – | – | – | – | (4,841) | 649 | 19,271 |
| GroCapital Holdings | 11,927 | 2,288 | – | – | – | (4,285) | 398 | 10,328 |
| | 147,278 | 2,288 | (7,936) | – | – | (10,365) | 3,310 | 134,575 |
| Derivatives: | | | | | | | | |
| Atlas Mara Warrants | 1,016 | – | – | – | – | (933) | – | 83 |
| Nova Pioneer Warrants | 1,001 | 506 | – | – | – | (49) | – | 1,458 |
| | 2,017 | 506 | – | – | – | (982) | – | 1,541 |
| Derivative Obligation: | | | | | | | | |
| CIG forward derivative liability[7] | (5,724) | – | 4,839 | – | (4,839) | 5,724 | – | – |
| Total Private African Investments | 242,022 | 33,015 | (16,036) | 1,139 | (4,839) | (2,793) | 4,412 | 256,920 |
| **Total African Investments** | 365,028 | 77,989 | (16,036) | 1,139 | (4,839) | (73,270) | 4,546 | 354,557 |

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

(2) *Comprised of common shares of a public company listed on the Johannesburg Stock Exchange. During the first quarter of 2019 the common shares of the public company were de-listed.*

(3) *Purchases in 2019 of $2,943 related to capitalized interest.*

(4) *Purchases in 2019 of $1,845 related to capitalized interest.*

(5) *Purchases in 2019 included $3,899 related to capitalized interest.*

(6) *Invested through the company's ownership in Joseph Holdings.*

(7) *Related to the company's obligation to subscribe for 178,995,353 common shares of CIG as part of the CIG Rights Offer, which was settled on January 4, 2019.*

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

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

(2) *Comprised of common shares of a public company listed on the Johannesburg Stock Exchange. During the first quarter of 2019 the common shares of the public company were de-listed.*

(3) *Purchases in 2018 included $1,027 related to capitalized interest.*

(4) *Purchases in 2018 included $98 related to capitalized interest.*

(5) *Purchases in 2018 included $2,250 related to capitalized interest.*

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

(7) *Related to the company's obligation to subscribe for 178,995,353 common shares of CIG as part of the CIG Rights Offer, which was settled on January 4, 2019.*

***Public African Investments***

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

**Investment in Atlas Mara Limited (Common Shares)**

***Business Overview***

Atlas Mara Limited (''Atlas Mara'') is a Sub-Saharan African financial services group listed on the London Stock Exchange under the symbol ATMA. Since its inception, Atlas Mara has acquired control or significant influence in banks across seven Sub-Saharan African countries: Nigeria, Botswana, Zimbabwe, Mozambique, Rwanda, Tanzania and Zambia.

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

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

*Retail and Commercial Banking*

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

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

- ABC Holdings Limited (''BancABC'') is comprised of banks across Botswana, Zimbabwe, Mozambique and Tanzania;
- Atlas Mara Zambia;
- Banque Populaire du Rwanda Limited (''BPR'') in Rwanda; and
- Union Bank of Nigeria (''UBN'') located in Nigeria (49.97% ownership).

*Markets and Treasury*

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

*Digital Banking*

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

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

***Transaction Description***

*Atlas Mara Common Shares*

In August and December 2017 the company acquired an aggregate of 71,958,670 common shares of Atlas Mara representing a 43.3% equity interest for net consideration of $159,335.

The company has also entered into related party transactions with Atlas Mara, which are discussed in the Related Party Transactions section later in this MD&A.

At December 31, 2019 the company had appointed two of the five Atlas Mara board members.

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

Atlas Mara is focused on advancing the progress on its stated strategic goals, including: the streamlining of the group as a narrowly focused holding company rather than a bank operating group; protecting core operations in Botswana and Zimbabwe; and increasing support of and involvement with UBN. A significant component of Atlas Mara's portfolio is its investment in associate UBN with continued execution of long-term strategy and efforts to increase its shareholding. In 2019 Atlas Mara increased its position in UBN from 49.0% at December 31, 2018 to 49.97% at December 31, 2019.

On January 28, 2020 UBN announced that it has entered into an agreement to divest its equity stake in Union Bank UK Plc. (''UBN UK'') which is aligned with UBN's strategy to focus on growth opportunities in Nigeria. The completion of the sale is subject to regulatory approvals from the relevant regulatory authorities in Nigeria and the United Kingdom.

On April 30, 2019 Atlas Mara announced a proposed strategic transaction with Equity Group Holdings Plc (''Equity Group'') whereby Equity Group will acquire Atlas Mara's shareholdings in: (i) BPR; (ii) Atlas Mara Zambia; (iii) BancABC Tanzania; and, (iv) BancABC Mozambique in a share exchange transaction with Equity Group. The rationale for the share exchange transaction with Equity Group is to achieve benefits of scale in Rwanda and Tanzania, while leveraging Equity Group's operational expertise and innovative digital and retail strategy to improve profitability in Zambia and Mozambique. In addition, shareholdings in Equity Group would diversify Atlas Mara's country exposures in Africa to include Kenya, Uganda, Democratic Republic of the Congo and South Sudan. This transaction will allow Atlas Mara to focus group resources and efforts on driving greater profitability and returns to shareholders from the remaining banking operations. On January 2, 2020 it was announced that the existing term sheet related to the proposed strategic transaction had expired as both Atlas Mara and Equity Group had yet to sign detailed transaction agreements. Atlas Mara and Equity Group expect to continue further discussions in 2020 to reach mutually acceptable commercial terms with respect to the strategic transaction.

Zimbabwe's economy is at a crossroads as the country faces challenges relating to: (i) fiscal consolidation and financial sector stabilization; (ii) stimulating growth and investment to increase revenue collection and foreign exchange generation; (iii) protecting social gains; and (iv) improving governance outcomes through continued legislative and institutional reforms.

In February 2019 the Reserve Bank of Zimbabwe (''RBZ'') announced the establishment of an interbank foreign exchange market which would formalize the trading of the Real-time Gross Settlement dollars (''RTGS'') with the U.S. dollar. This effectively resulted in the replacement of the 1:1 peg of the RTGS dollar to the U.S. dollar which has been in circulation within the banking system of Zimbabwe, with a formal interbank foreign currency market at a rate of 2.5:1 RTGS to the U.S. dollar. In June 2019 the RBZ issued a statutory instrument which indicated that the Zimbabwe dollar (at 1:1 par with RTGS) to be the sole currency for legal tender purposes. The British pound, U.S. dollar, South African rand, Botswana pula and any other foreign currency that was part of Zimbabwe's multi-currency system will no longer be legal tender alongside the Zimbabwe dollar in any transactions in Zimbabwe. At December 31, 2019 the interbank foreign exchange rate further declined to 16.8:1 RTGS to the U.S. dollar. Atlas Mara's banking operation in Zimbabwe had negatively impacted Atlas Mara's consolidated financial position as a result of this change in the foreign currency regime of the country.

Zambia's economic outlook remains challenging as the country recovers from droughts in 2018 and 2019 that lowered agricultural production and hydropower electricity generation, resulting in dampened activity across almost all economic sectors.

### *Valuation and Consolidated Financial Statement Impact*

*Atlas Mara Common Shares*

At December 31, 2019 the fair value of the company's investment in Atlas Mara was $78,075 (December 31, 2018 – $119,092), comprised of 71,958,670 common shares representing a 42.4% equity interest (December 31, 2018 – 42.4%). Atlas Mara's share price decreased by 34.3% from $1.66 per share at December 31, 2018 to $1.09 per share at

December 31, 2019. The changes in fair value of the company's investment in Atlas Mara in 2019 and 2018 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

***Atlas Mara's Summarized Financial Information***

Atlas Mara's fiscal year ends on December 31 and as of March 6, 2020 Atlas Mara had not yet released its December 31, 2019 annual consolidated financial statements. As a result they were not made available to Fairfax Africa. Summarized below are Atlas Mara's balance sheets at June 30, 2019 and December 31, 2018.

**Balance Sheets**
*(unaudited – in US$ thousands)*

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Financial Assets | 880,340 | 1,936,454 |
| Non-Financial Assets | 701,078 | 868,272 |
| Assets included in disposal groups held for sale | 915,225 | – |
| Financial Liabilities | 1,103,310 | 2,048,490 |
| Non-Financial Liabilities | 37,750 | 67,298 |
| Liabilities included in disposal groups held for sale | 809,815 | – |
| Shareholders' equity | 545,768 | 688,938 |

At June 30, 2019 asset and liability balances related to the proposed strategic transaction with Equity Group and identified as part of the disposal group were reclassified and presented separately as assets and liabilities held for sale within Atlas Mara's balance sheet.

Excluding the impact of the reclassification of assets and liabilities identified as disposal groups held for sale, financial and non-financial assets decreased primarily reflecting the continued devaluation of the RTGS in Zimbabwe and decreased customer loans and advances, partially offset by increased earnings recorded in UBN during the period.

Excluding the impact of the reclassification of assets and liabilities identified as disposal groups held for sale, financial liabilities and non-financial liabilities decreased, primarily reflecting decreased deposits in Tanzania and Botswana coupled with the devaluation of the RTGS in Zimbabwe, partially offset by increased borrowings. Shareholders' equity decreased primarily due to the loss on remeasurement of disposal groups held for sale and foreign currency translation losses principally relating to the devaluation of the RTGS in Zimbabwe.

Summarized below are Atlas Mara's statements of earnings for the six month periods ended June 30, 2019 and June 30, 2018.

**Statements of Earnings**
*(unaudited – in US$ thousands)*

| | Six months ended June 30, 2019 | | | Six months ended June 30, 2018 | | |
|---|---|---|---|---|---|---|
| | Continuing operations | Discontinued operations | Total | Continuing operations | Discontinued operations | Total |
| Revenue | 38,483 | 56,990 | 95,473 | 44,081 | 68,139 | 112,220 |
| Earnings (loss) before taxes | 16,899 | (8,513) | 8,386 | 35,057 | 1,035 | 36,092 |
| Loss on remeasurement to fair value less costs to sell | – | (125,567) | (125,567) | – | – | – |
| Net earnings (loss) | 9,498 | (135,052) | (125,554) | 29,651 | (452) | 29,199 |

Revenues for the six months ended June 30, 2019 decreased compared to the same period in 2018 primarily due to lower interest income on loans driven by contraction of the loan book, lower net interest margins and higher cost of funds, partially offset by increased non-interest income as a result of higher trading income. Net earnings decreased primarily due to the loss on remeasurement of disposal groups held for sale. Net earnings for the six months ended June 30, 2018 included a gain on Atlas Mara's acquisition of UBN.

### Investment in Consolidated Infrastructure Group Limited (Common Shares)

***Business Overview***

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

The company's investment in CIG is comprised of common shares and a debt instrument. At December 31, 2018 the company's investment in CIG also included a derivative obligation which was settled on January 4, 2019 upon closing of the CIG Rights Offer (described below).The debt instrument and derivative obligation are discussed in the Private African Investments section under the heading Investment in Consolidated Infrastructure Group Limited (Debt Instrument and Derivative Obligation) later in this MD&A.

CIG's principal lines of business are as follows:

*Power*

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

*Consolidated Building Materials*

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

*Oil & Gas*

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

*Rail*

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

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

***Transaction Description***

*CIG Common Shares*

In 2017 and 2018 the company acquired 15,527,128 common shares representing a 7.9% equity interest in CIG for cash consideration of $4,041 (56.4 million South African rand).

On January 4, 2019 upon closing of the previously announced CIG Rights Offer the company acquired 178,995,353 common shares of CIG for net consideration of $44,905 (628.3 million South African rand), which was comprised of net cash consideration of $49,744 (696.0 million South African rand), partially offset by the settlement of the derivative obligation (refer to the Private African Investments section under the heading Investment in Consolidated Infrastructure Group Limited (Debt Instrument and Derivative Obligation) later in this MD&A) of $4,839 (67.7 million South African rand).

In December 2019 the company acquired an additional 867,841 common shares of CIG for net consideration of $69 (1.0 million South African rand). At December 31, 2019 the company held 195,390,322 common shares of CIG, representing a 49.3% equity interest in CIG for net consideration of $49,015 (685.7 million South African rand).

At December 31, 2019 the company had appointed four of the twelve CIG board members.

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

The CIG Rights Offer was intended to enable the company to establish a strong and sustainable capital structure that would allow CIG to take advantage of long-term opportunities in the markets that it serves through its diversified portfolio of businesses. Specifically, the CIG Rights Offer allowed CIG to focus on:

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

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

*CIG Common Shares*

At December 31, 2019 the fair value of the company's investment in CIG was $19,562 (December 31, 2018 – $3,886), comprised of 195,390,322 common shares representing a 49.3% equity interest (December 31, 2018 – 7.9%). CIG's share price decreased by 61.1% from 3.60 South African rand per share at December 31, 2018 to 1.40 South African rand per share at December 31, 2019. The changes in fair value of the company's investment in CIG in 2019 and 2018 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

***CIG's Summarized Financial Information***

CIG's fiscal year end was changed to December 31, to align with the company, following its August 31, 2019 fiscal year end. The tables below present CIG's financial and operating results in both U.S. dollar and South African rand (CIG's presentation and functional currency). The South African rand strengthened relative to the U.S. dollar in fiscal 2019 compared to fiscal 2018. The discussion which follows refers to those South African rand figures unless indicated otherwise.

**Balance Sheets**

*(unaudited – in South African rand and US$ thousands)*

| | South African rand | | US$ | |
|---|---|---|---|---|
| | **August 31, 2019** | **August 31, 2018(1)** | **August 31, 2019(2)** | **August 31, 2018(1)(2)** |
| Current assets | 3,003,467 | 3,324,164 | 197,857 | 226,905 |
| Non-current assets | 1,818,977 | 2,007,765 | 119,827 | 137,049 |
| Current liabilities | 3,704,810 | 3,165,895 | 244,059 | 216,102 |
| Non-current liabilities | 565,429 | 1,075,458 | 37,248 | 73,410 |
| Shareholders' equity | 552,205 | 1,090,576 | 36,377 | 74,442 |

*(1) Prior year comparative figures have been restated as per CIG's annual consolidated financial statements.*

*(2) The net assets of CIG were translated at August 31, 2019 at $1 U.S. dollar = 15.18 South African rand and at August 31, 2018 at $1 U.S. dollar = 14.65 South African rand. The exchange rates used were the spot rates prevailing on those respective dates.*

Current assets decreased primarily due to write-downs related to unrecoverable work in progress and receivable balances principally in CIG's Conco business segment and decreased trade volume. Non-current assets decreased primarily reflecting impairment of goodwill related to the building materials business segment, impairment of intangible assets related to non-recoverable product development costs recorded during the period and write-down of non-recoverable deferred tax assets. Current liabilities increased principally due to an increase in CIG's current portion of borrowings during the year and increased trade and other payables which reflected increased costs of completion on CIG's existing contracts. Non-current liabilities had decreased which primarily reflected borrowings which were classified from non-current to current.

Summarized below are CIG's statements of earnings for the years ended August 31, 2019 and 2018.

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

| | South African rand | | US$ | |
|---|---|---|---|---|
| | **Year ended August 31, 2019** | **Year ended August 31, 2018(1)** | **Year ended August 31, 2019(2)** | **Year ended August 31, 2018(1)(2)** |
| Revenue | 3,168,574 | 3,136,518 | 221,269 | 242,953 |
| Loss before taxes | (1,279,382) | (1,490,111) | (89,342) | (115,423) |
| Net loss | (1,342,985) | (1,677,993) | (93,784) | (129,976) |

*(1) Prior year comparative figures have been restated as per CIG's annual consolidated financial statements.*

*(2) Amounts for the years ended August 31, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 14.32 South African rand and $1 U.S. dollar = 12.91 South African rand prevailing during those periods.*

Revenue remained constant (excluding the impact of foreign exchange) as CIG continues to face a tough macro-economic environment. Net loss for the period primarily reflected downward margin adjustments and under-recovery of overhead costs, increased cost of goods sold and increased operating expenses related to the write-down of unrecoverable work in progress and receivables primarily in the Conco business, in addition to the impairment of goodwill and intangible assets and the reassessment of deferred tax liabilities. The net loss for the period has decreased compared to the prior period due to the impairment of goodwill balances from acquisitions (principally relating to Conco and Tractionel) which were recorded in the prior period.

### Investment in an Other Public African Investment

In 2017 and 2018 the company acquired less than 5.0% of the 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. In the first quarter of 2019 the Other Public African Investment was de-listed from the Johannesburg Stock Exchange. The company does not expect to recover any of its initial investment.

At December 31, 2019 the fair value of the company's investment in the Other Public African Investment was nil (December 31, 2018 – $28). The changes in fair value of the company's investment in the Other Public African Investment in 2019 and 2018 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

At December 31, 2019 the company did not have any board representation in the Other Public African Investment.

### *Private African Investments*

### Cautionary Statement Regarding the Valuation of Private African Investments

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

## Investment in AFGRI Holdings Proprietary Limited

### *Business Overview*

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

AGH's investment philosophy is to create long term sustainable value by targeting investments in agriculture, food processing and financial services, by building or acquiring equity interests in companies which provide the company with control or significant influence. AGH's long term growth strategy is based on a vision to ensure sustainable agriculture and enable food security across Africa. In addition to South Africa, AGH currently has operational activities aimed at supporting agriculture in Zambia, Zimbabwe, Mozambique, Congo-Brazzaville, Botswana and Côte d'Ivoire. AGH also has John Deere operations in several markets in Africa and Western Australia, an animal feeds research and development venture in the United Kingdom and an investment in animal feeds in the United States. AGH's current strategic initiatives also include growing its existing financial services business, which is currently centered on providing credit, trade and commodity finance, insurance, payments and related products and services to the agricultural sector.

AGH's principal lines of business are as follows:

*AFGRI*

AGH holds a 73.2% equity interest in AFGRI Proprietary Limited, (''AFGRI''), which focuses on grain management, silo management, equipment sales (through the John Deere brand), agricultural finance and insurance, and retail and farmer development. AFGRI is the market leader for grain management solutions in South Africa, with 69 silos and 15 bunkers under management representing more than 5 million tonnes of storage capacity. AFGRI manages one of South Africa's largest loan books to the agricultural sector on behalf of the Land Bank, (a South African government-owned development bank). AFGRI maintains approximately $1.1 billion (15.6 billion South African rand) in loan book value, inclusive of the corporate lending portfolio managed by GroCapital Advisory Services Proprietary Limited (''GroCapital Advisory''). AFGRI also manages the group's agri-related businesses outside South Africa through AFGRI International (see below), consisting mainly of grain management and equipment operations in Zambia, Zimbabwe, Tanzania, Mozambique, Congo-Brazzaville, Angola and Australia.

*Philafrica Foods*

AGH holds a 60.0% equity interest in Philafrica. Philafrica is headquartered in South Africa, where it owns and operates maize mills, wheat mills, animal feed factories, snacking and bread production facilities, and 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). 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 business in Mozambique.

*GroCapital Advisory Services*

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

*AFGRI International*

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

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

### ***Transaction Description***

*Indirect Equity Interest in AGH*

In February 2017 Fairfax Africa acquired a 42.2% indirect equity interest in AGH for $74,968 through its purchase of 156,055,775 common shares and 49,942,549 Class A shares of Joseph Investment Holdings ("Joseph Holdings") for $25,001 and $49,967 in a non-cash transaction. In January 2018 the company participated in an AGH rights offer and invested an additional $20,304 (inclusive of a non-cash realized gain of $1,803) in AGH through its purchase of 79,743,201 common shares of Joseph Holdings. In November 2018 the company acquired an additional 5,260,679 common shares and 270,362 Class A shares of Joseph Holdings for aggregate cash consideration of $1,408 from an employee of the company's portfolio sub-advisor, Pactorum Ltd.

On December 13, 2019 Joseph Holdings redeemed and canceled 10,769,231 of its Class A shares on a pro rata basis at a price of $1.30 per share. The company received $10,317 on the redemption of 7,936,284 of its Class A shares of Joseph Holdings and as a result has recorded a return of capital of $7,936 and dividend income of $2,381 within the consolidated statements of earnings and comprehensive income. The redemption principally reflected a November 2019 distribution from AGH of the proceeds received on the contribution of its grain storage assets to a strategic infrastructure platform during the first quarter of 2019.

At December 31, 2019 Fairfax Africa had invested $88,744 in Joseph Holdings (comprised of 74.6% of the common shares and 73.7% of the Class A shares of Joseph Holdings, providing an aggregate of 74.6% voting interest). Fairfax Africa is the largest beneficial shareholder of AGH, through its investment in Joseph Holdings, with a 46.8% indirect equity interest (December 31, 2018 – 44.7%).

At December 31, 2019 the company had appointed five of the ten AGH board members and two of the three Joseph Holdings board members.

*AGH Facilities*

In June 2017 Fairfax Africa entered into a secured lending arrangement with AGH, pursuant to which Fairfax Africa provided $23,255 (300 million South African rand) of financing. On January 31, 2018 the facility was fully repaid with cash of $25,399 and the company recorded a realized foreign exchange gain of $1,166 in the consolidated statements of earnings and comprehensive income in 2018.

On January 21, 2019 the company completed a second secured lending arrangement with AGH pursuant to which Fairfax Africa provided $12,813 (176.4 million South African rand) of financing (the "AGH Facility"). The AGH Facility earned interest at a rate of South African prime plus 2.0% payable on maturity. On July 19, 2019 the AGH Facility was fully repaid with cash of $12,939 (180 million South African rand, inclusive of raising fees) and $485 (6.7 million South African rand) of accrued interest for total cash consideration of $13,424 (186.7 million South African rand).

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

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

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

On April 8, 2019 AGH announced plans to form a grain storage platform to grow capacity in South Africa and improve food security. AFGRI Grain Silo Company Proprietary Limited ("AFGRI Grain Silo Company") plans to expand its current storage from 4.7 million tonnes to 6.0 million tonnes in the near future. The current storage footprint consists of grain silos and bunker complexes throughout six provinces in South Africa. Three new institutional investors have committed to invest alongside AGH and its current Black Economic Empowerment

(''BEE'') employee partner, Izitsalo Employee Investments. This investment consortium initially will own storage facilities acquired from AFGRI's grain management division. Upon closing of this transaction, AGH's remaining equity interest in AFGRI Grain Silo Company was 26.5%. AFGRI's grain management division will manage the storage facilities on behalf of AFGRI Grain Silo Company through a management service agreement.

In 2019 GroCapital Advisory entered into an agreement to sell its foreign exchange brokerage business to Grobank. The transaction is subject to regulatory approval and is expected to be completed in 2020.

Subsequent to December 31, 2019 AGH announced that Chris Venter would be stepping down as Chief Executive Officer, and Tinus Prinsloo and Johan Geel, both seasoned executives with a proven track record at AGH, would assume the roles of acting Chief Executive Officer and Chief Operating Officer respectively.

AGH's strategic focuses for 2020 are to (i) fully incorporate Grobank into the group's financial services offering to AGH's farming base; re-branding and re-positioning the bank to focus on serving the needs of the agricultural and food processing sectors; (ii) continue to develop and expand AGH's digital platform and product and services offering to create a strong foundation for revenue growth within financial services; (iii) expand its grain storage footprint through AFGRI Grain Silo Company and diversify storage services into a broader commodity pool; and (iv) outside of South Africa, continue to streamline agricultural operations to ensure more efficient capital deployment.

### *Valuation and Consolidated Financial Statement Impact*

*Indirect Equity Interest in AGH*

At December 31, 2019 the company estimated the fair value of its indirect equity interest in AGH using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.1% to 26.9% and a long term growth rate of 2.5% (December 31, 2018 – 11.7% to 26.0% and 3.0% respectively). At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for AGH's business units prepared in the fourth quarter of 2019 (December 31, 2018 – fourth quarter of 2018) by AGH's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which AGH operates. At December 31, 2019 the company's internal valuation model indicated that the fair value of its 46.8% indirect equity interest in AGH, acquired through the company's ownership in Joseph Holdings, was $104,976 (December 31, 2018 – $111,888), comprised of the Class A and common shares of Joseph Holdings. The changes in fair value of the company's indirect equity interest in AGH in 2019 and 2018 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

*AGH Facilities*

In 2019 the company recorded interest income of $1,013 (2018 – $383) related to AGH Facilities within the consolidated statements of earnings and comprehensive income.

### *AGH's Summarized Financial Information*

AGH's fiscal year ends on March 31. Summarized below are AGH's balance sheets at September 30, 2019 and March 31, 2019. The South African rand weakened relative to the U.S. dollar in the first six months of fiscal 2019 compared to the first six months of fiscal 2018 by 8.4%. To avoid the distortion of results caused by foreign currency translation, the tables below present AGH's financial and operating results in both U.S. dollar and South African rand (AGH's functional currency). The discussion which follows refers to those South African rand figures unless indicated otherwise.

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

| | South African rand | | US$ | |
|---|---|---|---|---|
| | September 30, 2019 | March 31, 2019 | September 30, 2019(1) | March 31, 2019(1) |
| Current assets | 7,765,073 | 6,517,477 | 512,207 | 451,976 |
| Non-current assets | 4,070,562 | 3,840,600 | 268,507 | 266,338 |
| Current liabilities | 7,406,028 | 6,062,283 | 488,524 | 420,408 |
| Non-current liabilities | 1,091,389 | 772,893 | 71,991 | 53,599 |
| Shareholders' equity | 3,338,218 | 3,522,901 | 220,199 | 244,307 |

*(1) The net assets of AGH were translated at September 30, 2019 at $1 U.S. dollar = 15.16 South African rand and at March 31, 2019 at $1 U.S. dollar = 14.42 South African rand. The exchange rates used were the spot rates prevailing on those respective dates.*

Current assets increased primarily reflecting an increase in inventories, trade and other receivables, and cash and cash equivalents, partially offset by cash used to fund acquisitions of Sunshine Bakery on April 1, 2019 and additional investments in GroCapital Holdings. Non-current assets increased primarily due to the acquisition of Sunshine Bakery. Current liabilities increased primarily related to increases in trade and other payables as a result of increased purchases of inventory and timing differences between purchases and sales of commodities from farmers and to customers during the South African harvest. Non-current liabilities increased primarily related to recognition of a put option liability related to the non-controlling interest shareholders of Pakworks in Philafrica.

Summarized below are AGH's statements of earnings for the six months ended September 30, 2019 and 2018.

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

| | South African rand | | US$ | |
|---|---|---|---|---|
| | Six months ended September 30, 2019 | Six months ended September 30, 2018 | Six months ended September 30, 2019(1) | Six months ended September 30, 2018(1) |
| Revenue | 7,307,887 | 6,421,197 | 503,645 | 483,160 |
| Earnings (loss) before taxes | (34,053) | 50,225 | (2,347) | 3,779 |
| Net loss | (161,305) | (31,262) | (11,117) | (2,352) |

*(1) Amounts for the six months ended September 30, 2019 and 2018 were translated into US$ using the average exchange rates of $1 U.S. dollar = 14.51 South African rand and $1 U.S. dollar = 13.29 South African rand prevailing during those periods.*

Revenues increased primarily due to the inclusion of revenue from Pakworks and Sunshine Bakery, which were acquired in July 2018 and April 2019 respectively, along with continued strong performance by AFGRI International's equipment business in Australia and increased volumes from Philafrica's animal feed business. Net loss before taxes changed unfavourably from the same period in the prior year with declining profits in AFGRI's South African operations due to difficult market conditions and high operational costs, continued margin pressures as a result of losses from Philafrica's greenfield business, impairments and market pressures on its yellow maize business, and loss on the equity accounted investment in Grobank as the recently-acquired bank continues its strategic repositioning. Net losses increased from the same period in the prior year due to decreases in earnings (loss) before taxes as well as derecognition of deferred tax assets.

## Investment in Philafrica Foods Proprietary Ltd.

### *Business Overview*

Philafrica Food Proprietary Ltd. ("Philafrica") is headquartered in South Africa, where it owns and operates maize mills, wheat mills, animal feed factories, snacking and bread production facilities, and 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). 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 business in Mozambique. Philafrica has 14 production plants across the South African provinces of Gauteng, KwaZulu-Natal, Mpumalanga, Eastern Cape, Western Cape, the Free State and Limpopo.

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

Philafrica's principal lines of business are as follows:

*Cassava Processing*

Philafrica's Cassava Processing business, through its 73% stake in the Dutch Agricultural Development and Trading Company ("DADTCO"), produces a high quality wet starch and dry starch flour derived from cassava. Cassava is a starchy root and the largest produced crop in Africa (on a tonnage measurement), and is mainly grown by smallholder farmers. Philafrica processes cassava into an intermediate product and an end product. The intermediate product, cassava starch cake, is a semi wet cassava paste or wet starch flour. The end product is cassava starch flour, which is a white dry starch flour derived from the cassava root. Both cassava starch cake and cassava starch flour are primarily used in the baking and brewing industries.

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

*Grain Milling*

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

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

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

*Oil and Protein*

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

*Animal Feeds*

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

*Poultry Mozambique*

Philafrica's Poultry Mozambique business, through its 93.8% majority investment in 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 60% stake in Pakworks, a snack manufacturing company, produces dry snacks exclusively for PepsiCo in SSA under the popular *Nik Naks* and *Simba* brand names. Pakworks operates a production facility based in Heilbron in the Free State of South Africa with three main manufacturing platforms: (i) processing, frying and packaging of peanuts; (ii) two hard-extruding lines producing *Nik Naks*; and (iii) a full pellet frying line with the flexibility to process maize as well as potato-based pellets.

*Bread Production*

Philafrica's Bread Production business, through its recent acquisition of 68% of Sunshine Bakery, manufactures and distributes Vitamin D enriched bread under the Sunshine brand. Sunshine Bakery operates a production facility in KwaZulu-Natal employing state-of-the-art bakery equipment manned by a highly trained team.

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

### ***Transaction Description***

*Philafrica Common Shares*

In November 2018 Fairfax Africa converted $23,254 (325 million South African rand) of its previously existing Philafrica secured lending facility into 26,000 common shares of Philafrica with the remainder of the facility fully paid with cash. Upon closing of this transaction the company held a 26.0% equity interest in Philafrica, a third party investor held a 14.0% equity interest and AGH's equity interest decreased from 100.0% to 60.0%. AGH continues to control Philafrica.

At December 31, 2019 the company had appointed two of the nine Philafrica board members.

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

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

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

On April 1, 2019 Philafrica completed its acquisition of Sunshine Bakery, a branded regional manufacturer and distributor of Vitamin D enriched bread under the Sunshine brand with the potential to expand nationally, forms part of its strategic drive to participate meaningfully with branded offerings in the fast moving consumer goods market.

In the fourth quarter of 2019 Philafrica commenced the process of exiting the mussels farming and processing business, with the intention to exit the business in 2020.

In 2020, Philafrica will continue to focus on (i) developing and expanding existing business units by implementing operational improvements and maintaining disciplined procurement practices; (ii) integrating its recent acquisition of Sunshine Bakery; and (iii) improving the performance of its early stage investments including mussels, cassava and poultry businesses.

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

*Philafrica Common Shares*

At December 31, 2019 the company estimated the fair value of its investment in Philafrica using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.8% to 23.0% and a long term growth rate of 2.5% (December 31, 2018 – 13.7% to 24.4% and 3.0%). At December 31, 2019 free cash flow projections were based on EBITDA estimates derived from financial information for Philafrica's business units prepared in the fourth quarter of 2019 (December 31, 2018 – fourth quarter of 2018) by Philafrica's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Philafrica operates. At December 31, 2019 the company's internal valuation model indicated that the fair value of its investment in Philafrica was $19,271 (December 31, 2018 – $23,463) for the 26.0% equity interest. The changes in fair value of the company's equity interest in Philafrica in 2019 and 2018 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

**Investment in GroCapital Holdings Proprietary Limited**

***Business Overview***

GroCapital Holdings Proprietary Limited (''GroCapital Holdings'') is a bank holding company that owns 99.9% of Grobank Limited (''Grobank'', formerly known as the South African Bank of Athens Limited or ''SABA''). Operating as a South African bank since 1947, Grobank is focused on developing and delivering banking services to medium-sized businesses and individuals, specializing in the agri-business value chain and associated industries in the South African market, driven by a unique combination of retail, business and alliance banking and agri-business experience.

Grobank's principal lines of business are as follows:

*Business and Commercial Banking*

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

*Treasury and Global Transaction Services (''GTS'')*

Grobank'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's range of products include spot and forward contracts, foreign currency accounts, letters of credit, collection of foreign currency, cross border payments and exchange control applications.

*Alliance Banking*

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

*Agribusiness Banking*

Grobank's Agribusiness Banking division, expected to be established in the first quarter of 2020, will leverage its financial and agricultural expertise to align with Grobank's strategy to be the leading food and agricultural bank in South Africa.

Additional information can be accessed from Grobank's website www.grobank.co.za.

### ***Transaction Description***

*GroCapital Holdings Common Shares*

In the third and fourth quarters of 2018 Fairfax Africa acquired a 35.0% equity interest in GroCapital Holdings and funded the company's pro rata contribution on capital calls, investing aggregate cash consideration of $12,141 (171.6 million South African rand).

On April 16, 2019 GroCapital Holdings issued a capital call to its shareholders to fund their pro rata contribution, which was invested by GroCapital Holdings into Grobank to support the bank's capital adequacy requirements under South African regulations. On April 23, 2019 Fairfax Africa funded its pro rata contribution of GroCapital Holdings' capital call of $2,288 (32.8 million South African rand) in order to maintain its 35.0% equity interest in GroCapital. Upon closing of this transaction, the company had invested aggregate cash consideration of $14,429 (204.4 million South African rand) in GroCapital Holdings.

At December 31, 2019 the company had appointed one of the nine GroCapital Holdings board members and one of the eleven Grobank board members.

*Capital Commitment*

Pursuant to the terms of GroCapital Holdings' Subscription and Shareholders' Agreement and as required under South African banking regulations, the company is committed to fund its share of additional capital contributions in the event that GroCapital Holdings requires those capital contributions in order to meet capital adequacy requirements imposed by the SARB. At December 31, 2019 and 2018 no capital commitments to GroCapital Holdings (as required by the Subscription and Shareholders' Agreement and South African banking regulations) were recognized within the company's consolidated balance sheets.

*Subsequent to December 31, 2019*

On February 13, 2020 GroCapital Holdings issued a capital call to its shareholders to fund their pro rata contribution to provide capital which will be used to acquire the foreign exchange brokerage business from GroCapital Advisory, a wholly-owned subsidiary of AGH. On February 28, 2020 Fairfax Africa funded its pro rata contribution of GroCapital Holdings' capital call of $3,133 (49.3 million South African rand) in order to maintain its 35.0% equity interest in GroCapital. Upon closing of this transaction, the company had invested aggregate cash consideration of $17,562 (253.7 million South African rand) in GroCapital Holdings.

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

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

In July 2019 Grobank appointed Bennie van Rooy as Chief Executive Officer. He brought extensive experience as Chief Financial Officer and acting Chief Executive Officer of Land Bank.

In 2019 Grobank entered into an agreement to acquire the foreign exchange brokerage business from GroCapital Advisory. The transaction is subject to regulatory approvals and expected to be completed in 2020.

On April 8, 2019 Grobank embarked on a new positioning and strategy to become the leading food and agriculture industry business bank in the South African market. Grobank's key business drivers relate to its ability to grow and penetrate the financial services industry in Africa, particularly through its Business Banking and Alliance Banking lines of businesses. As part of AGH's GroCapital Advisory Services line of business, Grobank intends to grow its customer base in the agricultural industry with a focus on SMEs. Grobank's Alliance Banking creates an opportunity to provide co-branded financial services to Grobank's customers in a strategic partnership with established retailers and FinTech companies.

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

At December 31, 2019 the company estimated the fair value of its investment in GroCapital Holdings by estimating the fair value of GroCapital Holdings' 99.9% investment in Grobank using a discounted cash flow analysis based on multi-year free cash flow projections with an assumed discount rate of 17.3% and a long term growth rate of 2.5%. At December 31, 2019 free cash flow projections were based on pre-tax income estimates derived from financial information prepared in the fourth quarter of 2019 by Grobank's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Grobank operates. At December 31, 2019 the company's internal valuation model indicated that the fair value of the company's investment in GroCapital Holdings was $10,328 for the 35.0% equity interest.

At December 31, 2018 the initial transaction price for the company's investment in GroCapital Holdings was considered to approximate fair value as there were no significant changes to its investment in Grobank's business, capital structure or operating environment and the key assumptions in the company's acquisition valuation model continue to be valid. At December 31, 2018 the fair value of the company's investment in GroCapital Holdings was $11,927.

The changes in fair value of the company's equity interest in GroCapital Holdings in 2019 and 2018 are presented in the table at the outset of the African Investments section of this MD&A.

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

***Business Overview***

The company's investment in CIG is comprised of common shares 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 Limited (Common Shares) earlier in this MD&A.

***Transaction Description***

*CIG Loan*

In May 2018 the company entered into a secured lending arrangement with CIG, pursuant to which the company provided CIG with $23,270 (292.5 million South African rand, plus a 2.5% raising fee for aggregate financing of 300 million South African rand) (the ''CIG Loan''). In August 2018 the conversion features in the CIG Loan were approved, setting the interest at a rate of South African prime plus 2.0% per annum and a maturity date of June 4, 2023.

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

*CIG Loan*

At December 31, 2019 the company estimated the fair value of its investment in the CIG Loan using an industry accepted discounted cash flow and option pricing model that incorporated the security's estimated credit spread of 6.8% (December 31, 2018 – 7.8%) and estimated historical share price volatility of 112.3% (December 31, 2018 – 60.9%). The estimated credit spread was based on a peer group of comparable companies adjusted for credit risk specific to CIG. At December 31, 2019 the company's internal valuation model indicated that the estimated fair value of the CIG Loan was $20,744 (December 31, 2018 – $21,068). The changes in fair value of the CIG Loan in 2019 and 2018 are presented in the tables at the outset of the African Investments section of this MD&A.

In 2019 the company recorded interest income of $2,629 (2018 – $1,630) in interest within the consolidated statements of earnings and comprehensive income related to the CIG Loan.

*CIG Rights Offer (Derivative Obligation)*

At September 30, 2018 the company's obligation to subscribe for 178,995,353 CIG common shares as part of the CIG Rights Offer (refer to the Public African Investments section under the heading Investment in Consolidated Infrastructure Group Limited (Common Shares) earlier in this MD&A) gave rise to a forward derivative liability. On January 4, 2019 upon closing of the CIG Rights Offer the company settled the forward derivative liability with a fair value of $4,839, reducing the net consideration recorded for the shares acquired by the company in the CIG Rights Offer.

In 2019 the company's consolidated statements of earnings and comprehensive income included a net gain on investments of $885 relating to the CIG forward derivative liability which was comprised of: (i) an inception to date realized loss of $4,839 reported in net realized losses on investments; and (ii) a reversal of prior period unrealized losses of $5,724 reported in net change in unrealized gains on investments.

### Investment in the PGR2 Loan (Debt Instrument)

#### *Transaction Description*

In May 2018, in conjunction with the CIG Loan, Fairfax Africa entered into a partially secured lending agreement with PGR2 Investments Proprietary Limited (''PGR2''), the largest shareholder of CIG at the time of the transaction, pursuant to which the company provided PGR2 with $19,969 (260 million South African rand) of financing (the ''PGR2 Loan''). The PGR2 Loan is partially secured by common shares of CIG held by PGR2 and associated parties and bears interest at a rate of 15.0% per annum, payable semi-annually in cash or in kind at PGR2's option, with a maturity date of May 24, 2021.

#### *Valuation and Consolidated Financial Statement Impact*

At December 31, 2019 the company estimated the fair value of its investment in the PGR2 Loan using an industry accepted discounted cash flow and option pricing model that incorporated PGR2's estimated credit spread of 13.7% (December 31, 2018 – 11.9%). The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to PGR2. At December 31, 2019 the company's internal valuation model indicated that the estimated fair value of its investment in the PGR2 Loan was $21,240 (December 31, 2018 – $17,527). The changes in fair value of the PGR2 Loan in 2019 and 2018 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

In 2019 the company recorded interest income of $2,987 (2018 – $1,222) in interest within the consolidated statements of earnings and comprehensive income related to the PGR2 Loan.

### Investment in Atlas Mara Limited (Debt Instruments and Warrants)

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

#### *Transaction Description*

*Atlas Mara 11.0% Convertible Bonds*

In April 2018 Fairfax Africa entered into a placing agreement pursuant to which the company invested $16,000 in Atlas Mara 7.5% convertible bonds (the ''Atlas Mara 7.5% Convertible Bonds'') and then in December 2018 amended the terms of the bonds. The amended bonds bear interest at a rate of 11.0% per annum accrued quarterly and payable in kind (''Atlas Mara 11.0% Convertible Bonds''). On December 10, 2019, pursuant to the terms of the agreement, Atlas Mara extended the maturity of the bonds by an additional year to December 11, 2020, under substantially the same terms, with the exception that Atlas Mara can now repay the principal at any time prior to maturity.

*Atlas Mara 7.5% Bonds plus Warrants*

In July 2018 Fairfax Africa amended the terms of the placing agreement to provide an additional $20,000 in funding to Atlas Mara and then in November 2018 amended the terms for the $20,000 funding which included replacing the conversion feature of the bonds with 6,200,000 Atlas Mara warrants. The bonds bear interest at a rate of 7.5% per annum, with interest payable semi-annually and mature on November 6, 2021 with the option of Atlas Mara to extend the maturity by an additional year to November 6, 2022 (''Atlas Mara 7.5% Bonds''). The Atlas Mara warrants can be exercised by the company at a price of $3.20 per common share of Atlas Mara. In December 2019 the company provided Atlas Mara an extension to March 31, 2020 to pay $900 in interest, due on December 31, 2019. The unpaid amounts will accrue interest at 11%.

### ***Valuation and Consolidated Financial Statement Impact***

*Atlas Mara 11.0% Convertible Bonds*

At December 31, 2019 the company estimated the fair value of its investment in Atlas Mara 11.0% Convertible Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Atlas Mara's estimated credit spread of 10.7% (December 31, 2018 – 10.3%) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the implied spread of a peer group of comparable companies adjusted for credit risk specific to Atlas Mara. At December 31, 2019 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara 11.0% Convertible Bonds was $18,296 (December 31, 2018 – $16,334).

*Atlas Mara 7.5% Bonds plus Warrants*

At December 31, 2019 the company estimated the fair value of its investment in the Atlas Mara 7.5% Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Atlas Mara's estimated credit spread of 10.7% (December 31, 2018 – 10.3%) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Atlas Mara. At December 31, 2019 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara 7.5% Bonds was $18,431 (December 31, 2018 – $17,499).

At December 31, 2019 the company estimated the fair value of its investment in the Atlas Mara warrants using an industry accepted discounted cash flow and option pricing model that incorporated estimated historical share price volatility of 33.3% (December 31, 2018 – 34.5%). At December 31, 2019 the company's internal valuation model indicated that the estimated fair value of its investment in the Atlas Mara warrants was $83 (December 31, 2018 – $1,016).

The changes in fair value of the company's bond and warrant investments in Atlas Mara during 2019 and 2018 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

In 2019 the company recorded interest income of $4,252 (2018 – $2,441) in interest within the consolidated statements of earnings and comprehensive income related to the Atlas Mara Bonds.

## **Investment in Nova Pioneer Education Group**

### ***Business Overview***

Nova Pioneer Education Group (''Nova Pioneer'') is a Pan-African independent school network offering preschool through secondary education for students from ages 3 through 19. Nova Pioneer was started in 2013 with its first school opening in South Africa in 2015. Since then, Nova Pioneer has expanded across South Africa and launched its first campus in Kenya in 2016. Nova Pioneer has grown its operations from ten schools with a combined enrollment of approximately 3,850 students in 2018 to thirteen schools with a combined enrollment of approximately 4,500 students in 2019.

The middle class has rapidly expanded across key regions in Africa. As a result, the demand for affordable, quality private education has grown in excess of available supply. Nova Pioneer is well-positioned to become a leading brand in the African education sector. Average annual tuition per student is approximately $3,460 (2018 – $3,250) and is priced to target emerging middle to upper-middle income families.

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

### ***Transaction Description***

*Nova Pioneer Bonds and Warrants*

In December 2017 and the last six months of 2018 the company invested an aggregate of $27,023 in Ascendant Learning Limited (''Ascendant''), the Mauritius-based parent entity of Nova Pioneer, which consisted of: (i) $26,242 in 20.0% debentures (inclusive of capitalized interest) due on December 31, 2024 (the ''Nova Pioneer Bonds''); and (ii) $781 for 2,477,293 warrants (the ''Nova Pioneer Warrants'') with an exercise price of $2.06 per common share of Ascendant. In the absence of circumstances relating to a change of control or a value realization event, the Nova

Pioneer Warrants may only be exercised after June 30, 2021. At December 31, 2018 the company's remaining investment commitment was $9,227 to invest in Nova Pioneer Bonds and Warrants.

In January, April and June 2019 the company funded its remaining investment commitment of $9,227 comprised of Nova Pioneer Bonds and 922,707 Warrants with aggregate fair values on the dates of investment of $8,721 and $506 relating to the Nova Pioneer Bonds and Warrants respectively. At December 31, 2019 Fairfax Africa had invested an aggregate of $40,149 in Nova Pioneer, comprised of $38,862 in Nova Pioneer Bonds (inclusive of capitalized accrued interest on the principal amount owing) and $1,287 in 3,400,000 Nova Pioneer Warrants.

At December 31, 2019 the company had appointed two of the twelve Nova Pioneer board members.

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

Nova Pioneer's key business drivers relate to its success in meeting its enrollment targets, scaling and expanding its operations across multiple campuses in Kenya and South Africa through efficient sourcing of financing and capital to support the planned expansion, and building its talent pool of teachers and administrators. During 2019 Nova Pioneer has progressed on several property financing initiatives with various institutional investors, and has closed a property joint venture to fund six of its existing schools in South Africa.

In January 2020 Nova Pioneer opened new schools in Eldoret, Kenya and Ruimsig, South Africa and expanded capacity at its existing schools. These initiatives have increased total potential student capacity by approximately 30% from approximately 10,000 to 13,000.

In the near term Nova Pioneer will continue to pursue growth opportunities in Kenya and in South Africa while ensuring each opportunity presents a strong business case.

### *Valuation and Consolidated Financial Statement Impact*

*Nova Pioneer Bonds and Warrants*

At December 31, 2019 the company estimated the fair value of its investment in the Nova Pioneer Bonds using an industry accepted discounted cash flow and option pricing model that incorporated Nova Pioneer's estimated credit spread of 14.6% (December 31, 2018 – 18.5%). The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Ascendant and certain other assumptions related to the options embedded in the Nova Pioneer Bonds. At December 31, 2019 the company's internal valuation model indicated that the fair value of the investment in Nova Pioneer Bonds was $42,093 (December 31, 2018 – $26,023). The changes in fair value of the Nova Pioneer Bonds in 2019 and 2018 are presented in the tables disclosed at the outset of the African Investments section of this MD&A.

In 2019 the company recorded interest income of $7,455 (2018 – $4,772) in interest within the consolidated statements of earnings and comprehensive income related to the Nova Pioneer Bonds.

At December 31, 2019 the company estimated the fair value of its investment in the Nova Pioneer Warrants using an industry accepted discounted cash flow and option pricing model that incorporated an estimated share price of $1.72 (December 31, 2018 – $1.46). At December 31, 2019 the company's internal valuation model indicated that the fair value of the investment in the Nova Pioneer Warrants was $1,458 (December 31, 2018 – $1,001). The changes in fair value of the Nova Pioneer Warrants during 2019 and 2018 are presented in the tables disclosed eat the outset of the African Investments section of this MD&A.

**Results of Operations**

Fairfax Africa's consolidated statements of earnings for the years ended December 31, 2019, 2018 and 2017 are shown in the following table:

| | **2019** | **2018** | **2017** |
|---|---|---|---|
| **Income** | | | |
| Interest | 22,606 | 20,848 | 7,589 |
| Dividends | 2,381 | – | – |
| Net realized gains (losses) on investments | (4,838) | 3,661 | 11,274 |
| Net change in unrealized gains (losses) on investments | (73,223) | (40,690) | 2,362 |
| Net foreign exchange gains (losses) | 6,832 | (25,927) | 10,626 |
| | (46,242) | (42,108) | 31,851 |
| **Expenses** | | | |
| Investment and advisory fees | 6,572 | 6,440 | 3,400 |
| Performance fee (recovery) | – | (319) | 319 |
| General and administration expenses | 3,677 | 4,281 | 2,076 |
| Interest expense | 977 | 3,200 | 2,087 |
| | 11,226 | 13,602 | 7,882 |
| **Earnings (loss) before income taxes** | (57,468) | (55,710) | 23,969 |
| Provision for income taxes | 3,731 | 4,870 | 485 |
| **Net earnings (loss)** | (61,199) | (60,580) | 23,484 |
| **Net earnings (loss) per share (basic and diluted)** | $ (1.01) | $ (1.06) | 0.54 |

Total loss from income of $46,242 in 2019 increased from $42,108 in 2018 principally as a result of increased net change in unrealized losses on investments (primarily related to unrealized losses on the company's investment in Atlas Mara and CIG common shares), partially offset by foreign exchange gains (primarily from the strengthening of the South African rand relative to the U.S. dollar) and increased interest and dividend income.

Net realized losses on investments of $4,838 in 2019 related to the settlement of the CIG forward derivative obligation upon closing of the CIG Rights Offer. Net realized gains on investments of $3,661 in 2018 primarily related to the extinguishment of the Atlas Mara Bonds ($1,878) and the recognition of a forward derivative asset as a result of the company's participation in the AGH rights offer through its investment in Joseph Holdings ($1,803).

The net change in unrealized losses on investments of $73,223 in 2019 was principally comprised of unrealized losses on the company's investments in Atlas Mara common shares ($41,017), CIG common shares ($29,436), Philafrica common shares ($4,841), GroCapital Holdings common shares ($4,285), and indirect equity interest in AGH ($1,239), partially offset by the reversal of the prior year unrealized loss related to the settlement of the CIG forward derivative obligation ($5,724) and Nova Pioneer Bonds ($3,347). Net change in unrealized losses on investments of $40,690 in 2018 was principally comprised of unrealized losses on the company's investment in Atlas Mara common shares ($49,579), a derivative obligation related to the CIG Rights Offer ($5,724), unrealized losses on Other African Investment ($2,100), the PGR2 Loan ($1,545), and the Atlas Mara warrants ($1,308), partially offset by unrealized gains on the company's indirect equity interest in AGH ($18,082).

Net foreign exchange gains of $6,832 in 2019 was primarily a result of the strengthening of the South African rand relative to the U.S. dollar principally related to the company's indirect equity interest in AGH ($2,263), net foreign exchange gains relating to the company's cash and cash equivalents ($2,207), the company's equity interests in Philafrica ($649) and GroCapital Holdings ($398), the PGR2 Loan ($658) and the CIG Loan ($575). The net foreign exchange losses of $25,927 in 2018 were principally a result of the weakening of the South African rand relative to the U.S. dollar principally relating to the company's indirect equity interest in AGH ($16,220), the Philafrica Facility which was repaid on December 24, 2018 ($6,130), the CIG Loan ($2,942) and the PGR2 Loan ($1,924), partially offset by net foreign exchange gains relating to the company's cash and cash equivalents ($1,620) and the AGH facility which matured on January 31, 2018 ($1,166).

Net gains (losses) on investments and net foreign currency gains (losses) in 2019 and 2018 were comprised as follows:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | 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 and notes | 1 | 47 | 48 | (20) | – | (20) |
| Loans | – | (884) | (884) | – | (851) | (851) |
| Bonds | – | 3,714 | 3,714 | 1,878 | (333) | 1,545 |
| Common stocks | – | (80,842) | (80,842) | 1,803 | (32,629) | (30,826) |
| Derivatives | (4,839) | 4,742 | (97) | – | (6,877) | (6,877) |
| | (4,838) | (73,223) | (78,061) | 3,661 | (40,690) | (37,029) |
| **Net foreign exchange gains (losses) on:** | | | | | | |
| Cash and cash equivalents | 2,207 | – | 2,207 | 1,620 | – | 1,620 |
| Loans | (131) | 1,233 | 1,102 | (4,964) | (4,866) | (9,830) |
| Common stocks | – | 3,444 | 3,444 | – | (17,779) | (17,779) |
| Other | – | 79 | 79 | – | 62 | 62 |
| | 2,076 | 4,756 | 6,832 | (3,344) | (22,583) | (25,927) |

Total expenses of $11,226 in 2019 decreased from total expenses of $13,602 in 2018 primarily as a result of decreased interest expense and general and administration expenses, partially offset by increased investment and advisory fees as a result of increased holdings of African Investments.

The investment and advisory fees are calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. In 2019 the company determined a significant portion of its assets were invested in African investments, which are considered deployed capital. In 2019 the investment and advisory fee recorded in the consolidated statements of earnings and comprehensive income was $6,572 (2018 – $6,440).

At December 31, 2019 the company determined that there was no performance fee accrual (December 31, 2018 – nil) as the book value per share of $8.72 (before factoring in the impact of the performance fee) at December 31, 2019 was less than the hurdle per share at that date of $11.55. In 2019 the company did not record a performance fee (2018 – recovery of $319) within the consolidated statements of earnings and comprehensive income.

Interest expense of $977 in 2019 primarily related to the funds drawn from the Credit Facility with a 3-month term that were repaid on March 21, 2019 and amortization of issuance costs. Interest expense of $3,200 in 2018 primarily related to the company's secured term loan with a Canadian bank (the ''Term Loan'') which was repaid on August 29, 2018 and, to a lesser extent, the funds drawn from the company's Credit Facility.

The provision for income taxes of $3,731 in 2019 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's loss before income taxes primarily due to tax rate differential on losses incurred outside of Canada and provision relating to prior years, partially offset by foreign exchange fluctuations. The provision for income taxes of $4,870 in 2018 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's loss before income taxes primarily due to tax rate differential on losses incurred outside of Canada and foreign exchange fluctuations, partially offset by changes in unrecorded tax benefit of losses and temporary differences.

The company reported a net loss of $61,199 (net loss of $1.01 per basic and diluted share) in 2019 compared to net loss of $60,580 (net loss of $1.06 per basic and diluted share) in 2018. The year-over-year decrease in profitability primarily reflected increased net change in unrealized losses on investments and net realized losses on investments in 2019 compared to net realized gains on investments in 2018, partially offset by net foreign exchange gains, increased dividend income, decreased interest expense, increased interest income, and decreased provision for income taxes.

**Consolidated Balance Sheet Summary**

The assets and liabilities reflected on the company's consolidated balance sheet at December 31, 2019 were primarily impacted by the African Investments, repayment of the Credit Facility, and share purchases under the terms of the normal course issuer bid.

### Total Assets

Total assets at December 31, 2019 of $520,667 (December 31, 2018 – $643,830) were principally comprised as follows:

**Total cash and investments, net of derivative obligation** decreased to $510,399 at December 31, 2019 from $634,609 at December 31, 2018. The company's total cash and investments, net of the derivative obligation, by the issuer's country of domicile was as follows:

| | December 31, 2019 | | | | | December 31, 2018 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | South Africa | Sub-Saharan Africa(1) | Canada and U.S. | Other | Total | South Africa | Sub-Saharan Africa(1) | Canada and U.S. | Other | Total |
| Cash and cash equivalents | 23,224 | 11,489 | 9,621 | – | 44,334 | 55,139 | 6,321 | 169,398 | – | 230,858 |
| Restricted cash | – | 7,500 | – | – | 7,500 | – | – | – | – | – |
| Short term investments – U.S. treasury bills and notes | – | – | 104,008 | – | 104,008 | – | – | 38,723 | – | 38,723 |
| Loans: | | | | | | | | | | |
| CIG(2) | 8,084 | 12,192 | – | 468 | 20,744 | 11,151 | 9,768 | – | 149 | 21,068 |
| PGR2 | 21,240 | – | – | – | 21,240 | 17,527 | – | – | – | 17,527 |
| | 29,324 | 12,192 | – | 468 | 41,984 | 28,678 | 9,768 | – | 149 | 38,595 |
| Bonds: | | | | | | | | | | |
| Atlas Mara 11.0% Convertible Bonds(3) | – | 18,296 | – | – | 18,296 | – | 16,334 | – | – | 16,334 |
| Atlas Mara 7.5% Bonds(3) | – | 18,431 | – | – | 18,431 | – | 17,499 | – | – | 17,499 |
| Nova Pioneer Bond(4) | 20,015 | 22,078 | – | – | 42,093 | 13,101 | 12,922 | – | – | 26,023 |
| | 20,015 | 58,805 | – | – | 78,820 | 13,101 | 46,755 | – | – | 59,856 |
| Common stocks: | | | | | | | | | | |
| Atlas Mara(3) | – | 78,075 | – | – | 78,075 | – | 119,092 | – | – | 119,092 |
| CIG(2) | 7,624 | 11,497 | – | 441 | 19,562 | 2,057 | 1,802 | – | 27 | 3,886 |
| Other(5) | – | – | – | – | – | 28 | – | – | – | 28 |
| Indirect equity interest in AGH(6) | 55,246 | 26,011 | – | 23,719 | 104,976 | 71,783 | 18,870 | – | 21,235 | 111,888 |
| Philafrica(7) | 14,328 | 4,943 | – | – | 19,271 | 19,324 | 4,139 | – | – | 23,463 |
| GroCapital Holdings | 10,328 | – | – | – | 10,328 | 11,927 | – | – | – | 11,927 |
| | 87,526 | 120,526 | – | 24,160 | 232,212 | 105,119 | 143,903 | – | 21,262 | 270,284 |
| Derivatives: | | | | | | | | | | |
| Atlas Mara Warrants(3) | – | 83 | – | – | 83 | – | 1,016 | – | – | 1,016 |
| Nova Pioneer Warrants(4) | 693 | 765 | – | – | 1,458 | 504 | 497 | – | – | 1,001 |
| | 693 | 848 | – | – | 1,541 | 504 | 1,513 | – | – | 2,017 |
| Total cash and investments | 160,782 | 211,360 | 113,629 | 24,628 | 510,399 | 202,541 | 208,260 | 208,121 | 21,411 | 640,333 |
| Derivative Obligation(8) | – | – | – | – | – | (3,030) | (2,654) | – | (40) | (5,724) |
| Total cash and investments, net of derivative obligation | 160,782 | 211,360 | 113,629 | 24,628 | 510,399 | 199,511 | 205,606 | 208,121 | 21,371 | 634,609 |

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

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

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

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

(5) *Comprised of common shares of a public company listed on the Johannesburg Stock Exchange. During the first quarter of 2019 the common shares of the public company were de-listed.*

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

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

(8) *Related to the company's obligation to subscribe for 178,995,353 common shares of CIG as part of the CIG Rights Offer, which was settled on January 4, 2019.*

**Cash and cash equivalents** decreased to $44,334 at December 31, 2019 from $230,858 at December 31, 2018 primarily reflecting increased African Investments (CIG and GroCapital Holdings common shares and Nova Pioneer Bonds), net purchases of short-term U.S. treasury bills and notes, repayment of the Credit Facility, purchases for cancellation of 3,315,484 subordinate voting shares (2018 – 108,224) for a net cost of $27,018 (2018 – $981) under the terms of the normal course issuer bids, partially offset by maturity of the AGH Facility and return of capital on the company's indirect equity investment in AGH.

**Restricted cash** increased to $7,500 at December 31, 2019 from nil at December 31, 2018 primarily as a result of amounts placed on deposit for a fixed period of time with African Banking Corporation Zambia Limited (''Atlas Mara Zambia''). See note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2019.

**Short term investments** increased to $104,008 at December 31, 2019 from $38,723 at December 31, 2018 reflecting net purchases of U.S. treasury bills and notes.

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

**Interest receivable** of $5,835 at December 31, 2019 primarily related to interest receivable on the company's investments in Nova Pioneer and Atlas Mara Bonds and the CIG and PGR2 Loans. Interest receivable of $2,472 at December 31, 2018 primarily related to interest receivable on the company's investments in the Nova Pioneer Bonds, and the CIG and PGR2 Loans.

**Deferred income taxes** increased to $1,665 at December 31, 2019 from nil at December 31, 2018 primarily related to share issuance costs that management expects will be realized in the normal course of operations.

**Income tax refundable** increased to $380 at December 31, 2019 from a payable position of $3,263 at December 31, 2018 primarily related to an increase in the income tax payments made during the year, decrease in current taxes recorded in the consolidated statements of earnings and comprehensive income (primarily due to a decrease in taxable net income) and increased amortization of tax benefit on share issuance costs.

### Total Liabilities

Total liabilities at December 31, 2019 of $1,852 (December 31, 2018 – $40,703) were principally comprised as follows:

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

**Payable to related parties** decreased to $1,555 at December 31, 2019 from $1,658 at December 31, 2018 principally as a result of decreased investment and advisory fees payable in the fourth quarter and other amounts due to related parties for expenses incurred by Fairfax and the Portfolio Advisor on behalf of the company. See note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2019.

**Borrowings** decreased to nil at December 31, 2019 from $29,527 at December 31, 2018 as a result of repayment of the Credit Facility.

**Comparison of 2018 to 2017** – Total assets of $669,111 at December 31, 2017 decreased to $643,830 at December 31, 2018 primarily due to the repayment of the Term Loan, net change in unrealized losses on investments and net foreign exchange losses, partially offset by net proceeds from the underwritten public offering of subordinate voting shares completed in June 2018, proceeds from the draw on the Credit Facility in December 2018, and interest income. Refer to note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2019 for details on the African Investments acquired during 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 December 31, 2019 compared to those identified at December 31, 2018, other than as outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2019.

### Capital Resources and Management

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern, and to maintain an optimal capital structure to reduce the cost of capital in order to optimize returns for common shareholders. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital, comprised of common shareholders' equity and any funds drawn on the credit facilities, was $518,815 at December 31, 2019 (December 31, 2018 – $632,654). The decrease was principally related to a net loss of $61,199, repayment of the Credit Facility on March 21, 2019 and purchases for cancellation of 3,315,484 subordinate voting shares (2018 – 108,224) for a net cost of $27,018 (2018 – $981).

On March 21, 2019 the company repaid the $30,000 of the drawn amount of the Credit Facility (which matured on September 7, 2019), along with accrued interest of $509. On December 20, 2019 the company entered into the Second Credit Facility which remains undrawn at December 31, 2019. At December 31, 2019 the company was in compliance with the financial covenant requirement to maintain common shareholders' equity of not less than $450,000 when the Second Credit Facility is drawn. See note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2019 for details.

### Book Value per Share

Common shareholders' equity at December 31, 2019 was $518,815 (December 31, 2018 – $603,127). The company's book value per share at December 31, 2019 was $8.72 compared to $9.60 at December 31, 2018, representing a decrease in 2019 of 9.2%, primarily due to a net loss of $61,199 in 2019 (principally related to net change in unrealized losses on investments and net realized losses on investments, investment and advisory fees, income taxes, general and administration expenses and interest expense, partially offset by interest and dividend income and net foreign exchange gains on investments denominated in South African rand). The company purchased for cancellation 3,315,484 subordinate voting shares under the terms of the normal course issuer bids for a net cost of $27,018 (2018 – $981) and $7,390 was recorded as a benefit in retained earnings (2018 – $143), which increased book value per share.

The table below presents the book value per share from the company's IPO date of February 17, 2017 to December 31, 2019, and the annual growth (decline) and the compound annual decline in book value per share since IPO. The performance fee, if any, is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 in accordance with the Investment Advisory Agreement (defined in the Related Party Transactions section later in this

MD&A) and for each consecutive three-year period thereafter. At December 31, 2019 the company determined that there was no performance fee accrual (December 31, 2018 – nil).

| | Book value per share | Annual growth (decline) in book value per share |
|---|---|---|
| February 17, 2017[1] | $10.00 | – |
| December 31, 2017 | $10.21 | 2.1% |
| December 31, 2018 | $ 9.60 | (6.0)% |
| December 31, 2019 | $ 8.72 | (9.2)% |
| Compound annual decline in book value per share[2] | | (4.7)% |

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

*(2) The company's book value per share, before and after performance fee, of $8.72 at December 31, 2019 represented a compound annual decline rate from the initial public offering price of $10.00 per share of 4.7%.*

Fairfax Africa's compound annual decline in book value per share to $8.72 at December 31, 2019 diverged slightly from the improvement of the broader African macroeconomic environment, which recovered particularly in the first half of 2019 from political and economic uncertainty which had led to significant sell-off of equities in the market experienced in the second half of 2018. Fairfax Africa's book value per share of $8.72 at December 31, 2019 represented a compound annual decline during that period of 4.7% from the initial public offering price of $10.00 per share, underperforming the compound annual growth of the MSCI Emerging Frontier Markets Africa Index of 0.1% during the same period.

During 2019 the total number of shares effectively outstanding decreased as a result of the purchases for cancellation of 3,315,484 subordinate voting shares under the terms of the normal course issuer bids. At December 31, 2019 there were 59,496,481 common shares effectively outstanding.

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

| Date | Number of subordinate voting shares | Number of multiple voting shares[1] | Total number of shares | Average issue / purchase price per share | Net proceeds (purchase cost) |
|---|---|---|---|---|---|
| 2016 – issuance of shares | – | 1 | 1 | $10.00 | – |
| 2017 – issuance of shares | 20,620,189 | 29,999,999 | 50,620,188 | $ 9.75 | 493,326 |
| 2018 – issuance of shares | 12,300,000 | – | 12,300,000 | $12.06 | 148,316 |
| 2018 – purchase of shares | (108,224) | – | (108,224) | $ 9.06 | (981) |
| | 32,811,965 | 30,000,000 | 62,811,965 | | |
| 2019 – purchase of shares | (3,315,484) | – | (3,315,484) | $ 8.15 | (27,018) |
| | 29,496,481 | 30,000,000 | 59,496,481 | | |

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

On July 3, 2018 the company announced that the TSX had accepted its intention to commence a normal course issuer bid to purchase up to 2,536,996 subordinate voting shares, representing approximately 10% of the public float of its subordinate voting shares, over a twelve month period from July 6, 2018 to July 5, 2019. On June 28, 2019 the company announced that the TSX had accepted its intention to commence a normal course issuer bid to purchase up to 2,324,723 subordinate voting shares, representing approximately 10% of the public float of its subordinate voting shares, over a twelve month period from July 8, 2019 to July 7, 2020. 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.

During 2019, under the terms of the normal course issuer bid, the company purchased for cancellation 3,315,484 subordinate voting shares (2018 – 108,224) for a net cost of $27,018 (2018 – $981) and $7,390 was recorded as a benefit in retained earnings (2018 – $143).

**Liquidity**

The undeployed cash and investments at December 31, 2019 provides adequate liquidity to meet the company's known significant commitments in 2020, which are principally comprised of investment and advisory fees and general and administration expenses. On March 21, 2019 the company repaid the $30,000 of the drawn amount of the Credit Facility (which matured on September 7, 2019), along with accrued interest of $509. On December 20, 2019 the company entered into the Second Credit Facility (see note 7), which remains undrawn at December 31, 2019. 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 2019 (with comparisons to 2018) of major components of the statements of cash flows are presented in the following table:

| | **2019** | **2018** |
|---|---|---|
| **Operating activities** | | |
| Cash used in operating activities before the undernoted | (6,931) | (1,842) |
| Net purchases of short term investments | (64,016) | (3,613) |
| Purchases of investments | (74,141) | (155,950) |
| Disposals of investments | 20,875 | 37,986 |
| Decrease (increase) in restricted cash in support of investments | (7,500) | 162,519 |
| **Financing activities** | | |
| Net proceeds from the Credit Facility | – | 29,310 |
| Repayment of the Term Loan | – | (150,000) |
| Repayment of the Credit Facility | (30,000) | – |
| Decrease in restricted cash in support of Term Loan | – | 150,481 |
| Issuance of subordinate voting shares, net of issuance costs | – | 148,316 |
| Purchase of subordinate voting shares | (27,018) | (981) |
| **Increase (decrease) in cash and cash equivalents during the year** | (188,731) | 216,226 |

Cash used in operating activities before the undernoted is comprised of net earnings (loss) adjusted for items not affecting cash and cash equivalents and changes in operating assets and liabilities. Cash used in operating activities before the undernoted of $6,931 in 2019 increased from $1,842 in 2018 primarily due to a decrease in cash interest received and increased income taxes paid, partially offset by lower interest paid on borrowings and dividends received.

Net purchases of short term investments of $64,016 in 2019 and $3,613 in 2018 related to net purchases of U.S. treasury bills and notes. Purchases of investments of $74,141 in 2019 primarily related to the company's investments in the CIG common shares acquired through the CIG Rights Offer, AGH Facility, Nova Pioneer Bonds and Warrants and additional investment in GroCapital Holdings common shares. Purchases of investments of $155,950 in 2018 primarily related to the company's investments in the Philafrica Facility, Atlas Mara and Nova Pioneer Bonds, and the CIG and PGR2 Loans, additional investment in the company's indirect equity interest in AGH (primarily related to the participation in the AGH rights offer through its ownership in Joseph Holdings), and an investment in GroCapital Holdings. Disposals of investments of $20,875 in 2019 primarily related to the proceeds received on the maturity of the AGH Facility on July 19, 2019 and partial redemption of Class A shares of Joseph Holdings. Disposals of investments of $37,986 in 2018 related to the proceeds received on the maturity of the AGH Facility (January 31, 2018) and the Philafrica Facility (cash proceeds received on December 24, 2018 that were not converted into common shares of Philafrica).

Increase in restricted cash in support of investments of $7,500 in 2019 reflected a fixed deposit with Atlas Mara Zambia. Refer to the Related Party Transactions section of this MD&A that follows for additional details. Decrease in restricted cash in support of investments of $162,519 in 2018 reflected the release of cash collateral from restricted cash related to the termination of the company's non-revolving letter of credit facility. Decrease in restricted cash in support of Term Loan of $150,481 and repayment of the Term Loan of $150,000 in 2018 related to the proceeds from the cash collateral, including interest received, which was released from restricted cash and used to fully repay the Term Loan.

Repayment of the Credit Facility of $30,000 in 2019 related to the repayment upon maturity on March 21, 2019 of the net proceeds from the Credit Facility of $29,310, which was drawn in 2018.

Issuance of subordinate voting shares, net of issuance costs, of $148,316 in 2018 related to the net proceeds received from the secondary offering. Issuance costs of $2,359 relating to the secondary offering were primarily comprised of fees paid to underwriters of the subordinate voting shares.

Purchase of subordinate voting shares of $27,018 in 2019 related to the cash paid for the company's purchases for cancellation of 3,315,484 subordinate voting shares under the terms of the normal course issuer bids that were settled in the year. Purchase of subordinate voting shares of $981 in 2018 related to the cash paid for the company's purchases for cancellation of 108,224 subordinate voting shares under the terms of the normal course issuer bids that were settled in the year. Refer to note 8 (Common Shareholders' Equity) to the consolidated financial statements for the year ended December 31, 2019 for additional details.

### Contractual Obligations

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

The investment and advisory fees recorded in the consolidated statements of earnings and comprehensive income in 2019 was $6,572 (2018 – $6,440).

At December 31, 2019 the company determined that there was no performance fee accrual (December 31, 2018 – nil) as the book value per share of $8.72 (before factoring in the impact of the performance fee) at December 31, 2019 was less than the hurdle per share at that date of $11.55. In 2019 the company did not record a performance fee (2018 – recovery of $319) within the consolidated statements of earnings and comprehensive income. Refer to the Related Party Transactions section of this MD&A that follows for discussion on the performance fee.

## Related Party Transactions

*Investment Advisory Agreement*

The company and its subsidiaries have entered into an agreement with Fairfax and the Portfolio Advisor to provide administration and investment advisory services to the company (the ''Investment Advisory Agreement''). As compensation for the provision of these services, the company pays an investment and advisory fee, and if applicable, a performance fee. Such fees are determined with reference to the company's common shareholders' equity.

*Performance Fee*

The performance fee, if applicable, is accrued quarterly and is calculated, on a cumulative basis, as 20% of any increase (including distributions) in book value per share above a 5.0% per annum increase. On any date, book value per share is calculated as common shareholders' equity at the end of the reporting period, divided by the total number of common shares of the company effectively outstanding on that date. The amount of book value 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''.

*First Calculation Period*

The period from February 17, 2017 to December 31, 2019 (the ''first calculation period'') was the first period for which a performance fee was calculated. At December 31, 2019 the company determined that there was no performance fee accrual (December 31, 2018 – nil) as the book value per share of $8.72 (before factoring in the impact of the performance fee) at December 31, 2019 was less than the hurdle per share at that date of $11.55. At

December 31, 2019 there were no contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax (December 31, 2018 – nil). In 2019 the company did not record a performance fee (2018 – recovery of $319) within the consolidated statements of earnings and comprehensive income.

*Second Calculation Period*

The period from January 1, 2020 to December 31, 2022 (the ''second calculation period'') will be the next consecutive three-year period after December 31, 2019 for which a performance fee, if applicable, will be accrued. The calculation of the performance fee will be calculated on a cumulative basis, as 20% of any increase (including distributions) in book value per share above a 5% per annum increase. Under the Investment Advisory Agreement, the performance fee, if applicable, will be paid within 30 days after the company issues its annual audited consolidated financial statements for the year ended December 31, 2022, in subordinate voting shares of the company unless the market prices per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash. The number of subordinate voting shares to be issued will be calculated based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the second calculation period.

*Investment and Advisory Fees*

The investment and advisory fees are calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. In 2019 the company determined a significant portion of its assets were invested in African investments, which are considered deployed capital. In 2019 the investment and advisory fee recorded in the consolidated statements of earnings and comprehensive income was $6,572 (2018 – $6,440).

*Fairfax's Voting Rights and Equity Interest*

At December 31, 2019 Fairfax, through its subsidiaries, owned 30,000,000 multiple voting shares and 6,885,421 subordinate voting shares (December 31, 2018 – 30,000,000 and 6,885,421 respectively) of Fairfax Africa.

At December 31, 2019 Fairfax's holdings of multiple and subordinate voting shares represented 98.5% of the voting rights and 62.0% of the equity interest in Fairfax Africa (December 31, 2018 – 98.3% and 58.7%).

***Other***

*Partial Redemption of Indirect Investment in AGH*

On December 13, 2019 Joseph Holdings redeemed and canceled 10,769,231of its Class A shares on a pro rata basis at a price of $1.30 per share. The company received $10,317 on the redemption of 7,936,284 of its Class A shares of Joseph Holdings and as a result has recorded a return of capital of $7,936 and dividend income of $2,381 within the consolidated statements of earnings and comprehensive income. The redemption principally reflected a November 2019 distribution from AGH of the proceeds received on the contribution of its grain storage assets to a strategic infrastructure platform during the first quarter of 2019.

*Atlas Mara Zambia Fixed Deposit*

On December 13, 2019 the company entered into a fixed deposit agreement with Atlas Mara Zambia whereby the company agreed to place up to $15,000 with Atlas Mara Zambia as a fixed deposit, bearing interest at a rate of LIBOR plus 400 basis points and maturing no later than six months from the date of initial deposit. The fixed deposit will be used to fund a potential African Investment that is subject to finalization. On December 19, 2019 the company funded $7,500 as a fixed deposit with Atlas Mara Zambia, which was recorded in restricted cash within the consolidated balance sheet.

Subsequent to December 31, 2019 the company funded an additional $4,892, for an aggregate fixed deposit of $12,392, and received Government of Zambia Eurobonds from Atlas Mara Zambia with a fair value of $16,296 (at the date of the second deposit) as collateral for the benefit of the company.

*Guarantor for Atlas Mara Loan from TLG Capital*

On December 31, 2019 the company agreed to guarantee up to $20,000 in principal on a facility provided to Atlas Mara by TLG Credit Opportunities Fund (the ''TLG Facility''). Atlas Mara requires the company's consent in order to draw more than $10,000 on the TLG Facility. The TLG Facility will be available until January 31, 2021 with the option for Atlas Mara to extend by an additional year. As consideration for providing the guarantee, the company will earn a fee of 1.1% per annum on the drawn amount of the TLG Facility, which is to be secured by Atlas Mara's shares in African Banking Corporation Botswana Limited. This contract is a financial guarantee contract with a fair value of nil at December 31, 2019 as the TLG Facility was undrawn at December 31, 2019.

Subsequent to December 31, 2019 Atlas Mara has drawn $5,000 on the TLG Facility.

*Deposits on Account with Grobank*

At December 31, 2019 the company held $13,298 (December 31, 2018 – $55,032) in deposit accounts with Grobank.

For additional details on the company's related party transactions, see note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2019.

## Accounting and Disclosure Matters

### Management's Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the company's management, including the company's CEO and CFO, the company conducted an evaluation of the effectiveness of its disclosure controls and procedures as of December 31, 2019, as required by the Canadian securities legislation. Disclosure controls and procedures are designed to ensure that the information required to be disclosed by the company in the reports it files or submits under securities legislation is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and reported to management, including the company's CEO and CFO, as appropriate, to allow required disclosures to be made in a timely fashion. Based on their evaluation, the CEO and CFO have concluded that as of December 31, 2019, the company's disclosure controls and procedures were effective.

### Management's Report on Internal Control Over Financial Reporting

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

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

The company's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2019. In making this assessment, the company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (''COSO'') in *Internal Control – Integrated Framework (2013)*. Based on this assessment the company's management, including the CEO and CFO, concluded that, as of December 31, 2019, the company's internal control over financial reporting was effective based on the criteria in *Internal Control – Integrated Framework (2013)* issued by COSO.

### Critical Accounting Estimates and Judgments

Please refer to note 4 (Critical Accounting Estimates and Judgments) to the consolidated financial statements for the year ended December 31, 2019.

### Significant Accounting Policy Changes

There were no significant accounting policy changes during 2019. Please refer to note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2019 for a detailed discussion of the company's accounting policies.

### Future Accounting Changes

Certain new IFRS may have a significant impact on the company's consolidated financial reporting in the future. Each of those standards will require a moderate degree of implementation effort. The company does not expect to adopt any of these new standards in advance of their respective effective dates. New standards and amendments that have been issued but are not yet effective are described in note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2019.

## Risk Management

### Overview

The primary goals of the company's financial risk management program are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheets from events that have the potential to materially impair its financial strength. There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at December 31, 2019 compared to those identified at December 31, 2018, other than as outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2019.

### Risks

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

#### *Geographic Concentration of Investments*

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

#### *Financial Market Fluctuations*

The company invests in both private businesses and publicly traded businesses. With respect to publicly traded businesses, including the company's investments in Atlas Mara and CIG as disclosed in note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2019, fluctuations in the market prices of such securities may negatively affect the value of such investments. In addition, general instability in the public debt market and other securities markets may impede the ability of businesses to refinance their debt through selling new securities, thereby limiting the company's investment options with regard to a particular portfolio investment.

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

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

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

***Pace of Completing Investments***

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

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

***Minority Investments***

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

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

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

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

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

***Operating and Financial Risks of African Investments***

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

***Valuation Methodologies Involve Subjective Judgments***

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

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

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

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

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

### *Lawsuits*

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

### *Use of Leverage*

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

### *Foreign Currency Fluctuation*

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

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

In pursuing the company's investment strategy, the company may seek to make one or more investments in privately-held African businesses as disclosed in note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2019. As minimal public information exists about private African businesses, the company could be required to make investment decisions on whether to pursue a potential investment in a private business on the basis of limited information, which may result in an investment in a business that is not as profitable as the company initially suspected, if at all.

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

- have reduced access to the capital markets, resulting in diminished capital resources and ability to withstand financial distress;
- may have limited financial resources and may be unable to meet their obligations under their debt securities that the company may hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of the company realizing any guarantees that it may have obtained in connection with its investment;

- may have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and changing market conditions, as well as general economic downturns;
- are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on a portfolio investment and, as a result, the company; and
- generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position.

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

As of March 6, 2020, Fairfax and its affiliates hold a 98.5% and 62.0% voting and equity interest, respectively, in the company through ownership of all of the 30,000,000 issued and outstanding multiple voting shares and 6,885,421 subordinate voting shares.

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

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

***Emerging Markets***

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

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

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

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

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

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

Other heightened risks associated with emerging markets investments include without limitation: (i) risks due to less social, political and economic stability, including the risk of war, terrorism, nationalization, limitations on the removal of funds or other assets, or diplomatic developments that affect investments in these countries; (ii) the smaller size of the market for such securities and a lower volume of trading, resulting in a lack of liquidity and in price volatility; (iii) certain national policies which may restrict the company's investment opportunities, including restrictions on investing in issuers or industries deemed sensitive to relevant national interests and requirements that government approval be obtained prior to investment by foreign persons; (iv) certain national policies that may restrict the company's repatriation of investment income, capital or the proceeds of sales of securities, including temporary restrictions on foreign capital remittances; (v) the lack of uniform accounting and auditing standards and/or standards that may be significantly different from the standards required in Canada; (vi) less publicly available financial and other information regarding issuers; (vii) potential difficulties in enforcing contractual obligations; (viii) higher rates of inflation, higher interest rates and other economic concerns; and (ix) less development and/or obsolescence in banking systems and practices, postal systems, communications and information technology and transportation networks. The company may invest to a substantial extent in emerging market securities that are denominated in currencies other than the United States dollar, subjecting the company to a greater degree of foreign currency risk. Also, investing in emerging market countries may entail purchases of securities of issuers that are insolvent, bankrupt or otherwise of questionable ability to satisfy their payment obligations as they become due, subjecting the company to a greater amount of credit risk and/or high yield risk.

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

### *South African Black Economic Empowerment*

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

### *Economic Risk*

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

### *Weather Risk*

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

### *Taxation Risks*

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

*Tax Laws in Mauritius and South Africa*

In February 2013 the South African Minister of Finance, when tabling the 2013/14 Budget, announced that the South African Government will initiate a tax review ''to assess our tax policy framework and its role in supporting the objectives of inclusive growth, employment, development and fiscal sustainability''. The committee set up to conduct the review is known as The Davis Tax Committee (''DTC''). The terms of reference of the DTC (the ''Terms of Reference'') are to inquire into the role of the tax system in the promotion of inclusive economic growth, employment creation, development and fiscal sustainability. Aspects that are to receive specific attention from the DTC include a review of the corporate tax system, whether the current mining tax regime is appropriate and the efficiency and effectiveness of the VAT system (sub committees have been set up to deal with specific items in the terms of reference). The DTC will make recommendations to the Minister of Finance and any tax proposals arising from these recommendations will be announced as part of the usual budget and legislative processes. In April 2018 the DTC announced its conclusion based on the Terms of Reference. It is important to note that in the Terms of Reference, ''the Committee is advisory in nature, and will make recommendations to the Minister of Finance. The Minister will take into account the report and recommendations and will make any appropriate announcements as part of the normal budget and legislative processes. As with all tax policy proposals, these will be subject to the normal consultative processes and Parliamentary oversight once announced by the Minister.'' During the 2020 National Budget Speech, the Minister confirmed that the DTC had been re-established to focus on combatting tax leakages, customs fraud and trade mispricing. Accordingly, it is possible that SA Sub and its investments in South Africa could become subject to taxation outlined in the reports that is not currently anticipated, or it may become subject to a higher rate of taxation, which could have a materially adverse effect on its business, financial condition and results of operations in South Africa.

*Changes in Law*

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

***MLI***

It is possible that changes in applicable tax treaties in connection with Base Erosion and Profit Shifting ("BEPS") could result in a loss of benefits or taxation that is not currently anticipated. Under a mandate given by G20 nations to address global tax avoidance, in 2015, the Organization for Economic Co-operation and Development ("OECD") developed 15 action plans aimed at tackling BEPS strategies. Action Plan 15 of the BEPS project envisaged a multilateral instrument ("MLI") for modifying the global tax treaty network in a timely and synchronized manner. Mauritius and Canada (along with 92 other jurisdictions as of February 28, 2020) are signatories to the MLI, and deposited their instruments of ratification with the OECD in 2019. South Africa is also a signatory to the MLI, but has not yet deposited its instrument of ratification with the OECD.

***Trading Price of Subordinate Voting Shares Relative to Book Value per Share***

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

**Other**

**Quarterly Data** (unaudited)

*Years ended December 31*

| *US$ thousands, except per share amounts* | **First Quarter** | **Second Quarter** | **Third Quarter** | **Fourth Quarter** | **Full Year** |
|---|---|---|---|---|---|
| **2019** | | | | | |
| Income (loss) | (18,117) | (10,767) | (28,689) | 11,331 | (46,242) |
| Expenses | 3,639 | 2,432 | 2,408 | 2,747 | 11,226 |
| Provision for (recovery of) income taxes | (276) | 3,030 | 1,159 | (182) | 3,731 |
| Net earnings (loss) | (21,480) | (16,229) | (32,256) | 8,766 | (61,199) |
| Net earnings (loss) per share (basic) | $ (0.35) | $ (0.27) | $ (0.54) | $ 0.15 | $ (1.01) |
| Net earnings (loss) per share (diluted) | $ (0.35) | $ (0.27) | $ (0.54) | $ 0.15 | $ (1.01) |
| **2018** | | | | | |
| Income (loss) | 53,916 | (46,823) | (8,165) | (41,036) | (42,108) |
| Expenses (recovery) | 12,735 | (5,327) | 3,392 | 2,802 | 13,602 |
| Provision for income taxes | 331 | 337 | 470 | 3,732 | 4,870 |
| Net earnings (loss) | 40,850 | (41,833) | (12,027) | (47,570) | (60,580) |
| Net earnings (loss) per share (basic) | $ 0.81 | $ (0.80) | $ (0.19) | $ (0.76) | $ (1.06) |
| Net earnings (loss) per share (diluted) | $ 0.80 | $ (0.80) | $ (0.19) | $ (0.76) | $ (1.06) |

Income (loss) is composed of net change in unrealized gains (losses) on investments, net foreign exchange gains (losses), net realized gains (losses) on investments, interest income, and dividend income. Net earnings in the fourth quarter of 2019 were primarily due to net foreign exchange gains, partially offset by net change in unrealized losses primarily on the company's investments in Atlas Mara common shares and CIG common shares. Net losses in 2019 were primarily due to net change in unrealized losses primarily on the company's investments in Atlas Mara common shares and CIG common shares, partially offset by foreign exchange gains (primarily from the strengthening of the South African rand relative to the U.S. dollar), increased interest and dividend income and decreased interest expense and general and administration expenses.

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

### Stock Prices and Share Information

At March 6, 2020 the company had 29,496,481 subordinate voting shares and 30,000,000 multiple voting shares outstanding (an aggregate of 59,496,481 common shares effectively outstanding). Each subordinate voting share carries one vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax Africa's subordinate voting shares trade on the TSX under the symbol FAH.U. Each multiple voting share carries fifty votes per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Fairfax, through its subsidiaries, owns all the issued and outstanding multiple voting shares, which are not publicly traded.

The table that follows presents the TSX high, low and closing U.S. dollar prices of the subordinate voting shares of Fairfax Africa, trading under the symbol FAH.U, for each quarter of 2019 and 2018.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| | | *(US$)* | | |
| **2019** | | | | |
| High | 9.88 | 9.58 | 8.23 | 6.87 |
| Low | 7.74 | 7.63 | 6.59 | 5.70 |
| Close | 8.36 | 7.86 | 6.71 | 5.91 |
| **2018** | | | | |
| High | 15.75 | 13.10 | 11.99 | 11.59 |
| Low | 12.90 | 11.00 | 11.02 | 7.25 |
| Close | 13.16 | 11.39 | 11.50 | 8.11 |

### Compliance with Corporate Governance Rules

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

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

### Forward-Looking Statements

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

Forward-looking statements are based on our opinions and estimates as of the date of this annual report and they are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements, including but not limited to the following factors that are described in greater detail elsewhere in this annual report: geographic concentration of investments; financial market fluctuations; pace of completing investments; minority investments; reliance on key personnel and risks associated with the Investment Advisory Agreement; operating and financial risks of African investments; valuation methodologies involve subjective judgments; lawsuits; use of leverage; foreign currency fluctuation; investments may be made in foreign private businesses where information is unreliable or unavailable; significant ownership by Fairfax may adversely affect the market price of the subordinate voting shares; emerging markets; South African black economic empowerment; economic risk; weather risk; taxation risks; MLI; and trading price of subordinate voting shares relative to book value per share. Additional risks and uncertainties are described in the company's annual information form which is available on SEDAR at www.sedar.com and on the company's website at www.fairfaxafrica.ca. These factors and assumptions are not intended to represent a complete list of the factors and assumptions that could affect the company. These factors and assumptions, however, should be considered carefully.

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

**Directors of the Company**

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

Christopher D. Hodgson
*President*
*Ontario Mining Association*

Lieutenant-General (ret.) Roméo Dallaire
*Founder of the Roméo Dallaire Child Soldiers Initiative*

Quinn McLean
*Managing Director, Middle East and Africa*
*Hamblin Watsa Investment Counsel*

Ndidi Okonkwo Nwuneli
*Managing Partner*
*Sahel Consulting Agriculture and Nutrition Ltd.*

Richard Okello
*Co-Founder and Partner*
*Sango Capital Management*

Paul C. Rivett
*Vice Chairman of the company*

V. Prem Watsa
*Chairman of the company*

Michael Wilkerson
*Chief Executive Officer of the company*

**Operating Management**

**Fairfax Africa Investments Proprietary Limited**

**Fairfax Africa Holdings Investments Limited**

Dylan Buttrick
*Managing Director, South Africa and Mauritius*

**Officers of the Company**

Jennifer Allen
*Vice President (as of Aug. 2019)*

Keir Hunt
*General Counsel and Corporate Secretary*

Paul C. Rivett
*Vice Chairman*

Amy Sherk
*Chief Financial Officer (as of Aug. 2019)*

V. Prem Watsa
*Chairman*

Michael Wilkerson
*Chief Executive Officer*

**Head Office**

95 Wellington Street West
Suite 800
Toronto, Ontario, Canada M5J 2N7
Telephone: (416) 646-4180
Website: www.fairfaxafrica.ca

**Auditor**

PricewaterhouseCoopers LLP

**Transfer Agent and Registrar**

Computershare Trust Company of Canada, Toronto

**Share Listing**

Toronto Stock Exchange
Stock Symbol: FAH.U

**Annual Meeting**

The annual meeting of the shareholders of Fairfax Africa Holdings Corporation will be held on Wednesday, April 15, 2020 at 2:30 p.m. (Toronto time) at Fairmont Royal York Hotel 100 Front Street West, Toronto, ON, Canada M5J 1E3