FAIRFAX AFRICA
HOLDINGS CORPORATION

2017 Annual Report

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FAIRFAX AFRICA
HOLDINGS CORPORATION

2017 Annual Report

Fairfax Africa Corporate Performance

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

On February 17, 2017 Fairfax Africa Holdings Corporation subordinate voting shares began trading on the Toronto Stock Exchange under the symbol FAH.U.

	December 31, 2017
Book value per share	10.21
Closing share price[1]	14.16
Income	31,851
Net earnings	23,484
Total assets	669,111
Investments	339,052
Common shareholders' equity	516,736
Shares outstanding[2]	50,620,189
Net earnings per share	0.54

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

(2) *At December 31, 2017 includes 20,620,189 subordinate voting shares and 30,000,000 multiple voting shares.*

Corporate Profile

Fairfax Africa Holdings Corporation is an investment holding company whose investment objective is to achieve long-term capital appreciation, while preserving capital, by investing in public and private equity securities and debt instruments in Africa and African businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, Africa (''African Investments'').

African Investments

Atlas Mara Limited (''Atlas Mara'') is a publicly traded, Sub-Saharan African financial services group listed on the London Stock Exchange under the stock 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 a significant stake in banking operations spread across seven key Sub-Saharan African countries: Botswana, Mozambique, Nigeria, Rwanda, Tanzania, Zambia and Zimbabwe. Additional information can be accessed from Atlas Mara's website www.atlasmara.com.

AFGRI Holdings Proprietary Limited (''AFGRI'') is a private, leading agricultural services and food processing company in South Africa with a core focus on grain commodities. AFGRI provides services across the entire grain production and storage cycle, offering financial support and solutions as well as inputs and high-tech equipment through the John Deere brand supported by a large retail footprint. Additional information can be accessed from AFGRI's website https://www.afgri.co.za.

Nova Pioneer Education Group (''Nova Pioneer'') is a private, independent school network with campuses in South Africa and Kenya, which offers preschool through secondary education for students from ages 3 through 19. Additional information can be accessed from Nova Pioneer's website www.novapioneer.com.

To Our Shareholders:

We're sincerely grateful to you for your support as we conclude Fairfax Africa's inaugural year.

Fairfax Financial launched Fairfax Africa in February 2017 with the successful completion of an initial public offering on the Toronto Stock Exchange. We set out with a market capitalization of over $506 million and approximately $418 million of investable cash after our initial investment in AFGRI, further described below. Under the IPO 5,622,000 subordinate voting shares were issued to the public. Concurrent with the IPO, cornerstone investors purchased 14,378,000 subordinate voting shares and Fairfax Financial purchased 22,715,394 multiple voting shares, each done on a private placement basis. Also, concurrent with the IPO, Fairfax Financial contributed to Fairfax Africa its indirect interest in AFGRI resulting in an aggregate investment by Fairfax Financial in Fairfax Africa of $300 million in multiple voting shares.

Fairfax Africa is focused on conservative, value-oriented investing in Africa. Our objective is to achieve long-term capital appreciation by investing in high-quality African businesses backed by strong management teams. We've set forth below information regarding our background and purpose to highlight our investment results and approach, discuss our African investment thesis, and outline the investments made during 2017.

We are pleased with the progress made to date by Fairfax Africa. In the ten months since our IPO we made six investments, and by year-end had deployed (or committed to deploy) $279 million (approximately 57%) of our net IPO proceeds. Our subordinate voting shares closed at $14.16 on the last trading day of 2017, a 41.6% increase from the IPO price of $10. Our book value per share has increased from $9.75 immediately following the IPO to $10.21 at December 31, 2017. For 2017 we had net earnings of $23.5 million ($0.54 per basic share), primarily derived from fee income, interest income on our investment portfolio and gains on our investments.

Fairfax Africa benefits from several competitive advantages in the African investment landscape. Our long-term view distinguishes us from most competitors. Unlike Africa-focused private equity funds, our primary competition for investment opportunities, Fairfax Africa is a permanent capital vehicle focused on the long-run. The stability inherent in our structure and our long-term investment thesis appeal to management teams who share our approach, and open investment opportunities which would otherwise not be available. Additionally, Fairfax Africa's collaborative, decentralized, and management-friendly approach, which empowers management to be responsible for running their businesses, tends to attract and retain highly-aligned strategic partners who share our long-term investment horizon and our commitment to making an attractive return for our shareholders, while contributing to and supporting the communities in which we invest. Finally, we enjoy the strong support of Fairfax Financial, and are able to benefit from its global network of relationships, investment expertise and the practical know-how of its operating companies in relevant industries around the world, including financial services, food and agriculture and power generation.

We continue to pursue a robust pipeline of investment opportunities in Africa with significant long-term value creation potential in our sectors of focus, including energy, food and agriculture, financial services, and infrastructure, where investments in high quality companies backed by strong management can be obtained at attractive valuations. We look for opportunities in which the operating companies maintain a strong competitive position in their industry, and where there is alignment between the management team and Fairfax's values. We will always employ a conservative, fundamental value-based approach to identifying and investing in high quality African businesses, and we follow Fairfax Financial's proven fair and friendly approach that has undergirded its investment track record for more than three decades. We seek established companies led by experienced management teams with proven track records, which operate with the highest standards of integrity and professional conduct.

To remind you of the compelling market opportunity in Africa, we outline below our long-term thesis for investing on the continent:

Strong growth prospects: The African economy (as measured by GDP) has more than doubled since 2000 and is expected to increase another 62% by 2030, driven largely by investments in infrastructure, a thriving services sector, and agricultural output. Medium-term annual GDP growth is expected to exceed 5% for many African countries, faster than many emerging markets and most of the developed world.

Emerging middle class: The African middle class is projected to grow to 1.1 billion, or 42% of the continent's population, by 2060. In large, economically significant cities this figure already approaches 70%. These consumers typically have discretionary spending power, are gainfully employed, and spend over 25% of

income on purchases other than housing and utilities. Growth of the middle class is empirically linked to economic growth, poverty reduction, improved governance, and a broad shift from agrarian economies to formalized, salaried, 21st-century workforces.

Rapid urbanization: Africa is the world's fastest urbanizing region. Between 2015 and 2025, the urban population on the African continent is forecasted to grow about 40% (187 million) from 472 million to 659 million. This development should correlate with increased consumer spending; per capita consumption in large cities is about 80% higher than national averages.

Attractive valuations: Relative to opportunities in other markets, African companies remain generally undervalued, with valuations often one-third those of similar companies in Asia and North America. This opportunity is largely due to a lack of depth of capital markets, idiosyncratic perceived country risks and insufficient quantities of hard currencies following the commodity bust of recent years.

Remarkable demographic trends: The UN has projected that 2.4 billion people will be added to the world's population through 2050, and more than half of those (1.3 billion) will be African. Sub-Saharan Africa has by far the world's youngest average population, with the world's 10 youngest countries, and 11 million young people expected to enter the workforce each year through 2024.

Improved stability and governance: Over the last decade, numerous countries across the African continent have experienced substantially improved overall governance and political stability. On an index tracking the rule of law, political participation and human rights, sustainable economic opportunity, and human development, 41 out of 54 African countries showed improvement over the past ten years.

Foreign direct investment: The value of all foreign direct investment in Africa grew 31.9% to $94.1 billion in 2016. The countries who received the majority of this inflow – South Africa, Kenya, Nigeria, and Egypt – are countries we know well, and our professionals have enjoyed strong business relationships in each of them for decades.

International trade: In many African countries, international trade represents more than 50% of GDP, compared to less than 30% in the United States.

Major supply-demand gaps in sectors of focus: In our focus sectors, including energy, food and agriculture, financial services, and infrastructure, Africa is experiencing major supply-demand gaps where Fairfax Africa is well positioned to engage a clear market need. Energy is Africa's largest infrastructure deficit, with over $800 billion of estimated investment required to meet future demand. Approximately 50% of the world's population without access to electricity lives in Sub-Saharan Africa, and this number is expected to rise to 60% by 2025 as the population grows faster than the infrastructure required to meet its needs. In food and agriculture, Africa has 60% of the world's arable land, yet many countries remain net food importers and food insecurity is a persistent risk. The picture in financial services is a golden opportunity: 65% of Sub-Saharan Africa's population remains without a bank account, which constrains access to credit. Forward-thinking companies across the continent are seizing on this opportunity to expand innovative financial services solutions in credit, trade finance, mobile payments, and economic identity.

There is also a staggering funding gap in African infrastructure generally, totaling $60.0 billion from now through 2025. In the year 2025 alone, Africa's projected infrastructure gaps tally $27.0 billion in road transport, $18.0 billion in energy and water infrastructure, and $11.0 billion in telecommunication infrastructure. According to the World Bank, Sub-Saharan Africa's GDP per capita would increase by an estimated 1.7% per annum if its infrastructure gap were reduced to be in line with the median gap in the rest of the developing world, and 2.6% per annum if the gap were reduced in line with the developed world.

We are now pleased to report to you on the investments and commitments we made in Africa in 2017.

AFGRI Holdings Proprietary Limited (AFGRI)

Concurrent with the closing of the IPO, we acquired Fairfax Financial's existing investment in AFGRI (along with shares in AFGRI owned by certain other investors). AFGRI is a leading agricultural services and food processing company based in South Africa with a core focus on grain commodities. We are AFGRI's largest beneficial shareholder with a current 43.8% indirect equity interest, and influence over 60% of the voting shares through Joseph Investment Holdings. Our initial investment in AFGRI was made at approximately 1.2x book value and at a significant discount to replacement value. In January 2018, we committed an additional $18.5 million to fund

growth initiatives at AFGRI, including acquisitions and capital expenditure in its agri-services, food processing and financial services businesses.

We have known AFGRI for several years, and met Chris Venter, AFGRI's CEO, in 2012. Chris was appointed CEO in October 2008, after originally joining AFGRI in June 2005 to lead its financial services business. Under Chris' leadership, AFGRI streamlined its corporate structure to become South Africa's largest non-bank lender to the agricultural sector and strategically divested non-core assets.

AFGRI has operated for nearly 100 years and is Africa's leading agricultural services and food processing company with a core focus on the grain value chain. AFGRI provides services across the entire grain production and storage cycle, offers financial support and solutions plus inputs and high-tech equipment through the John Deere brand, for which it is one of the largest distributors outside the United States. AFGRI is one of Africa's largest grain storage companies, and now has more than 5 million tonnes of grain storage capacity, including a network of 69 silos and 15 bunkers in South Africa. AFGRI is also a leading non-bank financial services provider focused on providing credit, trade and commodity finance, insurance and payments products to the agricultural sector in Africa; its average loan book value was approximately $1 billion during fiscal 2017. Based in South Africa, AFGRI operates in 17 African countries.

Some of you are aware that Fairfax India is the largest shareholder in National Collateral Management Services Limited (NCML), India's largest non-government grain handling company. Since Fairfax India invested in NCML, AFGRI and NCML management teams have collaborated in some areas to implement their respective strategies in Africa and India.

We continue to be very excited about the long-term prospects for food and agricultural investments in Africa and we anticipate that there will be additional attractive investment opportunities surrounding the AFGRI platform going into 2018. To this end, in February 2018 we extended a $28 million (330 million South African Rand) convertible bridge facility to Philafrica Foods, which will provide funding for recently signed bolt-on acquisitions, and which we expect will be converted into a Philafrica Foods equity capital raise in the coming months. AFGRI hired Roland Decorvet in 2017 as Chief Executive Officer of AFGRI Foods (renamed Philafrica Foods in 2017). Roland is a seasoned international food company executive, having spent over 20 years with Nestlé, most recently in the role of Chairman and CEO of Nestlé China. During his three years in this role, Nestlé China's revenues tripled to become Nestlé's second largest market. Previously, Roland was CEO of Nestlé Switzerland and CEO of Nestlé Pakistan. Roland has deep Africa connections, having spent much of his youth in the Democratic Republic of Congo and is now living in South Africa.

Atlas Mara Limited (Atlas Mara)

In August 2017 we acquired 42.4% of Atlas Mara for net cash consideration of $155.8 million. Other existing shareholders of Atlas Mara concurrently invested $41.4 million. In December, we acquired an additional 0.9%, bringing our net cash investment to $158.2 million and our ownership to 43.3%. Our initial investment was made at an attractive valuation representing 0.33x book value and a 77.5% discount to Atlas Mara's IPO price. The opportunity for Fairfax Africa came as Atlas Mara had faced some substantial headwinds in its markets in 2016, especially in Nigeria where the currency saw an overnight devaluation of 30% with the removal of the currency peg, as well as a result of challenges with merger integration.

Bob Diamond, along with co-founder Ashish Thakkar, founded and listed Atlas Mara on the London Stock Exchange in 2013 with an IPO at $10 per share. Bob previously served a long tenure with Barclays Plc in various senior positions, including as Chief Executive Officer, where he played a key role with Barclays Africa, including the acquisition and integration of Absa Bank in South Africa, before founding Atlas Mara. Bob and his team approached us on the Atlas Mara investment opportunity in early 2017. We are pleased to be partners with him.

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

Atlas Mara is organized around three lines of business: 1) Retail and Commercial Banking, providing traditional banking services catering to both retail and corporate clients through physical branch networks, third party partnerships and digital channels; 2) Markets and Treasury, providing markets function transaction capabilities for its clients' foreign exchange and hedging requirements and centrally managing the banks' surplus liquidity and

funding requirements; and 3) FinTech, focused on reaching a broader, often unbanked or under-banked African population through technology including online and mobile applications in partnership with both MasterCard and Visa.

Fairfax Africa's investment enabled Atlas Mara to increase its shareholding in Union Bank of Nigeria (UBN) to 48% by year-end through both a private market acquisition of a 13% shareholding, and through participation in the rights offering undertaken by UBN in late 2017. This was an attractively valued investment opportunity for Atlas Mara; the rights issue pricing represented a 32% discount to UBN's closing share price on August 30, 2017 and a 73% discount to book value as at June 30, 2017. The Nigerian currency appears to have stabilized at current levels, and by year end UBN's share price was 90% higher than the rights offering price, representing a substantial uptick in the value of Atlas Mara's position in UBN.

Atlas Mara expects that it will deliver on its announced projected cost savings and profit forecast for 2017 of more than double its earnings for 2016. Atlas Mara's performance in 2017 is indicative of its focus on driving efficiency and reducing costs, which has enabled it to realize improved profits in the face of macro-economic conditions that have remained challenging. While there will likely be continued uncertainty in the economic, regulatory, exchange rate and monetary policy environment in Atlas Mara's markets in 2018, we believe the long-term prospects remain attractive for pan-African banking.

Fairfax Africa is supportive of Atlas Mara's fundamental vision to create a leading pan-African banking platform that better serves African corporate, small-and-medium size enterprises (SMEs) and individual clients with superior banking products and financial services. We recognize that to achieve this vision a substantial investment of capital, time and effort will be required, along with the fortitude to operate in challenging and dynamic market environments.

Since joining the Atlas Mara board in October 2017, Richie Boucher (former CEO of the Bank of Ireland) and the Fairfax Africa team have been focused on supporting Atlas Mara's efforts to protect and strengthen its foundations after a period of rapid acquisition-led growth. This effort includes developing a strategy to invest in group-wide information systems, improving the group's overall liquidity and capital profile (including reducing cost of funds), and strengthening the operational platforms, management depth and service delivery of its banks, all of which were acquired within the past three years (and, in the case of Rwanda and Zambia, have undergone transformative mergers within the past two years). An important priority will be building a strong FinTech/digital banking offering that has potential to provide attractive returns on equity on a lower capital base, and to reach and serve a much larger customer base in Africa, than could be achieved by a traditional "brick and mortar" branch banking approach.

We will continue to explore investment opportunities in financial services that produce attractive long-term returns to our shareholders while providing improved access to credit, deposit/savings, payment and other products and services to corporates, SMEs and individuals in Africa.

Nova Pioneer Education Group (Nova Pioneer)

Also in August, we committed to invest $20 million in Ascendant Learning Limited. Ascendant was founded and is run by Chinezi Chijioke (a former McKinsey partner). Ascendant's wholly-owned subsidiary Nova Pioneer is a pan-African independent school network offering preschool through secondary education for students from ages three through 19, with approximately 400 students in Kenya across two campuses and approximately 900 students in South Africa across three campuses.

The demographic opportunity in 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 supportive of the management team's strategy to capitalize on this growth potential in the coming years.

As a relatively small investment, Nova Pioneer was an attractive opportunity due to: (1) a strong competitive position in a high-growth sector, backed by strong macro tailwinds; (2) management's proven ability to execute and deliver results; and (3) its potential for follow-on investments as the company successfully scales up.

Nova Pioneer launched its first campus in 2015 in South Africa, and now operates five campuses with a combined enrollment of approximately 1,300 students. Average tuition per student is about $3,000 per year and is priced to target middle to upper-middle income families whose alternatives are either: (1) poorly performing government schools; (2) "affordable" private schools that are often of poor quality; or (3) extremely expensive private schools. Management is targeting a rollout of more than 20 new campuses across key African markets over the next five years,

reaching an enrollment of approximately 11,000 students, with an enrollment capacity of around 25,000 students. Their 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.

Our investment in Nova Pioneer is supported by favorable demographics (rapid urbanization, emerging middle class, and large and growing youth cohort) and strong demand for high quality private education at an affordable price in our key markets. Nova Pioneer management reports that Kenyan parents will often spend a majority of their disposable income on private schools, reflecting the high priority families place on quality education for their children.

Investments in Infrastructure Development

We continue to evaluate potential opportunities in the construction and materials sector, which we believe support our long-term thesis for African infrastructure development and provide an attractive investment entry point in the current market environment.

In December, we terminated our partial offer to PPC Limited to acquire shares in PPC in support of a proposed merger with AfriSam Proprietary Limited, both South African based cement companies with operations in Africa, as the parties could not agree on value. When we announced our involvement in the process in August, we believed that the merger, and our proposed investment, had the support of management, key shareholders and the boards of both companies. However, as the public process wore on and as others expressed interest, it became apparent that there was a sizable blocking minority of the PPC shareholder base that had a fundamentally different view from us on PPC's intrinsic value. While we remain interested in the opportunity, and support the strategic rationale for the potential merger as publicly articulated by both management teams, we are committed to value creation for our shareholders, and we will remain disciplined on valuation.

Also in December, we acquired small minority equity positions in two attractively valued companies listed on the Johannesburg Stock Exchange for total consideration of $4.4 million.

Shelf Filing

In December, we filed a base shelf prospectus that allows Fairfax Africa to issue up to $1 billion of debt, equity or other securities over the next 25 months, proceeds of which would be used to continue to finance additional African investments.

A Note on African Leadership Transitions

The past few months have witnessed significant leadership transitions in South Africa and Zimbabwe, both countries in which our investee companies operate, and in Angola, an important regional player. These developments have been well received by the markets as an indication of increasing stability and a potential signal of improvement in the investment environment.

In South Africa, Cyril Ramaphosa was elected in December to replace Jacob Zuma as president of the African National Congress. On February 14, 2018, Mr. Zuma resigned the presidency with immediate effect, and the following day the ANC elected Mr. Ramaphosa to the presidency. Mr. Ramaphosa is a successful businessman in South Africa and was a close colleague of the late Nelson Mandela. We believe Mr. Ramaphosa will bring a high degree of integrity to the public office, and will apply his extensive business expertise for the greater good of all South Africans. Investors have reacted very favourably to this leadership change, with South African equity and debt markets recovering significantly.

In Zimbabwe, President Robert Mugabe resigned in December as part of what was reported as a ''peaceful coup''.

In Angola, the first democratic elections were held after 38 years of autocratic rule, and a leadership transition seems to be underway successfully.

In each case, the new governments appear to be making the right initial moves to effect meaningful anti-corruption and other changes. We're watching these situations closely.

In Closing

We have a fantastic team, which includes our Africa-based investing partners (Pactorum) led by Neil Holzapfel, Trent Hudson and Jim Bisenius, which provides strong on the ground presence and a long investing history in Africa. Investment opportunities come to us from a variety of sources but the Pactorum team is primarily responsible for sourcing and evaluating investment opportunities for Fairfax Africa. On our board, in addition to Prem Watsa and Paul Rivett of Fairfax Africa, we have Quinn McLean from Hamblin Watsa, Fairfax Financial's investment management subsidiary, who is experienced in investing in the region and who serves as the conduit to the investment committee, and seasoned and local independent directors based in South Africa, Nigeria and Egypt. Together, we have decades of combined experience investing in Africa and emerging markets and highly complementary skill sets which we bring to bear as one team for the benefit of Fairfax Africa and its shareholders. We would be remiss if we did not also recognize the tireless efforts of our Chief Financial Officer, Guy Bentinck, our General Counsel, Keir Hunt, and Dylan Buttrick, overseeing our office in Mauritius.

Since our IPO, we have reviewed tens of potential investment opportunities, many of which we have passed on, and a number of which we continue to explore as potentially attractive. We remain very excited about our pipeline of opportunities and the attractive investment landscape we face in Africa. We will continue to leave no stone unturned in pursuit of value creation for our shareholders. Of course, we do not think we have a monopoly on good ideas so please do continue to pass along all your thoughts and comments to us and we continue to emphasize our openness to introduce you to our wonderful management teams in Africa at our Annual General Meeting on April 25 or if you would like to visit on the ground in Africa.

We wish to express our deep appreciation and gratitude to you, our valued shareholders, for partnering with us. We are honored to be invested together in Africa's long-term growth story.

Michael Wilkerson
Chief Executive Officer

Paul Rivett
Vice Chairman

March 9, 2018

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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 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 and Corporate Secretary, have certified Fairfax Africa's annual disclosure documents filed with the Canadian Securities Administrators in accordance with Canadian securities legislation.

The Board of Directors 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 of Directors 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 9, 2018

Michael Wilkerson
Chief Executive Officer

Guy Bentinck
Chief Financial Officer and Corporate Secretary

Independent Auditor's Report

To the Shareholders of Fairfax Africa Holdings Corporation

We have audited the accompanying consolidated financial statements of Fairfax Africa Holdings Corporation and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of earnings and comprehensive income, changes in equity and cash flows for the year ended December 31, 2017 and the period April 28, 2016 (date of incorporation) to December 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fairfax Africa Holdings Corporation and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the year ended December 31, 2017 and the period April 28, 2016 (date of incorporation) to December 31, 2016 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Ontario

March 9, 2018

Consolidated Financial Statements

Consolidated Balance Sheets

as at December 31, 2017 and December 31, 2016
(US$ thousands)

	Notes	December 31, 2017	December 31, 2016
Assets			
Cash and cash equivalents	6, 15	13,012	–
Restricted cash	6, 7	313,000	–
Short term investments	6	32,968	–
Loans	5,6	24,233	–
Bonds	5,6	19,934	–
Common stocks	5,6	261,917	–
Total cash and investments		665,064	–
Interest receivable		3,506	–
Other assets		541	786
Total assets		669,111	786
Liabilities			
Accounts payable and accrued liabilities		811	–
Payable to related parties	12	1,482	860
Income taxes payable	10	82	–
Term loan	7	150,000	–
Total liabilities		152,375	860
Equity			
Common shareholders' equity (deficit)	8	516,736	(74)
		669,111	786

See accompanying notes.

Signed on behalf of the Board

V. P. Watsa
Director

Chris Hodgson
Director

Consolidated Statements of Earnings and Comprehensive Income
for the year ended December 31, 2017 and the period April 28, 2016 (date of incorporation) to December 31, 2016
(US$ thousands except share and per share amounts)

	Notes	2017	April 28-December 31, 2016
Income			
Interest	6	7,589	–
Net realized gains on investments	6	11,274	–
Net change in unrealized gains on investments	6	2,362	–
Net foreign exchange gains	6	10,626	–
		31,851	–
Expenses			
Investment and advisory fees	12	3,400	–
Performance fees	12	319	–
General and administration expenses	14	2,076	74
Interest expense	7	2,087	–
		7,882	74
Earnings (loss) before income taxes		23,969	(74)
Provision for income taxes	10	485	–
Net earnings (loss) and comprehensive income (loss)		23,484	(74)
Net earnings per share (basic and diluted)	9	$ 0.54	$ –
Shares outstanding (weighted average)	9	43,329,044	1

See accompanying notes.

Consolidated Statements of Changes in Equity

for the year ended December 31, 2017 and the period April 28, 2016 (date of incorporation) to December 31, 2016 (US$ thousands)

	Subordinate voting shares	Multiple voting shares	Retained earnings (deficit)	Common shareholders' equity (deficit)
Balance as of January 1, 2017	–	–	(74)	(74)
Net earnings	–	–	23,484	23,484
Issuance of shares, net of issuance costs (note 8)	193,326	300,000	–	493,326
Balance as of December 31, 2017	193,326	300,000	23,410	516,736
Balance as of April 28, 2016	–	–	–	–
Net loss	–	–	(74)	(74)
Balance as of December 31, 2016	–	–	(74)	(74)

See accompanying notes.

Consolidated Statements of Cash Flows
for the year ended December 31, 2017 and the period April 28, 2016 (date of incorporation) to December 31, 2016
(US$ thousands)

	Notes	2017	April 28-December 31, 2016
Operating activities			
Net earnings (loss)		23,484	(74)
Items not affecting cash and cash equivalents:			
Net bond discount amortization		(39)	–
Net realized gains on investments	6	(11,274)	–
Net change in unrealized gains on investments	6	(2,362)	–
Net foreign exchange gains	6	(10,626)	–
Net purchases of short term investments classified as FVTPL		(32,659)	–
Purchases of investments classified as FVTPL	15	(255,515)	–
Sales of investments classified as FVTPL	15	48,973	–
Increase in restricted cash in support of investment	7	(162,519)	–
Changes in operating assets and liabilities:			
Interest receivable		(3,506)	–
Income taxes payable	10	82	–
Accounts payable and accrued liabilities		811	860
Payable to related parties	12	622	–
Other		(112)	(786)
Cash used in operating activities		(404,640)	–
Financing activities			
Term loan:			
Proceeds	7	150,000	–
Issuance costs	7	(225)	–
Increase in restricted cash in support of term loan	7	(150,481)	–
Subordinate voting shares:			
Issuances	8	204,080	–
Issuance costs	8	(12,876)	–
Multiple voting shares:			
Issuances	8	227,154	–
Cash provided by financing activities		417,652	–
Increase in cash and cash equivalents		13,012	–
Cash and cash equivalents – beginning of year/period		–	–
Cash and cash equivalents – end of year/period		13,012	–

See accompanying notes.

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1. Business Operations

Fairfax Africa Holdings Corporation (''the company'' or ''Fairfax Africa'') is an investment holding company whose objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equities 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 called Fairfax Africa Investments Proprietary Limited (''SA Sub'') and a Mauritius based subsidiary called Fairfax Africa Holdings Investments Limited (''Mauritius Sub'').

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

Fairfax Financial Holdings Limited (''Fairfax'') took the initiative in creating the company, is Fairfax Africa's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and investment management. Fairfax is a Canadian reporting issuer with securities listed on the TSX and trading in Canadian dollars under the symbol FFH for over 30 years and in U.S. dollars under the symbol FFH.U. Fairfax, through its subsidiaries, owns 30,000,000 multiple voting shares and 2,500,000 subordinate voting shares of Fairfax Africa. At December 31, 2017, Fairfax's holdings of multiple and subordinate voting shares represented 98.8% of the voting rights and 64.2% of the equity interest in Fairfax Africa.

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, and is responsible for providing advice with respect to all investments.

The company was federally incorporated on April 28, 2016 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, 2017 have been prepared in accordance with International Financial Reporting Standards (''IFRS'') as issued by the International Accounting Standards Board (''IASB'') effective as at December 31, 2017, except IFRS 9 (2010) *Financial Instruments* which was adopted early. The company has determined that it meets the definition of an investment entity (see note 4) under IFRS.

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

The preparation of the company's consolidated financial statements requires management to make estimates and assumptions 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 9, 2018.

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 set out as follows:

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.

The company has concluded that SA Sub and Mauritius Sub should be consolidated as these entities provide services relating to the company's investment activities. All intercompany balances, profits and transactions with these subsidiaries are eliminated in full. As an investment entity (see note 4), the company is required to account for its investments in subsidiaries (Joseph Investment Holdings) at fair value through profit or loss (''FVTPL'') rather than by consolidation.

Investments in associates – An associate is an entity over which the company has significant influence, but not control, over the financial and operating policies. As an investment entity, the company accounts for its investments in associates (indirect equity interest in AFGRI Holdings Proprietary Limited through Joseph Investment Holdings and Atlas Mara Limited) at FVTPL rather than by the equity method.

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.

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 primarily consists of amounts required to be maintained on deposit with a Canadian bank to support the Term Loan and Letter of Credit Facility (see note 7).

Cash and Investments

Cash and investments include cash and cash equivalents, restricted cash, short-term investments, loans, bonds and common stocks. The appropriate classifications of investments are determined at their acquisition date.

Classification – Short-term investments, loans, bonds, equity instruments and debt instruments are classified as FVTPL.

Recognition and measurement – The company recognizes cash and investments at fair value upon initial recognition. Purchases and sales are recognized on the trade date, which is the date on which the company commits to purchase or sell the investments.

Investments classified as FVTPL are carried at fair value on the consolidated balance sheets with realized gains and losses and unrealized gains and losses recorded 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, and as operating activities in the consolidated statements of cash flows. Interest earned on investments is included in the consolidated statements of earnings and comprehensive income in interest income and as operating activities in the consolidated statements of cash flows.

Transactions pending settlement are reflected on the consolidated balance sheets in other assets or in accounts payable and accrued liabilities. Transaction costs related to investments classified as FVTPL are expensed as incurred. An investment is derecognized when the rights to receive cash flows from the investment have expired or have been transferred and when the company has transferred substantially all the risks and rewards of ownership.

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

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 for investments traded in active markets.

The company categorizes its fair value measurements according to a three level hierarchy described below:

> Level 1 – Inputs represent unadjusted quoted prices for identical instruments exchanged 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.

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).

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

Net realized gains (losses) on investments

Net realized gains (losses) arising on the disposition of investments and redemption or conversion of convertible bonds are included in net realized gains (losses) on investments in the consolidated statements of earnings and comprehensive income.

Net change in unrealized gains (losses) on investments

Net change in unrealized gains (losses) arising on the re-measurement of investments at fair value is included in net change in unrealized gains (losses) on investments in the consolidated statements of earnings and comprehensive income.

Interest income
Interest income is recognized on an accrual basis using the effective interest method and includes bank interest and interest from investments in debt instruments. Interest receivable is shown separately on the consolidated balance sheets based on the debt instrument's stated rate of interest.

Income taxes
The provision for income taxes comprises current and deferred income tax. 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 and its associates 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 the enacted or 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 is not recognized on unremitted earnings of the company's African Investments where the company has determined that the unremitted earnings do not constitute a taxable temporary difference.

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.

Other assets
Other assets is typically comprised of pending settlement of sales of investments and prepaid expenses.

Term loan
Borrowings are recognized initially at fair value and subsequently carried at amortized cost. Interest expense on borrowings is recognized in the consolidated statements of earnings and comprehensive income using the effective interest method.

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 repurchase 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.

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 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 and multiple voting shares been issued.

New accounting pronouncements adopted in 2017

The company adopted the following amendments, effective January 1, 2017. These changes were adopted in accordance with the applicable transitional provisions of each amendment, and did not have a significant impact on the consolidated financial statements.

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)

In January 2016 the IASB issued amendments to IAS 12 *Income Taxes* to clarify the requirements on recognition of deferred tax assets for unrealized losses.

Disclosure Initiative (Amendments to IAS 7)

In January 2016 the IASB issued amendments to IAS 7 *Statement of Cash Flows* that require additional disclosures around changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

New accounting pronouncements issued but not yet effective

The following new standards have been issued by the IASB and were not yet effective for the fiscal year beginning January 1, 2017. The company is currently evaluating their impact on its consolidated financial statements and does not expect to adopt any of them in advance of their respective effective dates.

IFRS 9 Financial Instruments (''IFRS 9'')

In July 2014 the IASB issued the complete version of IFRS 9 which will supersede the 2010 version of IFRS 9 currently applied by the company. This complete version is effective for annual periods beginning on or after January 1, 2018, with retrospective application, and includes: requirements for the classification and measurement of financial assets and liabilities; an expected credit loss model that replaces the existing incurred loss impairment model; and new hedge accounting guidance. The company is nearing completion of its analysis of the accounting requirements under IFRS 9 and has determined that its current classifications of equity investments and financial liabilities will remain substantially unchanged compared to the 2010 version. The company continues to monitor and consider evolving guidance and interpretations related to IFRS 9 as it works through the classification analysis for its investments in debt instruments.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (''IFRIC 23'')

In June 2017 the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 *Income Taxes* should be applied when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, with modified retrospective or retrospective application. Adoption of IFRIC 23 is 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.

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 has exercised judgment that it continues to meets 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 also determined that SA Sub and Mauritius Sub 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 may exit its private African Investments either through initial public offerings or private sales. For publicly traded African Investments, exit strategies may include selling the investments through private placements or in public markets.

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 the background of the investment, 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 investee company management and 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 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 significantly different fair values. Refer to note 5 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 African Investments, as disclosed in note 10, are not expected to result in taxable amounts 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 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 because it is not probable that they will be realized.

5. African Investments

Public African Investments

The fair values of Atlas Mara, whose shares are listed on the London Stock Exchange and Other African Investments (comprised of common shares of various public companies), whose shares are listed on the Johannesburg Stock Exchange, are determined using the bid prices of that investment (without adjustments or discounts) at the balance sheet date.

Investment in Atlas Mara Limited

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

Atlas Mara Convertible Bond

On July 17, 2017 the company invested $100,000 in Atlas Mara through the purchase of a mandatory convertible bond (the ''Atlas Mara Convertible Bond'') with an interest rate of 5.0% per annum which increased to 10.0% per annum on August 31, 2017. On August 31, 2017, concurrent with the closing of the Atlas Mara Equity Offering (described below), the Atlas Mara Convertible Bond (including accrued interest) was converted into 44,722,222 ordinary shares of Atlas Mara at the Issue Price (defined below).

The change in the fair value of the Atlas Mara Convertible Bond between the date of initial recognition and the conversion into Atlas Mara ordinary shares resulted in a net realized gain on investment of $5,098 recorded in the consolidated statements of earnings and comprehensive income in 2017.

In 2017 the company recorded interest income on the Atlas Mara Convertible Bond of $1,117 in the consolidated statements of earnings and comprehensive income.

Atlas Mara Equity Offering

On August 31, 2017 the company acquired an additional 26,036,448 ordinary shares of Atlas Mara for $58,582 through participation in Atlas Mara's equity offering of $100,000 of new ordinary shares (the ''Atlas Mara Equity Offering'') at a price of $2.25 per share (the ''Issue Price''). Fairfax Africa received a fee of $2,800 pursuant to an agreement to acquire any ordinary shares not taken up by qualifying Atlas Mara shareholders and to purchase a minimum of 30.0% of the Atlas Mara Equity Offering, resulting in a commitment to acquire Atlas Mara ordinary shares for net cash consideration of $55,782 (the ''Commitment''). The company's Commitment to acquire shares at a fixed price was determined to be a derivative financial instrument under IFRS. The appreciation of the Atlas Mara share price to $2.375 per share on the expiry date of the Commitment (August 31, 2017) resulted in the recognition of a net realized gain on investments of $6,055 recorded in the consolidated statements of earnings and comprehensive income in 2017.

Additional Atlas Mara Shares Acquired

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

At December 31, 2017, the fair value of the company's investment in Atlas Mara was $168,671 and comprised of 71,958,670 ordinary shares representing a 43.3% equity interest. The changes in fair value of the company's investment in Atlas Mara during 2017 is presented in the table disclosed later in note 5.

Other

During the fourth quarter of 2017 the company acquired common shares of various public companies listed on the Johannesburg Stock Exchange (''Other Public African Investments'') for aggregate cash consideration of $4,428 (fair value of $4,932 at December 31, 2017). The changes in fair value of the company's investment in Other Public African Investments are presented in the table disclosed later in note 5.

Private African Investments

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

AFGRI Holdings Proprietary Limited

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

AgriGroupe Investments LP (''AgriGroupe LP'') was a partnership formed to hold an investment in Joseph Investment Holdings (''Joseph Holdings''), an investment holding company formed to hold an investment in AFGRI. Ownership percentages and descriptions of capitalization in this paragraph are prior to the transactions described in the subsequent paragraph. Prior to the IPO, Fairfax as a limited partner, had a 72.6% equity interest in AgriGroupe LP. Joseph Holdings' capitalization was comprised of ordinary shares and class A shares. Class A shares are non-voting except in matters related to the class A shares, redeemable at the option of Joseph Holdings at a fixed price and have a priority claim on distributions received from AFGRI in the amount of $88,600. Any distributions received by Joseph Holdings must first be used to redeem the class A shares (to a maximum of $88,600) before holders of the ordinary shares of Joseph Holdings become eligible to receive any distributions. AgriGroupe LP held all of the ordinary shares and class A shares of Joseph Holdings (inclusive of Fairfax's beneficial 65.9% interest in the ordinary shares and 72.6% interest in the class A shares of Joseph Holdings). Joseph Holdings has a 60.0% equity interest in AFGRI. AgriGroupe LP and Joseph Holdings have no other assets, liabilities (contingent or otherwise) or operations, except minimal overhead expenses associated with their administration.

Indirect Equity Interest in AFGRI

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

The consideration paid by the company to acquire the indirect equity interest in AFGRI was negotiated between the company and the general partner of AgriGroupe LP. The process for determining the price or fair value of AFGRI included a discounted cash flow analysis of Joseph Holdings' underlying investment in AFGRI based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.3% to 18.2%, and a long term growth rate of 3.0%. Free cash flow projections were based on EBITDA and working capital projections for AFGRI's principal business units prepared as at the date of closing by AFGRI's management.

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

At December 31, 2017 the company's internal valuation model indicated that the fair value of its indirect equity interest in AFGRI, acquired through the company's ownership in Joseph Holdings, was $88,314. Given that the class A shares of Joseph Holdings are redeemable at a fixed price of $49,967, the $38,347 residual amount was allocated to the ordinary shares of Joseph Holdings.

The changes in fair value of the company's indirect equity interest in AFGRI is presented in the table disclosed later in note 5.

AFGRI Facility

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

The AFGRI Facility was initially scheduled to mature on December 23, 2017 with an option for AFGRI to repay the AFGRI Facility in shares, subject to certain conditions on maturity. On December 19, 2017, the company revised the terms of the AFGRI Facility and extended the maturity date from December 23, 2017 to the earlier of January 31, 2018, or the date the participating AFGRI Shareholders subscribe for shares in AFGRI, pursuant to the AFGRI Rights Offer (discussed below). During the extension period, the interest rate on the AFGRI facility was increased to South African Prime plus 6.0% per annum. On January 31, 2018 the AFGRI facility including accrued interest was repaid in cash.

At December 31, 2017, the company estimated the fair value of the AFGRI Facility based on market rates and creditworthiness to be $24,233. In 2017 the company recorded interest income of $1,982 in the consolidated statements of earnings and comprehensive income related to the AFGRI facility.

Subsequent to December 31, 2017

AFGRI Rights Offer

On January 31, 2018, AFGRI completed its previously announced rights issue and raised $43,676 (518.6 million South African rand) at 2.27 South African rand per ordinary share (the ''Rights Offer''). Joseph Holdings maintained its 60.0% equity interest in AFGRI through the purchase of 137,074,140 ordinary shares for a total purchase price of $26,206 (311.2 million South African rand). To fund the additional investment in AFGRI, Joseph Holdings requested its shareholders to provide funding on a pro rata basis consistent with their equity interest in Joseph Holdings. Certain shareholders of Joseph Holdings declined to take up their pro rata share which resulted in the company acquiring more than its pro rata share to cover the shortfall. Following the completion of the Rights Offering, the company owned a 72.9% equity interest in the ordinary shares and a 73.3% interest in the class A shares of Joseph Holdings and a 43.8% indirect equity interest in AFGRI.

Philafrica Bridge Loan

On February 28, 2018 Fairfax Africa entered into a secured lending arrangement with Philafrica Foods Proprietary Ltd. (''Philafrica''), a wholly-owned subsidiary of AFGRI, pursuant to which Fairfax Africa will provide Philafrica with $27,958 (330 million South African rand) of financing (the ''Philafrica Bridge Loan''). The Philafrica Bridge Loan was provided on an interim basis in advance of an anticipated equity issue by Philafrica, in the form of a rights offering to the existing AFGRI shareholders. The funds received from the Philafrica Bridge Loan will be used to complete a corporate reorganization and fund strategic acquisitions. Funds will be advanced within 10 days of closing (the ''Advance Date''), subject to certain conditions being met.

The Philafrica Bridge Loan is guaranteed by AFGRI Operations Proprietary Limited, a wholly-owned subsidiary of AFGRI, and subordinated to commercial bank debt. The Philafrica Bridge Loan matures within 210 days of the Advance Date, with an option for Philafrica to repay in shares, subject to approval of at least 75% of AFGRI shareholders. The Philafrica Bridge Loan bears interest at a rate of South African Prime plus 2.0% per annum, payable monthly in arrears or capitalized to loan amount at the election of Philafrica. Upon maturity, in the event 75% AFGRI shareholder approval is not received to repay the loan in shares, the interest rate will be increased retroactively to South African Prime plus 4% per annum. Fairfax Africa earned a fee equal to 2.0% of the loan proceeds on signature which is payable at maturity or upon repayment of the Philafrica Bridge Loan. The company earns interest on the fee at the same rate as the loan.

Nova Pioneer Education Group

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

Nova Pioneer Facility

On June 8, 2017 Fairfax Africa entered into a secured lending arrangement with Ascendant Learning Limited (''Ascendant''), the Mauritius based parent entity of Nova Pioneer. In advance of the secured lending arrangement, Ascendant was permitted to borrow up to $4,000 (the ''Nova Pioneer Facility'') for the benefit of Nova Pioneer. The Nova Pioneer Facility had an initial interest rate of 5.0% per annum, which increased to 18.0% per annum on June 30, 2017. The Nova Pioneer Facility was secured against certain assets of Ascendant and its subsidiaries. On June 8, 2017 and August 10, 2017, Ascendant borrowed $3,000 and $1,000, respectively, on the Nova Pioneer Facility.

On August 22, 2017 the Nova Pioneer Facility was converted into the Nova Pioneer Investment (discussed below). In 2017 the company recorded interest income of $94 in the consolidated statements of earnings and comprehensive income related to the Nova Pioneer Facility.

Nova Pioneer Investment

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

The Nova Pioneer Bonds bear interest at a rate of 20.0% per annum and are redeemable by Ascendant at par at any time after June 30, 2021, except in circumstances relating to a change of control or a value realization event. Each Nova Pioneer Warrant can be exercised by the company to acquire one ordinary share of Ascendant. Other than in circumstances relating to a change of control or a value realization event, the Nova Pioneer Warrants may be exercised after June 30, 2021. The Nova Pioneer Bonds are not rated.

At December 31, 2017 the company estimated the fair value of Nova Pioneer Investment (comprised of the Nova Pioneer Bonds and Nova Pioneer Warrants) using an industry accepted discounted cash flow and option pricing model that incorporated Nova Pioneer's estimated credit spread of 18.9%. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Nova Pioneer.

At December 31, 2017 the fair value of the Nova Pioneer Bonds and Nova Pioneer Warrants was estimated at $19,414 and $520. In 2017 the company recorded interest income of $1,016 in the consolidated statements of earnings and comprehensive income relating to the Nova Pioneer Bonds. The changes in fair value of the company's investment in the Nova Pioneer Bonds and Nova Pioneer Warrants are presented in the table that follows.

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 2017 were as follows:

	Public African Investments		Private African Investments			
	Common stock		Common stock	Loans	Bonds	
	Atlas Mara[(1)]	Other[(2)]	Indirect equity interest in AFGRI[(3)]	AFGRI Facility	Nova Pioneer Investment[(4)]	Total African Investments
Balance as of January 1, 2017	–	–	–	–	–	–
Purchases	170,488	4,428	74,968	23,255	20,000	293,139
Net change in unrealized gains (losses) on investments included in the consolidated statements of earnings and comprehensive income	(1,817)	45	4,200	–	(66)	2,362
Net foreign exchange gains included in the consolidated statements of earnings and comprehensive income	–	459	9,146	978	–	10,583
Balance as of December 31, 2017	168,671	4,932	88,314	24,233	19,934	306,084

(1) Purchases include a non-cash net realized gain on Atlas Mara Convertible Bond of $5,098 and Atlas Mara Equity Offering of $6,055 (see note 5).

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

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

(4) *Included a change in unrealized loss of $586 on the Nova Pioneer Bonds, partially offset by a change in unrealized gain of $520 on the Nova Pioneer Warrants. The fair value of the Nova Pioneer Bonds and Nova Pioneer Warrants were $19,414 and $520 at December 31, 2017.*

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, 2017			
	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value of assets
Cash and cash equivalents	13,012	–	–	13,012
Restricted cash[(1)]	313,000	–	–	313,000
	326,012	–	–	326,012
Short-term investments – U.S. treasury bills	32,968	–	–	32,968
Loans – AFGRI Facility	–	–	24,233	24,233
Bonds – Nova Pioneer Investment[(2)]	–	–	19,934	19,934
Common stocks:				
Indirect equity interest in AFGRI	–	–	88,314	88,314
Atlas Mara	168,671	–	–	168,671
Other[(3)]	4,932	–	–	4,932
	173,603	–	88,314	261,917
Total cash and investments	532,583	–	132,481	665,064
	80.1%	–%	19.9%	100.0%

(1) *Comprised of $150,000 received from the term loan, $162,000 issued as cash collateral and $1,000 of interest received on restricted cash (see note 7).*

(2) *Comprised of Nova Pioneer Bonds of $19,414 and Nova Pioneer Warrants of $520 (see note 5).*

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

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During 2017 there were no transfers of financial instruments between Level 1 and Level 2 and there were no transfers of financial instruments in or out of Level 3 as a result of changes in the observability of valuation inputs. The changes in fair value of the company's Private African Investments (classified as Level 3) are disclosed in note 5.

The table that follows illustrates the potential impact on net earnings of various combinations of changes in unobservable inputs in the company's internal valuation model for its Private African Investments classified as Level 3 at December 31, 2017. The analysis assumes variations within a reasonably possible range determined by the company based on analysis of the return on various equity indexes, management's knowledge of the applicable equity markets and the potential impact of changes in interest rates. This sensitivity analysis excludes the company's

investment in the AFGRI Facility as the company determined that there were no significant unobservable inputs suited for sensitivity analysis.

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)]
Indirect equity interest in AFGRI	$88,314	Discounted cash flow	After-tax discount rate Long term growth rate	11.6% to 25.1% 3.0%	12,949 / (11,609) 4,842 / (4,507)	11,233 / (10,071) 4,200 / (3,910)
Nova Pioneer Bonds	$19,414	Discounted cash flow	Credit Spread	18.9%	712 / (685)	523 / (503)
Nova Pioneer Warrants	$520	Discounted cash flow	Share Price	$1.15	55 / (52)	40 / (38)

(1) The impact on the internal valuation models from changes in significant unobservable inputs deemed to be subject to the most judgment and estimates disclosed in the above table shows the hypothetical increase (decrease) in net earnings. Changes in the after-tax discount rates (50 basis points), long term growth rates (25 basis points), credit spreads (100 basis points) and share price (5.0%), each in isolation, would hypothetically change the fair value of the company's investments as noted in the table above. Generally, an increase (decrease) in long term growth rates or a decrease (increase) in after-tax discount rates, credit spreads or share price would result in a higher (lower) fair value of the company's Private African Investments.

Fixed Income Maturity Profile

Bonds and loans are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of call and put features.

	December 31, 2017	
	Amortized cost	Fair value
Due in 1 year or less	24,233	24,233
Due after 1 year through 5 years[(1)]	20,000	19,414
	44,233	43,647
Effective interest rate[(2)]		20.0%

(1) Comprised of the Nova Pioneer Bonds, with a fair value of $19,414, which are redeemable by Ascendant at par at any time after June 30, 2021, except in circumstances relating to a change of control or a value realization event.

(2) Excludes AFGRI Facility

Investment Income

An analysis of investment income for the year ended December 31, 2017 is summarized in the tables that follow:

Interest

	2017
Interest:	
Cash and cash equivalents	1,020
Restricted cash	1,374
Short term investments – U.S. treasury bills	309
Bonds:	
Government of South Africa	677
Nova Pioneer Bonds	1,016
Atlas Mara Convertible Bond	1,117
Loans:	
AFGRI Facility	1,982
Nova Pioneer Facility	94
Total interest income	7,589

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

	2017		
	Net realized gains	**Net change in unrealized gains (losses)**	**Net gains (losses)**
Net gains (losses) on investments:			
Bonds:			
Government of South Africa	121	–	121
Nova Pioneer Investment[1]	–	(66)	(66)
Atlas Mara Convertible Bond	5,098	–	5,098
Common stocks:			
Indirect equity interest in AFGRI	–	4,200	4,200
Atlas Mara	–	(1,817)	(1,817)
Other[2]	–	45	45
Atlas Mara Equity Offering[3]	6,055	–	6,055
	11,274	2,362	13,636
Net foreign exchange gains (losses) on:			
Cash and cash equivalents	–	(16)	(16)
Loans – AFGRI Facility	–	978	978
Common stock – indirect equity interest in AFGRI	–	9,146	9,146
Other[4]	–	518	518
	–	10,626	10,626

(1) Included a change in unrealized loss of $586 on the Nova Pioneer Bonds, partially offset by a change in unrealized gain of $520 on the Nova Pioneer Warrants.

(2) Unrealized gain of $45 related to common shares of various companies listed on the Johannesburg Stock Exchange.

(3) Related to the Commitment derivative on the Atlas Mara Equity Offering (see note 5).

(4) Primarily related to a foreign exchange gain of $459 from common shares of various companies listed on the Johannesburg Stock Exchange.

7. Borrowings

	December 31, 2017		
	Principal	**Carrying value**	**Fair value[1]**
Secured Term Loan, floating rate due August 31, 2018	150,000	150,000	150,000

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

Term Loan

On August 31, 2017 the company completed a secured term loan (the "Term Loan") with a Canadian bank with a principal amount of $150,000 and bearing interest at a rate of LIBOR plus 100 basis points. In connection with the Term Loan, the company was required to maintain cash collateral of $150,000, which together with interest received of $481, is classified as restricted cash on the consolidated balance sheet at December 31, 2017. On January 31, 2018 the company extended the maturity of the Term Loan to August 31, 2018.

Letter of Credit Facility

On August 31, 2017 the company entered into a non-revolving term credit facility available by way of a letter of credit in the aggregate amount of $153,900 (2 billion South African rand) (the "LC Facility") with a Canadian bank in connection with the company's offer to acquire shares in PPC Limited, a South African company listed on the Johannesburg Stock Exchange. The LC Facility incurred interest at a rate of 100 basis points.

Under the terms of the LC Facility, the company was required to contribute cash to a cash-collateral account equivalent to 105.0% of the LC Facility. At December 31, 2017 the company had placed $162,000 in a cash-collateral account, which together with interest received of $519, was classified as restricted cash in the consolidated balance sheet at December 31, 2017.

Interest Income

In 2017 the company earned interest of $728 and $646 on the cash collateral provided for the Term Loan and LC Facility which was recognized as interest income in the company's consolidated statements of earnings and comprehensive income.

Interest Expense

The consolidated interest expense of $2,087 is comprised of interest expense of $1,193 and issuance costs of $225 relating to the Term Loan and interest expense of $426 and issuance costs of $243 relating to the LC Facility. These amounts are recognized as interest expense in the company's consolidated statements of earnings and comprehensive income.

Subsequent to December 31, 2017

On December 7, 2017 the company rescinded its offer to acquire shares in PPC Limited and the LC Facility was terminated on December 11, 2017. Subsequently, on January 12, 2018, the cash collateral of $162,000 was released from restricted cash.

8. Total Equity

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, 2017 included 30,000,000 (December 31, 2016 – 1) multiple voting shares and 20,620,189 (December 31, 2016 – nil) 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. 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 and are not traded. Fairfax, through its subsidiaries, owns all the issued and outstanding multiple voting shares. At December 31, 2017 there were no preference shares issued.

Common Stock

The number of shares outstanding was as follows:

	2017
Subordinate voting shares – January 1	–
Issuances during the year	20,620,189
Subordinate voting shares – December 31	20,620,189
Multiple voting shares – January 1	1
Issuances during the year	29,999,999
Multiple voting shares – December 31	30,000,000
Common shares effectively outstanding – December 31	50,620,189

Capital Transactions

On February 17, 2017 the company completed its IPO of 5,622,000 subordinate voting shares at an issue price of $10.00 per share for gross proceeds of $56,220 and also issued 22,715,394 multiple voting shares to Fairfax and its affiliates on a private placement basis, for gross proceeds of $227,154. The company's subordinate voting shares began trading on the TSX under the symbol "FAH.U" on February 17, 2017. Concurrent with the IPO and private placements, certain cornerstone investors purchased 14,378,000 subordinate voting shares, on a private placement basis, for gross proceeds of $143,780. Also concurrent with the IPO and private placements, the company acquired a 42.2% indirect equity interest in AFGRI (through the acquisition of the ordinary and class A shares of Joseph Holdings as described in note 5) with a fair value of $74,968 in exchange for 7,284,606 multiple voting shares issued to certain affiliates of Fairfax (upon the winding-up of AgriGroupe LP) and 212,189 subordinate voting shares issued to certain other Joseph Holdings shareholders (the "AFGRI Transaction"). The combined gross proceeds of the IPO, private placements and AFGRI Transaction were $502,122.

On March 2, 2017 a syndicate of underwriters exercised the over-allotment option and the company issued an additional 408,000 subordinate voting shares at an issue price of $10.00 per share for total gross proceeds of $4,080. The exercise of the over-allotment option increased the combined gross proceeds from the IPO, private placements and AFGRI Transaction (collectively "the Offerings") to $506,202 (net proceeds of $493,326 after commissions and expenses of $12,876).

Dividends

The company did not pay any dividends on its total outstanding common shares during 2017.

9. Net Earnings per Share

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

		2017
Net earnings – basic and diluted		23,484
Weighted average shares outstanding – basic		43,329,044
Contingently issuable subordinate voting shares		19,423
Weighted average common shares outstanding – diluted		43,348,467
Net earnings per share – basic	$	0.54
Net earnings per share – diluted	$	0.54

At December 31, 2017 there were 22,294 contingently issuable subordinate voting shares (19,423 on a weighted average basis from February 17, 2017 to December 31, 2017) related to the performance fee payable to Fairfax.

The performance fee is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019. If a performance fee is payable for the period ending on December 31, 2019, it will be paid in subordinate voting shares of the company unless the market price per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash. The number of subordinate voting shares to be issued will be calculated based on the volume weighted average trading price of the subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period in respect of which the performance fee is paid. Refer to note 12 for further details related to the calculation of the performance fee payable and the impact, if any, on contingently issuable subordinate voting shares.

10. Income Taxes

The company's provision for income taxes for the year ended December 31, 2017 is summarized in the following table:

	2017
Current income tax:	
Current year expense	485
Provision for income taxes	485

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

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for income taxes for 2017 is summarized in the following tables:

	2017			
	Canada	**Mauritius**	**South Africa**	**Total**
Earnings (loss) before income taxes	(1,757)	23,901	1,825	23,969
Provision for income taxes	–	106	379	485
Net earnings (loss)	(1,757)	23,795	1,446	23,484

In 2017 the pre-tax losses in Canada were primarily related to interest expense on the Term Loan and LC Facility, investment and advisory fees and performance fees. The pre-tax profitability in Mauritius was principally related to the net realized gains on the Atlas Mara Equity Offering and the Atlas Mara Convertible Bond (see note 5 – Investment in Atlas Mara Limited) and net foreign exchange gains and unrealized gains on the indirect equity interest in AFGRI. The pre-tax profitability in South Africa was primarily related to interest earned on the AFGRI Facility and net foreign exchange gains.

A reconciliation of the provision for income taxes calculated at the Canadian statutory income tax rate to the provision for income taxes at the effective tax rate in the consolidated financial statements for the year ended December 31, 2017 is summarized in the following table:

	2017
Canadian statutory income tax rate	26.5%
Provision for income taxes at the Canadian statutory income tax rate	6,352
Tax rate differential on income earned outside of Canada	(4,531)
Change in unrecorded tax benefit of losses and temporary differences	2,678
Foreign exchange effect	(3,994)
Other including permanent differences	(20)
Provision for income taxes	485

The tax rate differential on income earned outside of Canada of $4,531 in 2017 principally reflected the net change in unrealized gain of a foreign affiliate that was not subject to tax in Mauritius or Canada.

The change in unrecorded tax benefit of losses and temporary differences of $2,678 in 2017 principally reflected net operating loss carryforwards incurred by the company. At December 31, 2017 deferred tax assets in Canada of $6,115 were not recorded by the company because it was not probable that the related pre-tax losses would be realized.

Foreign exchange effect of $3,994 in 2017 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 for the year ended December 31, 2017 were as follows:

	2017
Balance – January 1	
Amounts recorded in the consolidated statements of earnings and comprehensive income	485
Payments made during the year	(403)
Balance – December 31	82

Management reviews the recoverability of the deferred income tax asset on an ongoing basis and adjusts, as necessary, to reflect its anticipated realization of $6,115. Deferred income tax balances at December 31, 2017 were nil as the company has not recorded deferred tax assets that are related to costs of the offerings of $2,456 and net operating losses of $3,659. The net operating loss carryforwards expire in 2037.

Deferred income tax has not been recognized for withholding and other taxes that may be payable on unremitted earnings of certain African Investments. At December 31, 2017 deferred income tax of approximately $1,800 has not been recognized on unremitted earnings of approximately $6,700 that are not likely to be repatriated in the foreseeable future.

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. These risks, and the company's management thereof, are described below.

Market Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or another asset or liability will fluctuate because of changes in exchange rates and as a result, could produce an adverse effect on net earnings and common shareholders' equity when measured in U.S. dollars, the company's functional currency. At December 31, 2017 the majority of assets were denominated in U.S. dollars which is the functional and presentation currency of the company. As a result, the company common shareholders' equity and net earnings may not be significantly affected by foreign currency movements except for items denoted in the table that follows. The company has not hedged its foreign currency risk.

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

	December 31, 2017		
	Cash and cash equivalents	**Investments**	**Total exposure**
Canadian dollars	1,024	–	1,024
South African rand[(1)]	139	119,593	119,732
Mauritius rupees	32	–	32
Total	1,195	119,593	120,788

(1) The company is exposed to the South African rand primarily due to its indirect equity interest in AFGRI and the AFGRI Facility.

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

Interest Rate Risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Typically, as interest rates rise, the fair value of fixed income investments decline and, conversely, as interest rates decline, the fair value of fixed income investments rise. In each case, the longer the maturity of the financial instrument, the greater the consequence of a change in interest rates. The company's interest rate risk management strategy is to position its fixed income portfolio based on its view of future interest rates and the yield curve, balanced with liquidity requirements. General economic conditions, political conditions and many other factors can also adversely affect the bond markets and, consequently, the value of fixed income securities held. Interest rate movements in African countries may affect the company's common shareholders' equity and net earnings. The Portfolio Advisor and Fairfax actively monitor interest rates in African countries for the potential impact changes in interest rates may have on the company's investment portfolio.

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 calculated on an after-tax basis. The impact of the hypothetical change effect on net earnings relating to the AFGRI Facility has not been included in the below sensitivity analysis due to the short duration to maturity.

	December 31, 2017		
	Fair value of fixed income portfolio	**Hypothetical $ change effect on net earnings**	**Hypothetical % change in fair value**
Change in interest rates			
200 basis point rise	18,078	(982)	(6.9)%
100 basis point rise	18,729	(504)	(3.5)%
No change	19,414	–	–
100 basis point decline	20,126	524	3.7%
200 basis point decline	20,629	893	6.3%

Certain shortcomings that are inherent in the method of analysis presented above. Computations of the prospective effects of hypothetical interest rate changes are based on numerous assumptions, including the maintenance of the level and composition of fixed income securities at the indicated date and these should not be relied on as indicative of future results. Actual values may differ from the projections presented should market conditions vary from

assumptions used in the calculation of the fair value of individual securities; these variations include non-parallel shifts in the term structure of interest rates and a change in individual issuer credit spreads.

Market Price Fluctuations

Market price fluctuation is the risk that the fair value or future cash flows of an equity investment will fluctuate due to changes in market prices (other than those arising from interest rate risk or foreign currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market.

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.

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 (indirect equity interest in AFGRI, Nova Pioneer Bonds and Nova Pioneer Warrants).

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

	December 31, 2017	
Change in equity markets	+10.0%	−10.0%
Level 1 equity investments, fair value at December 31	173,603	173,603
Hypothetical $ change effect on pre-tax earnings (loss)	17,360	(17,360)
Hypothetical $ change effect on net earnings (loss)	15,060	(15,060)

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company and arises predominantly with respect to cash and cash equivalents, short term investments and investments in debt instruments.

Cash and Cash Equivalents and Short Term Investments

At December 31, 2017, the company's cash and cash equivalents of $13,012 were primarily held at the holding company in high credit quality Canadian financial institutions. Restricted cash of $313,000 at December 31, 2017 was held by Canadian financial institutions to support the Term Loan and LC Facility described in note 7.

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

The company monitors risks associated with cash and cash equivalents, and short term investments by regularly reviewing the financial strength and creditworthiness of these financial institutions.

Investments in Debt Instruments

The company's risk management strategy for debt instruments is to limit the amount of credit exposure with respect to any one corporate issuer. While the company reviews third party credit ratings, it also carries out its own analysis and does not delegate the credit decision to rating agencies. The company endeavours to limit credit exposure by monitoring fixed income portfolio limits on individual corporate issuers and limits based on credit quality. At December 31, 2017 the company's debt instruments were all considered to be subject to credit risk with a fair value of $43,647 representing 6.6% of the total cash and investment portfolio (12.4% excluding restricted cash of $313,000 at December 31, 2017).

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

	December 31, 2017
Loans – AFGRI Facility[1]	24,233
Bonds – Nova Pioneer Bonds[1]	19,414
Total loans and bonds	43,647

(1) AFGRI Facility and Nova Pioneer Bonds are not rated.

South African Credit Rating Downgrade

The foreign currency credit rating applies to U.S. dollar currency debt, which accounts for about 10% of the government of South Africa's debt. The local currency credit rating applies to debt raised in South African rand through the domestic market. On November 24, 2017 Standard & Poor's Financial Services LLC (''S&P'') downgraded the foreign currency credit rating of the government of South Africa bonds from BB+ to BB, citing a further deterioration in the country's economic outlook arising from weaker growth expectations, a wider budget deficit and rising government debt. S&P also lowered the local currency credit rating from BBB – to BB+. However, S&P raised the outlook on both the foreign and local currency credit ratings to stable from negative, citing their expectation that offsetting fiscal measures will be proposed in the forthcoming 2018 budget. Also in November 2017 Moody's Investors Services, Inc. (''Moody's'') placed South Africa on watch for a downgrade.

The company did not have any investment in U.S. dollar denominated debt of the Government of South Africa at December 31, 2017.

Liquidity Risk

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

The company believes that cash and cash equivalents at December 31, 2017 provides adequate liquidity to meet the company's known significant commitments in 2018, which are principally comprised of investment and advisory fees, corporate income taxes and general and administration expenses. The Term Loan matures in August 2018 and the company will use the cash collateral classified as restricted cash to repay the principal amount of the loan. The company expects to continue to receive investment income on its holdings of fixed income securities to supplement its cash and cash equivalents. Accordingly, the company has adequate working capital to support its operations.

Refer to note 12 for details on the settlement of the performance fees, if any, at the end of the first calculation period, December 31, 2019.

The company is actively seeking investment opportunities in Africa and will continue to re-direct capital from its fixed income portfolio into African Investments as and when those opportunities are identified.

Concentration Risk

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

The company's total cash and investments composition by the issuer's region of domicile was as follows:

	December 31, 2017		
	Africa	**North America**	**Total**
Cash and cash equivalents	657	12,355	13,012
Restricted cash	–	313,000	313,000
Short term investments		32,968	32,968
Loans – AFGRI Facility	24,233	–	24,233
Bonds – Nova Pioneer Investment	19,934	–	19,934
Common stocks:			
Indirect equity interest in AFGRI[(1)]	88,314	–	88,314
Atlas Mara[(2)]	168,671	–	168,671
Other[(3)]	4,932	–	4,932
Total cash and investments	306,741	358,323	665,064

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

(2) Atlas Mara is listed on the London Stock Exchange with its businesses primarily invested in Africa.

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

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

	December 31, 2017
Financial services	168,671
Agriculture	112,547
Education	19,934
Other	4,932
	306,084

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'').

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, 2017 the company determined that it was in compliance with the Investment Concentration Restriction.

Capital Management

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern in order to provide returns for common shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital at December 31, 2017, comprised of the Term Loan and common shareholders' equity, was $666,736 compared to a deficit of $74 at December 31, 2016. The significant increase in total capital principally reflected the impact of the net proceeds received from the Offerings (see note 8) and the Term Loan and net earnings in 2017.

The company had entered into the Term Loan and LC Facility on August 31, 2017 (see note 7 – Borrowings).

The company will continue to use its capital resources to acquire African Investments and pending such investments, the company will invest exclusively in permitted investments.

12. Related Party Transactions

Payable to Related Parties

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

	December 31, 2017	December 31, 2016
Performance fees	319	–
Investment and advisory fees	1,395	–
Other	(232)	860
	1,482	860

At December 31, 2016, payable to related parties of $860 related to IPO expenses which were paid by Fairfax on behalf of the company. Subsequent to closing of the IPO on February 17, 2017 the company settled the amount owing to Fairfax in cash.

Investment Advisory Agreement

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

Performance Fee

The performance fee, if applicable, is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 (the ''first calculation period'') and for each consecutive three-year period thereafter. It is calculated on a cumulative basis, as 20.0% of any increase in common shareholders' equity per share (including distributions) above a 5.0% per annum increase. The amount of common shareholders' equity per share at any time, which must be achieved before any performance fee would be payable, is sometimes referred to as the ''hurdle per share''. The company determined that a performance fee of $319 should be accrued at December 31, 2017 as the book value per share of $10.21 (before factoring in the impact of the performance fee) at December 31, 2017 was greater than the hurdle per share at that date of $10.17.

If a performance fee is payable for the first calculation period, it will be paid within 30 days after the company issues its annual audited consolidated financial statements, in subordinate voting shares of the company unless the market 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 calculation period in respect of which the performance fee is paid. At December 31, 2017 there were 22,294 contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax.

In 2017 a performance fee of $319 was recorded in the consolidated statements of earnings and comprehensive income.

Investment and Advisory Fee

The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. For the year ended December 31, 2017 the company determined a significant portion of its assets were either invested in permitted investments or cash collateral related to the LC Facility. In 2017 the investment and advisory fee recorded in the consolidated statements of earnings and comprehensive income was $3,400.

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.

Director Compensation

Compensation for the company's Board of Directors in 2017 was $150.

Other

Other receivable of $232 at December 31, 2017 is primarily comprised of receivable from related party for expenses incurred by the company on behalf of Fairfax and the Portfolio Advisor.

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 year ended December 31 were comprised as follows:

	2017	**2016**
Brokerage fees	27	–
Audit, legal and tax professional fees	1,253	–
Salaries and employee benefit expenses	418	–
Administrative expenses	378	74
	2,076	74

15. Supplementary Cash Flow Information

Details of certain cash flows included in the consolidated statements of cash flows for the year ended December 31, 2017 were as follows:

	2017
(a) Purchases of investments classified as FVTPL	
Loans	(23,255)
Bonds	(69,614)
Common Stocks	(162,646)
	(255,515)
(b) Sales of investments classified as FVTPL	
Bonds	48,973
	48,973
(c) Net interest	
Interest received	3,861
Interest paid on borrowings	(1,720)
	2,141
(d) Income taxes paid	(403)

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

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations (''MD&A'') should review the 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) The MD&A contains references to book value per share. On any date, book value per share is calculated as common shareholders' equity divided by the total number of common shares of the company outstanding on that date. Book value per share is a key performance measure of the company and is closely monitored as it is used to calculate the performance fee payable, if any, to Fairfax Financial Holdings Limited (''Fairfax'').

(3) 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.

Business Developments

Overview

In April 2016 Fairfax took the initiative in creating Fairfax Africa Holdings Corporation (''the company'' or ''Fairfax Africa''), and is Fairfax Africa's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is principally engaged in property and casualty insurance and reinsurance and investment management. Fairfax is a Canadian reporting issuer with securities listed on the Toronto Stock Exchange (''TSX'') and trading in Canadian dollars under the symbol FFH for over 30 years and in U.S. dollars under the symbol FFH.U.

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.

Capital Transactions

On February 17, 2017 the company completed its initial public offering (''IPO'') of 5,622,000 subordinate voting shares at an issue price of $10.00 per share for gross proceeds of $56,220 and also issued 22,715,394 multiple voting shares to Fairfax and its affiliates on a private placement basis, for gross proceeds of $227,154. The company's subordinate voting shares began trading on the TSX under the symbol ''FAH.U'' on February 17, 2017. Concurrent with the IPO and private placements, certain cornerstone investors purchased 14,378,000 subordinate voting shares, on a private placement basis, for gross proceeds of $143,780. Also concurrent with the IPO and private placements, the company acquired a 42.2% indirect equity interest in AFGRI (through the acquisition of the ordinary and class A shares of Joseph Investment Holdings (''Joseph Holdings'') as described in note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2017) with a fair value of $74,968 in exchange for 7,284,606 multiple voting shares issued to certain affiliates of Fairfax (upon the winding-up of AgriGroupe Investments LP) and 212,189 subordinate voting shares issued to certain other Joseph Holdings shareholders (the ''AFGRI Transaction''). The combined gross proceeds of the IPO, private placements and AFGRI Transaction were $502,122.

On March 2, 2017 a syndicate of underwriters exercised the over-allotment option and the company issued an additional 408,000 subordinate voting shares at an issue price of $10.00 per share for total gross proceeds of $4,080. The exercise of the over-allotment option increased the combined gross proceeds from the IPO, private placements and AFGRI Transaction (collectively ''the Offerings'') to $506,202 (net proceeds of $493,326 after commissions and expenses of $12,876).

On August 31, 2017 the company completed a secured term loan (the ''Term Loan'') with a Canadian bank with a principal amount of $150,000 and bearing interest at a rate of LIBOR plus 100 basis points. In connection with the Term Loan, the company was required to maintain cash collateral of $150,000, which together with interest received of $481, is classified as restricted cash in the consolidated balance sheet at December 31, 2017. On January 31, 2018 the company extended the maturity of the Term Loan to August 31, 2018.

On August 31, 2017 the company entered into a non-revolving term credit facility available by way of a letter of credit in the aggregate amount of $153,900 (2 billion South African rand) (the ''LC Facility'') with a Canadian bank in connection with the company's offer to acquire shares in PPC Limited, a South African company listed on the Johannesburg Stock Exchange. The LC Facility incurred interest at a rate of 100 basis points. Under the terms of the LC Facility, the company was required to contribute cash to a cash-collateral account equivalent to 105.0% of the LC Facility. At December 31, 2017 the company had placed $162,000 in a cash-collateral account, which together with interest received of $519, was classified as restricted cash in the consolidated balance sheet at December 31, 2017. On December 7, 2017 the company rescinded its offer to acquire shares in PPC Limited and the LC Facility was terminated on December 11, 2017. Subsequently, on January 12, 2018, the cash collateral of $162,000 was released from restricted cash.

African Investments

Full descriptions of the African Investments acquired during 2017 are provided in the African Investments section of this MD&A.

Operating Environment

Strong Growth Prospects

According to the United States Department of Agriculture (''USDA''), the GDP of Africa has approximately doubled since 2000. The company believes that this growth has been driven largely by investments in infrastructure, a thriving services sector, and agricultural output. The USDA forecasts for GDP in many African countries show long-term future growth at over 5.0% per year including certain African markets such as Ethiopia, Mozambique, Kenya and Rwanda.

Population Growth and Emergence of Middle Class

According to the African Development Bank, Africa's emerging middle class now comprises more than one-third of all Africans. The company believes that this African middle class will spend increasing levels of discretionary income primarily on consumer goods, energy and education, all of which are key contributors to the forecast economic growth.

Furthermore, according to the United Nations, the African continent has the fastest growing population in the world with Africans projected to account for over half of the 2.4 billion people projected to be added to the global population by 2050. The United Nations projects that by 2030 the African continent's population will be larger than both India and China, and will account for approximately 20.0% of the world's population. The World Bank considers Sub-Saharan Africa to have the world's youngest population with as many as 11 million young Africans expected to enter the workforce each year until 2024. A growing workforce will provide a stable foundation for future productivity enhancements and GDP growth.

Improved Political Stability and Governance

Over the last decade, several countries across the African continent have experienced improved overall governance, political participation and human rights, sustainable economic opportunity, and human development, as measured by the 2016 Ibrahim Index of African Governance. The Ibrahim Index of African Governance provides an annual statistical assessment of the quality of governance in every African country. Further, Africa has experienced improvement in economic freedom, with 30 Sub-Saharan African economies posting annual score improvements since 2013 on the Heritage Foundation 2016 Economic Freedom Index which tracks property rights, freedom from corruption, regulatory efficiency, and the openness of markets.

In December 2017 Cyril Ramaphosa was elected to replace Jacob Zuma as president of South Africa's ruling African National Congress (''ANC''). On February 14, 2018 Mr. Zuma resigned the presidency with immediate effect, and the following day the ANC elected Mr. Ramaphosa to the presidency. As the head of the ANC, Mr. Ramaphosa, in all

likelihood, will be the party's candidate for president in the 2019 elections, which he is widely expected to win. His plan entails the following:

- Job creation – create at least 1 million jobs within five years;
- Prioritize growth and investment – target growth of 3.0% next year (currently 0.7%) and 5.0% by 2023;
- Contain state debt and spending;
- Give the black majority a bigger stake in the economy;
- Reduce the cost of doing business – less onerous regulations for small businesses, energy price regulations and improved infrastructure;
- Improve the education system; and
- Improve the management of state companies.

Business and trade unions appear cautiously optimistic after Mr. Ramaphosa's election, although the extent of work required to transform the country should not be under-estimated.

South African Foreign and Local Currency Credit Ratings

On November 24, 2017 Standard & Poor's Financial Services LLC ("S&P") downgraded the foreign currency credit rating of the government of South Africa bonds from BB+ to BB, citing a further deterioration in the country's economic outlook arising from weaker growth expectations, a wider budget deficit and rising government debt. S&P also lowered the local currency credit rating from BBB – to BB+. However, S&P raised the outlook on both the foreign and local currency credit ratings to stable from negative, citing their expectation that offsetting fiscal measures will be proposed in the forthcoming 2018 budget. Also in November 2017 Moody's Investors Services, Inc. ("Moody's") placed South Africa on watch for a downgrade.

Business Objectives

Investment Objective

Fairfax Africa is an investment holding company. Its investment objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equities 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").

Investment Strategy

The company will employ a conservative, fundamental value based approach to identifying and investing in high quality African businesses, including both public and private businesses. The company's strategy 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 to minimize the loss of capital. The company anticipates that its portfolio will be concentrated, provided that the net proceeds of the Offerings will be invested in at least six different African Investments, such that the impact of any single investment on the performance of the company is moderated.

The company utilizes and expects to benefit significantly from, the experience and expertise of its management, Fairfax, the Portfolio Advisor, Pactorum Limited ("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 invests in businesses that are expected to benefit from Africa's demographic trends that are expected to underpin growth for several years. Sectors of the African economy that the company believes will benefit most from such trends include the energy, food and agricultural, financial services, infrastructure and logistics and 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 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 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 the 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.

Notwithstanding the company's expected long-term investment horizon, the company may at any time and 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 an investment include: (i) where the company believes that the African Investment is fully valued or that the original investment plan has been achieved; or (ii) where the company has identified other investment opportunities that it believes present more attractive risk-adjusted return opportunities and additional capital is needed to make such alternative investments. The company may exit its private African Investments either through an initial public offering or a private sale. For publicly traded investments, exit strategies may include selling the African Investments through private placements or public markets.

In addition, the company may in the future establish one or more infrastructure or private equity funds focused on investments in Africa. In such an event, the company would, directly or indirectly, manage such infrastructure and private equity funds in order to generate fee revenue for the company.

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 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, 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 focuses on businesses that have positive, stable cash flows that can be purchased at what the company believes are attractive valuations. While the company does not intend to invest in start-up businesses or businesses that have speculative business plans, it may invest a portion 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 and commitment to high ethical standards. 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 that the Portfolio Advisor expects exist in the African economy. The company 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 and the company and their respective affiliates conduct thorough due diligence investigations when evaluating any African Investments prior to a recommendation from the Portfolio Advisor to make an investment. 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''). African Investments may be financed through equity or debt offerings as part of the company's objective to reduce its cost of capital and provide returns to common shareholders.

The company intends to make multiple different investments as part of its prudent investment strategy in a manner that complies with Investment Concentration Restriction. At December 31, 2017 the company determined that it was in compliance with the Investment Concentration restriction.

African Investments

Cautionary Statement Regarding Financial Information of Significant African Investments

Fairfax Africa has agreed to voluntarily provide within its MD&A, summarized unaudited financial information prepared for all of its African Investments for which it had previously filed a business acquisition report in accordance with section 8.2 of *National Instrument 51-102 Continuous Disclosure Obligations*. AFGRI Holdings Proprietary Limited (''AFGRI'') prepares its financial statements in accordance with IFRS as issued by IASB and are presented in U.S. dollars. Atlas Mara Limited (''Atlas Mara''), a listed entity on London Stock Exchange, prepares its financial statements in accordance with IFRS as adopted by the European Union and are presented in U.S. dollars. Fairfax Africa is limited in respect to the amount of independent verification it is able to perform with respect to the financial statements of AFGRI and Atlas Mara. Such financial information is the responsibility of the respective managements.

The unaudited summarized financial information for AFGRI and Atlas Mara included in this MD&A are the latest information available to Fairfax Africa's management and should be read in conjunction with Fairfax Africa's consolidated financial statements for the year ended December 31, 2017 and the notes thereto and the related MD&A as well as Fairfax Africa's other public filings, including the company IPO prospectus filed on February 8, 2017. Fairfax Africa has no knowledge that would indicate that the unaudited summarized financial information of AFGRI and Atlas Mara contained herein requires material modifications. However, readers are cautioned that the AFGRI and Atlas Mara unaudited summarized financial information contained in the MD&A may not be appropriate for their purposes.

Summary of African Investments

The table below provides a summary of the company's African Investments completed at December 31, 2017:

	Date Acquired	Ownership %	Cost	Fair value at December 31, 2017	Net Change
Public African Investments:					
Atlas Mara ordinary shares[1]	August 31, 2017	43.3%	170,488	168,671	(1,817)
Other[2]		<5%	4,428	4,932	504
			174,916	173,603	(1,313)
Private African Investments:					
Indirect equity interest in AFGRI[3]	February 17, 2017	42.2%	74,968	88,314	13,346
AFGRI Facility	June 21, 2017	–	23,255	24,233	978
Nova Pioneer Investment	August 22, 2017	–	20,000	19,934	(66)
			118,223	132,481	14,258
Total African Investments completed at December 31, 2017			293,139	306,084	12,945

(1) Cost includes a non-cash net realized gain on Atlas Mara Convertible Bond of $5,098 and Atlas Mara Equity Offering of $6,055 (see note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2017).

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

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

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 2017 were as follows:

	Public African Investments		Private African Investments			
	Common stock		Common stock	Loans	Bonds	
	Atlas Mara[1]	Other[2]	Indirect equity interest in AFGRI[3]	AFGRI Facility	Nova Pioneer Investment[4]	Total African Investments
Balance as of January 1, 2017	–	–	–	–	–	–
Purchases	170,488	4,428	74,968	23,255	20,000	293,139
Net change in unrealized gains (losses) on investments included in the consolidated statements of earnings and comprehensive income	(1,817)	45	4,200	–	(66)	2,362
Net foreign exchange gains included in the consolidated statements of earnings and comprehensive income	–	459	9,146	978	–	10,583
Balance as of December 31, 2017	168,671	4,932	88,314	24,233	19,934	306,084

(1) Purchases include a non-cash net realized gain on Atlas Mara Convertible Bond of $5,098 and Atlas Mara Equity Offering of $6,055 (see note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2017).

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

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

(4) Included a change in unrealized loss of $586 on the Nova Pioneer Bonds, partially offset by a change in unrealized gain of $520 on the Nova Pioneer Warrants. The fair value of the Nova Pioneer Bonds and Nova Pioneer Warrants were $19,414 and $520 at December 31, 2017.

Public African Investments

The fair values of Atlas Mara, whose shares are listed on the London Stock Exchange and Other African Investments, whose shares are listed on the Johannesburg Stock Exchange, are determined using the bid prices of that investment (without adjustments or discounts) at the balance sheet date.

Atlas Mara Limited

Business Overview

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

Atlas Mara focuses on execution across three business lines: Retail and Commercial Banking, Markets and Treasury, and Fintech.

Retail and Commercial Banking

Atlas Mara's banking business provides banking services to retail, small- and medium-sized enterprises (''SMEs'') and corporate clients through physical branch networks, third party partnerships and digital channels.

The banking unit provides a wide range of products for SMEs and corporate clients including short term working capital finance, trade finance services, medium and long term investment credit, treasury services and transactional banking. Atlas Mara leverages its regional footprint to facilitate investment and funds flows for regional and multinational corporate clients domiciled in its presence countries.

The business line offers a full suite of customer lifecycle products to its retail customers through current and savings accounts, personal short term loans, auto, home and mortgage financing.

Markets and Treasury

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

Atlas Mara's onshore strategy of income diversification across fixed income, currencies and balance sheet management has benefited the company during 2017, despite a slow foreign exchange environment in several markets. The focus of the onshore markets business continues to be on diversifying both product range and client base.

Fintech

Fintech is focused on reaching a broader, often un-banked or under-banked, African population through technology, especially mobile applications through partnerships. Atlas Mara has secured strategic partnerships with VISA, MasterCard, Safaricom (a Vodafone company) and Orange Telecommunications for various initiatives.

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

Transaction Description

Investment in Atlas Mara Limited

Atlas Mara Convertible Bond

On July 17, 2017 the company invested $100,000 in Atlas Mara through the purchase of a mandatory convertible bond (the ''Atlas Mara Convertible Bond'') with an interest rate of 5.0% per annum which increased to 10.0% per annum on August 31, 2017. On August 31, 2017, concurrent with the closing of the Atlas Mara Equity Offering (described below), the Atlas Mara Convertible Bond (including accrued interest) was converted into 44,722,222 ordinary shares of Atlas Mara at the Issue Price (defined below).

Atlas Mara Equity Offering

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

Additional Atlas Mara Shares Acquired

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

At December 31, 2017, the fair value of the company's investment in Atlas Mara was $168,671 and comprised of 71,958,670 ordinary shares representing a 43.3% equity interest. At December 31, 2017 the company held four out of the nine board representatives of Atlas Mara.

Key Business Drivers, Events, and Risks

Financial services is a key sector underpinning Africa's emergence. According to Pew Research Center, approximately 65.0% of the Sub-Saharan African population lacks a bank account, and access to credit remains difficult in many African economies. However, rapid technological advancements are increasing Africans' access to financial services, such as electronic payments with over 70.0% mobile penetration in some countries.

According to McKinsey & Company, Africa is urbanizing faster than any other continent as between 2015 and 2025 Africa is projected to add 187 million people to its cities, resulting in a projected 11 cities with a population between 5 and 10 million people and 4 cities with a population greater than 10 million. This influx of sophisticated urban consumers is expected to support ongoing demand for 21st century financial services across the continent.

These macro developments strengthen Atlas Mara's position as a significant pan-African financial services platform with the ability to invest in currently under-serviced sectors, including credit, trade finance, payments and identity.

During the third quarter of 2017 Atlas Mara secured $30 million long-term line of credit with the French and Dutch Development Finance Institutions, Proparco French Development Agency and FMO Entrepreneurial Development Bank, to support Banque Populaire du Rwanda, part of the Atlas Mara Group in Rwanda. Proceeds from this funding will be used to support Atlas Mara's SMEs, corporate and Fintech operations.

In October 2017 the CFO stepped down and has been replaced on an interim basis by the Managing Director of Strategy and Investments.

Other key developments in Atlas Mara's key business lines are as follows:

Retail and Commercial Banking

In March 2017, Atlas Mara closed a $40 million debt facility provided by the Overseas Private Investment Corporation (''OPIC'') to its subsidiary Botswana operation. The facility will be used to provide access to finance for SMEs and to support the acceleration of digital finance initiatives.

Acquisitions and organic growth remain a core tenet of Atlas Mara's strategy. On October 1, 2017, Atlas Mara completed its investment in the Union Bank of Nigeria (''UBN'') of 13.4% for a total cash consideration of $55 million, increasing Atlas Mara's equity interest in UBN to 44.5%.

In September 2017 UBN launched a 49.7 billion Nigerian Naira (approximately $135 million) rights issue, which closed on October 30, 2017 and received regulatory clearance in December 2017. Approximately 80% of the proceeds will be used by UBN for working capital and to enhance the banks regulatory capital requirements, with the remainder directed towards investments in financial technology, digitalization and enhanced service delivery. Atlas Mara fully subscribed to the rights related to its pre-existing 44.5% shareholding, and acquired through the rights issue, additional shares representing a 3.5% shareholding, at an aggregate cost of $75 million. Following completion of the rights issue, Atlas Mara's equity interest in UBN increased from 44.5% to 48.0%.

Atlas Mara recapitalised the Tanzania business during the third quarter to increase the capital adequacy ratio from 13.4% to 18.0%.

In November 2017 a re-branding of banking operations in Zambia was completed through the combination of African Banking Corporation Zambia Limited and Finance Bank Zambia Limited (''FBZ'') under the name Atlas Mara Zambia. Zambia is the first country where the operational entities carry the Atlas Mara brand. Integration of FBZ (acquired in 2016) continues with staff reductions and the launching of a harmonized product set and tariff guide for retail and corporate banking.

In Zimbabwe, more than 1,000 point of sale terminals were rolled out during the year. Deployments continue to grow rapidly as cash shortages persist.

Markets and Treasury

In the third quarter of 2017, Atlas Mara launched offshore sales and trading capability in foreign exchange and fixed income to broaden its services offered to clients with an initial focus on strategic hedging, which has positively impacted net earnings by reducing currency risk exposure.

Fintech

Atlas Mara also launched agency banking services in Tanzania during the fourth quarter of 2017 in partnership with Maxcom Telecommunications, through 8,000 points of sale nationwide. Agency banking services were also introduced in Mozambique, where 5 agents have been on-boarded.

As the newest business line, Fintech revenue remains low relative to the overall consolidated results of Atlas Mara, but growth is accelerating.

Valuation and Consolidated Financial Statement Impact

Atlas Mara Convertible Bond

In 2017 the company recorded interest income on the Atlas Mara Convertible Bond of $1,117 and a net realized gain on the conversion of the Atlas Mara Convertible bond of $5,098 in the consolidated statements of earnings and comprehensive income in 2017.

Atlas Mara Equity Offering and Additional Shares Acquired

The company's Commitment to acquire shares at a fixed price was determined to be a derivative financial instrument under IFRS. The appreciation of the Atlas Mara share price to $2.375 per share on the expiry date of the Commitment (August 31, 2017) resulted in the recognition of a net realized gain on investments of $6,055 recorded in the consolidated statements of earnings and comprehensive income in 2017.

At December 31, 2017 the fair value of the company's investment in Atlas Mara was $168,671. The change in fair value of the company's investment in Atlas Mara is presented in the table disclosed earlier in the African Investments section of this MD&A. Atlas Mara's share price decreased slightly by 1.3% from $2.375 at initial acquisition to $2.344 per share at December 31, 2017.

Atlas Mara's Summarized Financial Information

Atlas Mara and the company's fiscal years both end on December 31. As of March 9, 2018, Atlas Mara had not yet released its December 31, 2017 audited financial statements and as a result were not made available to Fairfax Africa. Summarized below are Atlas Mara's balance sheets at September 30, 2017 and December 31, 2016.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2017	December 31, 2016
Current assets	2,230,900	2,168,075
Non-current assets	723,500	587,917
Current liabilities	1,855,800	1,884,275
Non-current liabilities	341,100	345,662
Shareholders' equity	757,500	526,055

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

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

Current liabilities decreased primarily due to lower accruals and payables.

Non-current liabilities decreased primarily due to decreased long term borrowings arising from repayment of debt.

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

Summarized below are Atlas Mara's statements of earnings for the nine months ended September 30, 2017 and 2016.

Statements of Earnings
(unaudited – US$ thousands)

	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Revenue	169,600	163,800
Earnings before taxes	20,800	4,100
Net earnings	15,800	4,000

Revenues increased primarily due to higher net interest income from FBZ, partially offset by lower non-interest income from Botswana and Mozambique, which experienced a decline in trading revenue. Net earnings increased primarily due to a reduction in cost of funds, a decrease in operating expenses arising from cost saving initiatives as well as a reduction in transaction, restructuring and reorganization expenses.

Other

During the fourth quarter of 2017 the company acquired common shares of various public companies listed on the Johannesburg Stock Exchange (''Other Public African Investments'') for aggregate cash consideration of $4,428 (fair value of $4,932 at December 31, 2017). The change in fair value of the company's investment in these Other Public African Investments are presented in the table disclosed earlier in the African Investments section of this MD&A.

Private African Investments

Cautionary Statement Regarding the Valuation of Private African Investments

In the absence of an active market for the company's Private African Investments, fair values of these investments are determined by management using industry acceptable valuation methodologies after considering the history and nature of the business, operating results and financial conditions, outlook and prospects, general economic, industry and market conditions, contractual rights relating to the investment, public market comparables (if available) and,

where applicable, other pertinent considerations. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed. The amounts at which the company's private African Investments could be disposed of may differ from the fair values assigned and those differences may be material.

AFGRI Holdings Proprietary Limited

Business Overview

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

AFGRI's long-term growth strategy is based on a vision to drive food security across Africa. AFGRI currently has operational activities aimed at supporting agriculture in Zambia, Zimbabwe, Mozambique, Nigeria, Ghana, Congo-Brazzaville, Botswana and Uganda with plans to expand into additional African countries. AFGRI also has a John Deere operation in Australia, an animal feeds research and development venture in the United Kingdom and an investment in animal feeds in the United States of America. AFGRI's current strategic initiatives also includes growing its existing financial services business, which is currently centered on providing credit, trade and commodity finance, insurance, payments and related products and services to the agricultural sector.

During 2017 AFGRI undertook a corporate reorganization to create a holding company structure with independent invested companies. The primary purpose of the reorganization is to create portfolios of similar businesses that are well-positioned to capture opportunities in the market and lead the next phase of AFGRI's growth, align management incentives and to better facilitate capital deployment at each company as required. The reorganization was completed in the fourth quarter of 2017.

AFGRI's principal lines of business are as follows:

AFGRI Agricultural Services

Agricultural services focuses on grain management, silos, equipment, agricultural finance and insurance, retail and farmer development. AFGRI manages critical components of the food value chain to enable food production and agricultural sector growth in Africa. It is also a market leader in grain management solutions, with leading market share in South Africa, and is one of Africa's largest grain storage companies with 69 silos and 15 bunkers across South Africa, which have more than 5 million tonnes of storage capacity. AFGRI also manages one of South Africa's loan books to the agricultural sector on behalf of the Land Bank, with an average loan book value for fiscal year 2017 of approximately $0.7 billion (10.3 billion South African rand).

Philafrica Foods (''Philafrica'')

Philafrica owns and operates maize mills, wheat mills, oilseed-crushing and extraction of 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 is as also one of South Africa's leading animal feed manufacturers with a production capacity of approximately 1 million tonnes per annum.

AFGRI Investment Services

AFGRI investment services is focused on finance and technology to the agriculture sector and non-agriculture joint ventures. The investment services operations also provide collateral management solutions, such as monitoring status, quality and quantity of collateral of various parties, in 13 African countries on behalf of banks, insurers and customers.

AFGRI International

AFGRI International is focused on operations outside of South Africa.

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

Transaction Description

Indirect Equity Interest in AFGRI

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

Fairfax had invested in AFGRI prior to the company's February 2017 investment and was able to recommend for appointment five board representatives, out of the ten board members, through Joseph Holdings. At December 31, 2017 the company did not have any additional board representation in AFGRI, but is considered to have board representation through the original Fairfax board representatives.

AFGRI Facility

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

The AFGRI Facility was initially scheduled to mature on December 23, 2017 with an option for AFGRI to repay the AFGRI Facility in shares, subject to certain conditions on maturity. On December 19, 2017, the company revised the terms of the AFGRI Facility and extended the maturity date from December 23, 2017 to the earlier of January 31, 2018, or the date the participating AFGRI Shareholders subscribe for shares in AFGRI, pursuant to the AFGRI Rights Offer (discussed below). During the extension period, the interest rate on the AFGRI facility was increased to South African Prime plus 6.0% per annum. On January 31, 2018 the AFGRI facility including accrued interest was repaid.

Subsequent to December 31, 2017

AFGRI Rights Offer

On January 31, 2018, AFGRI completed its previously announced rights issue and raised $43,676 (518.6 million South African rand) at 2.27 South African rand per ordinary share (the "Rights Offer"). Joseph Holdings maintained its 60.0% equity interest in AFGRI through the purchase of 137,074,140 ordinary shares for a total purchase price of $26,206 (311.2 million South African rand). To fund the additional investment in AFGRI, Joseph Holdings requested its shareholders to provide funding on a pro rata basis consistent with their equity interest in Joseph Holdings. Certain shareholders of Joseph Holdings declined to take up their pro rata share which resulted in the company acquiring more than its pro rata share to cover the shortfall. Following the completion of the Rights Offering, the company owned a 72.9% equity interest in the ordinary shares and a 73.3% interest in the class A shares of Joseph Holdings and a 43.8% indirect equity interest in AFGRI.

Philafrica Bridge Loan

On February 28, 2018 Fairfax Africa entered into a secured lending arrangement with Philafrica Foods Proprietary Ltd. ("Philafrica"), a wholly-owned subsidiary of AFGRI, pursuant to which Fairfax Africa will provide Philafrica with $27,958 (330 million South African rand) of financing (the "Philafrica Bridge Loan"). The Philafrica Bridge Loan was provided on an interim basis in advance of an anticipated equity issue by Philafrica, in the form of a rights offering to the existing AFGRI shareholders. The funds received from the Philafrica Bridge Loan will be used to complete a corporate reorganization and fund strategic acquisitions. Funds will be advanced within 10 days of closing (the "Advance Date"), subject to certain conditions being met.

The Philafrica Bridge Loan is guaranteed by AFGRI Operations Proprietary Limited, a wholly-owned subsidiary of AFGRI, and subordinated to commercial bank debt. The Philafrica Bridge Loan matures within 210 days of the Advance Date, with an option for Philafrica to repay in shares, subject to approval of at least 75% of AFGRI

shareholders. The Philafrica Bridge Loan bears interest at a rate of South African Prime plus 2.0% per annum, payable monthly in arrears or capitalized to loan amount at the election of Philafrica. Upon maturity, in the event 75% AFGRI shareholder approval is not received to repay the loan in shares, the interest rate will be increased retroactively to South African Prime plus 4% per annum. Fairfax Africa earned a fee equal to 2.0% of the loan proceeds on signature which is payable at maturity or upon repayment of the Philafrica Bridge Loan. The company earns interest on the fee at the same rate as the loan.

Key Business Drivers, Events, and Risks

In December 2017 Cyril Ramaphosa was elected to replace Jacob Zuma as president of South Africa's ruling African National Congress (''ANC''). On February 14, 2018, Mr. Zuma resigned the presidency with immediate effect, and the following day the ANC elected Mr. Ramaphosa to the presidency. As the head of the ANC, Ramaphosa, in all likelihood, will be the party's candidate for president in 2019 elections, which he is widely expected to win.

On November 24, 2017, S&P downgraded the foreign currency credit rating of government of South Africa bonds from BB+ to BB, citing a further deterioration in the country's economic outlook arising from weaker growth expectations, a wider budget deficit and rising government debt. S&P also lowered the local currency credit rating from BBB – to BB+. However, S&P raised the outlook on both the foreign and local currency credit ratings to stable from negative, citing their expectation that offsetting fiscal measures will be proposed in 2018. Also in November 2017, Moody's placed South Africa on watch for a downgrade.

Notwithstanding the political and economic climate, AFGRI's South African businesses are taking advantage of the current favourable agricultural environment following the end of last year's harsh drought. Drought conditions in southern Africa have eased in recent months, with rainfall substantially above historical averages in many of the South African provinces in which AFGRI operates. As a result, management expects trading conditions to improve to normalized levels during the 2018 fiscal year. According to the South Africa Crop Estimates Committee, South Africa's national maize forecast is 16.7 million tonnes for calendar year 2017, more than doubling from 2016 and representing one of South Africa's most productive grain outputs since 1981. AFGRI is already seeing the benefit of this turnaround in increased receipts in its grain silos and an uptick in equipment sales. The exceptional harvest is expected to positively impact profitability not only in grain management, but also in the mechanization businesses in the 2018 fiscal year, as farmers use their higher income to catch up on equipment purchases delayed during the prior two-year drought.

The business environment in the rest of Africa remains challenging amid the retraction in global commodity prices and political uncertainty in some countries.

As part of a strategy to expand its financial services businesses, AFGRI announced in February 2017 that it had agreed to acquire National Bank of Greece Group's (''NBG's'') 99.8% stake in the South African Bank of Athens (''SABA''). The sale by NBG, Greek's second largest bank by total assets, was part of the bank's restructuring plan agreed with banking regulators to boost its capital position. Established in 1947, SABA provides banking services to medium-sized local businesses. It offers comprehensive traditional business banking such as lending, transaction banking, treasury and foreign exchange. The acquisition of SABA provides AFGRI with a retail and alliance banking platform for current and prospective AFGRI customers that allows AFGRI to continue with its focus on innovation as an enabler to food security. The acquisition was approved by the competition authorities, with closing still expected by the first quarter of 2018, subject to approvals from each of the South African Reserve Bank and Ministry of Finance.

Philafrica recently appointed Roland DeCorvet as a new Chief Executive Officer to focus on growth in this segment.

Valuation and Consolidated Financial Statement Impact

Indirect Equity Interest in AFGRI

At December 31, 2017 the fair value of the company's indirect equity interest in AFGRI, acquired through the company's ownership in Joseph Holdings, was $88,314. Given that the class A shares of Joseph Holdings are redeemable at a fixed price of $49,967, the $38,347 residual amount was allocated to the ordinary shares of Joseph Holdings. The fair value was based on an internal valuation model which consisted of a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.6% to 25.1% and a long term growth rate of 3.0%. Free cash flow projections were based on EBITDA derived from financial information for AFGRI's business units prepared in the fourth quarter of 2017 by AFGRI's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which AFGRI operates.

The change in fair value of the company's indirect equity interest in AFGRI is presented in the table at the outset of the African Investments section of this MD&A. The $13,346 increase in fair value is primarily due to an unrealized foreign exchange gain of $9,146 arising from a decline in the South African rand and an unrealized gain of $4,200 arising from improved operating results as AFGRI recovered from the impact of a drought from the previous year.

AFGRI Facility

At December 31, 2017, the company estimated the fair value of the AFGRI Facility based on market rates and creditworthiness to be $24,233. The change in the fair value of the AFGRI Facility reflects an unrealized foreign exchange gain of $978 arising from a decline in the South African rand.

In 2017 the company had also recorded interest income of $1,982 in the consolidated statements of earnings and comprehensive income related to the AFGRI facility.

AFGRI's Summarized Financial Information

The company's fiscal year ends on December 31 and AFGRI's fiscal year ends on March 31. As of March 9, 2018, AFGRI had not yet released its December 31, 2017 unaudited interim financial statements and as a result were not made available to Fairfax Africa. Summarized below are AFGRI's balance sheets at September 30, 2017 and its most recent fiscal year end March 31, 2017.

Balance Sheets
(unaudited – US$ thousands)

	September 30, 2017	**March 31, 2017**
Current assets	499,474	400,236
Non-current assets	357,341	334,342
Current liabilities	450,111	339,121
Non-current liabilities	257,286	253,071
Shareholders' equity	149,418	142,386

The increase in current assets primarily reflected an increase in inventories, trade and other receivables, cash and cash equivalents arising from improved operating results due to a recovery from the drought in the previous year, partially offset by a reduction in derivative financial instruments. The increase in non-current assets primarily related to an increase in financial receivables, capital expenditures, goodwill and deferred tax assets, partially offset by a decrease in other intangible assets, and loans to and investments in joint ventures. The increase in current liabilities primarily related to increases in trade and other payables, the short-term portion of long-term borrowings, commodity finance and borrowings from banks to finance trade receivables, partially offset by a reduction in derivative financial instruments. Non-current liabilities primarily comprised long-term loans and borrowings.

Summarized below are AFGRI's statements of earnings for the six months ended September 30, 2017 and 2016.

Statements of Earnings
(unaudited – US$ thousands)

	Six months ended September 30, 2017	**Six months ended September 30, 2016**
Revenue	478,331	385,043
Earnings before taxes	13,027	(4,045)
Net earnings	8,656	(3,650)

AFGRI's revenue and net earnings were favourably impacted by rainfall in 2017 that was substantially above historical averages, partially offset by the foreign exchange impact of the depreciation of the South African rand and high volatility of agricultural commodity prices.

Nova Pioneer Education Group

Business Overview

Nova Pioneer Education Group (''Nova Pioneer'') is an African independent school network offering preschool through secondary education for students from ages 3 through 19. Nova Pioneer was started in 2014, and launched its first campus in 2015 in South Africa, and in 2017 operated 6 schools across 5 campuses with a combined approximately 1,300 students: approximately 400 in Kenya across 2 schools and approximately 900 in South Africa across 4 schools. Average tuition per student is approximately $3,000 per year 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 Facility

On June 8, 2017 Fairfax Africa, through a wholly owned subsidiary, entered into a secured lending arrangement with Ascendant Learning Limited (''Ascendant''), the Mauritius based parent entity of Nova Pioneer. In advance of the secured lending arrangement, Ascendant was permitted to borrow up to $4,000 (the ''Nova Pioneer Facility'') for the benefit of Nova Pioneer. The Nova Pioneer Facility had an initial interest rate of 5.0% per annum, which increased to 18.0% per annum on June 30, 2017. The Nova Pioneer Facility was secured against certain assets of Ascendant and its subsidiaries. On June 8, 2017 and August 10, 2017, Ascendant borrowed $3,000 and $1,000, respectively, on the Nova Pioneer Facility.

On August 22, 2017 the Nova Pioneer Facility was converted into the Nova Pioneer Investment (discussed below).

Nova Pioneer Investment

On June 30, 2017 Fairfax Africa announced an investment in Nova Pioneer which consisted of $20,000 of secured debentures maturing on December 31, 2024 (the ''Nova Pioneer Bonds'') and 2,000,000 warrants (the ''Nova Pioneer Warrants''), collectively the ''Nova Pioneer Investment'', to be issued in tranches. At December 31, 2017, Ascendant had issued the full $20,000 of the Nova Pioneer Bonds and 2,000,000 Nova Pioneer Warrants. The proceeds of the Nova Pioneer Investment will be used to support Nova Pioneer's growth initiatives, as well as for working capital requirements and for general corporate purposes.

The Nova Pioneer Bonds bear interest at a rate of 20.0% per annum and are redeemable by Ascendant at par at any time after June 30, 2021, except in circumstances relating to a change of control or a value realization event. Each Nova Pioneer Warrant can be exercised by the company to acquire one ordinary share of Ascendant. Other than in circumstances relating to a change of control or a value realization event, the Nova Pioneer Warrants may be exercised after June 30, 2021. The Nova Pioneer Bonds are not rated.

At December 31, 2017 the company did not have any board representation in Nova Pioneer.

Key Business Drivers, Events, and Risks

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. Nova Pioneer's management is targeting a rollout of more than 20 new campuses across East, South and West Africa over the next 5 years. The enrollment is expected to increase by approximately 11,000 students, with an enrollment capacity of approximately 25,000 students. Each African market will be developed with a specific entry plan tailored to local markets, target communities and related political framework.

Companies in Africa must consider the local market conditions for success before transplanting an existing model that has worked elsewhere within the continent. Taking this into consideration, the Nova Pioneer team intends to secure strategic local partnerships in advance of entering a new local market.

Nova Pioneer is committed to putting educational excellence above short term growth. Rigorous leadership and teacher training are critical to ensuring the success of the schools. Nova Pioneer schools typically only enroll a limited number of grades when starting a school, and thereafter enroll one to two grades at a time each year in order to infuse the right culture in the campus.

Valuation and Consolidated Financial Statement Impact

Nova Pioneer Facility

In 2017 the company recorded interest income of $94 in the consolidated statements of earnings and comprehensive income related to the Nova Pioneer Facility.

Nova Pioneer Investment

In 2017 the company recorded interest income of $1,016 in the consolidated statements of earnings and comprehensive income relating to the Nova Pioneer Bonds.

At December 31, 2017 the company estimated the fair value of Nova Pioneer Investment (comprised of the Nova Pioneer Bonds and Nova Pioneer Warrants) using an industry accepted discounted cash flow and option pricing model that incorporated Nova Pioneer's estimated credit spread of 18.9%. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Nova Pioneer.

At December 31, 2017 the fair value of the Nova Pioneer Bonds was estimated at $19,414 and the Nova Pioneer Warrants at $520. The changes in fair value of the company's Nova Pioneer Investment is presented in the table disclosed earlier in the African Investments section of this MD&A.

Results of Operations

Fairfax Africa's consolidated statements of earnings and comprehensive income for 2017 and the period April 28, 2016 (date of incorporation) to December 31, 2016 are shown in the following table:

	2017	**April 28-December 31, 2016**
Income		
Interest	7,589	–
Net realized gains on investments	11,274	–
Net change in unrealized gains on investments	2,362	–
Net change in foreign exchange gains	10,626	–
	31,851	–
Expenses		
Investment and advisory fees	3,400	–
Performance fees	319	–
General and administration expenses	2,076	74
Interest expense	2,087	–
	7,882	74
Earnings (loss) before income taxes	23,969	(74)
Provision for income taxes	485	–
Net earnings (loss) and comprehensive income (loss)	23,484	(74)
Net earnings per share (basic and diluted)	$ 0.54	$ –

Total income of $31,851 in 2017 was principally comprised of net realized gains on investments of $11,274 primarily related to realized gains on the Atlas Mara Commitment derivative of $6,055 and the conversion of the Atlas Mara Convertible Bond of $5,098 (see Atlas Mara Investment within African Investments section of this MD&A for further details), and net foreign exchange gains of $10,626 (principally relating to the foreign exchange gain in the company's indirect equity interest in AFGRI and the AFGRI Facility). Interest income of $7,589 in 2017 primarily related to the interest earned on the AFGRI Facility, restricted cash, cash and cash equivalents, Atlas Mara Convertible Bond and the Nova Pioneer Bonds. In addition, the net change in unrealized gains on investments of $2,362 in 2017 primarily related to net change in unrealized gains on the indirect equity interest in AFGRI of $4,200, which was partially offset by a net change in unrealized loss on the Atlas Mara ordinary shares of $1,817.

Net gains (losses) on investments and net foreign currency gains (losses) in 2017 were comprised as follows:

	2017		
	Net realized gains	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:			
Bonds:			
Government of South Africa	121	–	121
Nova Pioneer Investment[(1)]	–	(66)	(66)
Atlas Mara Convertible Bond	5,098	–	5,098
Common stocks:			
Indirect equity interest in AFGRI	–	4,200	4,200
Atlas Mara	–	(1,817)	(1,817)
Other[(2)]	–	45	45
Atlas Mara Equity Offering[(3)]	6,055	–	6,055
	11,274	2,362	13,636
Net foreign exchange gains (losses) on:			
Cash and cash equivalents	–	(16)	(16)
Loans – AFGRI Facility	–	978	978
Common stock – indirect equity interest in AFGRI	–	9,146	9,146
Other[(4)]	–	518	518
	–	10,626	10,626

(1) *Included a change in unrealized loss of $586 on the Nova Pioneer Bonds, partially offset by a change in unrealized gain of $520 on the Nova Pioneer Warrants.*

(2) *Unrealized gain of $45 related to common shares of various companies listed on the Johannesburg Stock Exchange.*

(3) *Related to the Commitment derivative on the Atlas Mara Equity Offering (see note 5 (African Investments) to the consolidated financial statements for the year ended December 31, 2017).*

(4) *Primarily related to a foreign exchange gain of $459 from common shares of various companies listed on the Johannesburg Stock Exchange.*

Total expenses of $7,882 in 2017 were primarily comprised of investment and advisory fees of $3,400 (principally related to the company's increased holdings of African Investments), interest expense incurred on the company's term loan and letter of credit facility of $2,087 and general and administration expenses of $2,076 (related to audit, legal, tax and other professional fees).

The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital.

The performance fee, if applicable, is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 (the ''first calculation period'') and for each consecutive three-year period thereafter. It is calculated on a cumulative basis, as 20.0% of any increase in common shareholders' equity per share (including distributions) above a 5.0% per annum increase. The amount of common shareholders' equity per share at any time, which must be achieved before any performance fee would be payable, is sometimes referred to as the ''hurdle per share''. The company determined that a performance fee of $319 should be accrued at December 31, 2017 as the book value per share of $10.21 (before factoring in the impact of the performance fee) at December 31, 2017 was greater than the hurdle per share at that date of $10.17.

The provision for income taxes of $485 in 2017 differed from the provision for income taxes determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily due to income earned outside the local jurisdiction and foreign exchange fluctuations, partially offset by the unrecorded benefit of Canadian deferred tax assets.

The company's reported net earnings of $23,484 (net earnings of $0.54 per basic and diluted share) in 2017 were primarily related to realized gains on investments, net foreign exchange gains and interest income which were partially offset by investment and advisory fees, general and administration expenses and interest expense.

Consolidated Balance Sheet Summary

Total Assets

Total assets at December 31, 2017 of $669,111 (December 31, 2016 – $786) were principally comprised as follows:

Total cash and investments of $665,064 at December 31, 2017 (December 31, 2016 – nil) composition by the issuer's country of domicile was as follows:

	December 31, 2017		
	Africa	North America	Total
Cash and cash equivalents	657	12,355	13,012
Restricted cash	–	313,000	313,000
Short term investments		32,968	32,968
Loans – AFGRI Facility	24,233	–	24,233
Bonds – Nova Pioneer Investment	19,934	–	19,934
Common stocks:			
Indirect equity interest in AFGRI[(1)]	88,314	–	88,314
Atlas Mara[(2)]	168,671	–	168,671
Other[(3)]	4,932	–	4,932
Total cash and investments	306,741	358,323	665,064

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

(2) *Atlas Mara is listed on the London Stock Exchange with its businesses primarily invested in Africa.*

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

Cash and cash equivalents of $13,012 at December 31, 2017 (December 31, 2016 – nil) primarily reflected the net proceeds received from the Offerings completed in the first quarter of 2017 principally held at the holding company.

Restricted cash of $313,000 at December 31, 2017 (December 31, 2016 – nil) were comprised of cash posted as collateral to support the company's outstanding term loan and letter of credit facility (see note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2017).

Short term investments of $32,968 at December 31, 2017 (December 31, 2016 – nil) was comprised of U.S. treasury bills.

Loans, Bonds and Common stocks – The company is actively seeking investment opportunities in Africa and will continue to redirect capital from its cash and cash equivalents, short term investments and loan and bond portfolio into African Investments as and when those opportunities are identified. For more information about recent African Investments, see the African Investments section of this MD&A. For more information on the company's total cash and investment holdings of $665,064 at December 31, 2017 see note 6 (Cash and Investments) to the consolidated financial statements for the year ended December 31, 2017

Interest Receivable of $3,506 at December 31, 2017 (December 31, 2016 – nil) was comprised of interest receivable from the AFGRI Facility ($2,115), Nova Pioneer Bonds ($1,016) and the Term Loan and LC Facility ($374).

Total Liabilities

Total liabilities at December 31, 2017 of $152,375 (December 31, 2016 – $860) were principally comprised as follows:

Payable to related parties of $1,482 at December 31, 2017 (December 31, 2016 – $860) primarily reflected the investment and advisory fees payable to Fairfax and the accrual of the performance fee, partially offset by a receivable for expenses incurred by the company on behalf of Fairfax and the Portfolio Advisor.

Term loan of $150,000 related to the term loan completed on August 31, 2017.

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, 2017 compared to those identified and disclosed in the company's annual information form filed on March 31, 2017 and outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2017.

Capital Resources and Management

The company's objectives when managing capital are to protect its lenders, to safeguard its ability to continue as a going concern in order to provide returns for common shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital at December 31, 2017, comprised of the Term Loan and common shareholders' equity, was $666,736 compared to a deficit of $74 at December 31, 2016. The significant increase in total capital principally reflected the impact of the net proceeds received from the Offerings (see note 8 (Total Equity) to the company's consolidated financial statements for the year ended December 31, 2017) and the Term Loan and net earnings in 2017.

On August 31, 2017 the company had entered into the Term Loan and LC Facility (refer to Overview – Capital Transactions section of this MD&A for further details).

The company will continue to use its capital resources to acquire African Investments and pending such investments, the company will invest exclusively in permitted investments.

Book Value per Share

Common shareholders' equity at December 31, 2017 was $516,736 (December 31, 2016 – deficit of $74). The book value per share at December 31, 2017 was $10.21 primarily reflecting the net proceeds received from the Offerings of $493,326 and net earnings in 2017 of $23,484.

Common shareholders' equity and the book value per share at December 31, 2017 was as follows:

	December 31, 2017
Common shareholders' equity	516,736
Number of common shares effectively outstanding	50,620,189
Book value per share	$ 10.21

The company has issued 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 price per share	Net proceeds
2016 – issuance of shares[2]	–	1	1	$10	$ 10
2017 – issuance of shares[3]	20,620,189	29,999,999	50,620,188	$10	$493,326
	20,620,189	30,000,000	50,620,189		

(1) *Multiple voting shares that may only be issued to Fairfax or its affiliates.*

(2) *Average issue price per shares and net proceeds from issuance of shares for 2016 are shown in whole U.S. dollars.*

(3) *Includes $74,968 in-kind contribution of an indirect equity interest in AFGRI from Fairfax (see Private African Investments section of this MD&A).*

Liquidity

The company believes that cash and cash equivalents at December 31, 2017 provides adequate liquidity to meet the company's known significant commitments in 2018, which are principally comprised of investment and advisory fees, corporate income taxes and general and administration expenses. The Term Loan matures in August 2018 and the company will use the cash collateral classified as restricted cash to repay the principal amount of the loan. The company expects to continue to receive investment income on its holdings of fixed income securities to supplement its cash and cash equivalents. Accordingly, the company has adequate working capital to support its operations. Refer to 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 for the year ended December 31, 2017 of major components of cash flow are presented in the following table:

	2017
Operating activities	
Cash used in operating activities before the undernoted	(2,920)
Net purchases of short term investments classified as FVTPL	(32,659)
Purchases of investments classified as FVTPL	(255,515)
Sales of investments classified as FVTPL	48,973
Increase in restricted cash in support of investment	(162,519)
Financing activities	
Issuance of Term Loan, net of issuance costs	149,775
Increase in restricted cash in support of term loan	(150,481)
Issuance of subordinate voting shares, net of issuance costs	191,204
Issuance of multiple voting shares	227,154
Increase in cash and cash equivalents during the year	13,012

Cash used in operating activities before the undernoted is comprised of net earnings adjusted for items not affecting cash and cash equivalents and changes in operating assets and liabilities. Cash used in operating activities before the undernoted of $2,920 in 2017 primarily related to payment of investment and advisory fees, general and administrative expenses and interest expense, partially offset by interest income received on the company's investments.

Net purchases of short term investments classified as FVTPL of $32,659 in 2017 are related to net purchases of U.S. treasury bills.

Purchases of investments classified as FVTPL of $255,515 in 2017 related to the investments in Atlas Mara, Government of South Africa bonds, the AFGRI facility, Nova Pioneer Bonds and purchases of common shares of various companies listed on the Johannesburg Stock Exchange.

Sales of investments classified as FVTPL of $48,973 in 2017 are related to proceeds from the sale of Government of South Africa bonds to support the company's purchases of African Investments.

Increase in restricted cash in support of investment of $162,519 in 2017 is related to cash collateral as described in note 7 (Borrowings) to the consolidated financial statements for the year ended December 31, 2017.

Issuance of term loan (net of issuance costs) related to a secured term loan with a Canadian bank for $150,000 in respect of which a cash collateral of $150,000 is maintained by the company. The cash collateral is classified as restricted cash as at December 31, 2017. On January 31, 2018 the maturity date of the $150,000 term loan was extended to August 31, 2018.

Issuance of subordinate voting shares, net of issuance costs of $191,204 and issuance of multiple voting shares of $227,154 in 2017 reflected net proceeds received from the Offerings. Issuance costs were primarily comprised of fees paid to underwriters of the subordinate voting shares. Refer to note 8 (Total Equity) to the consolidated financial statements for the year ended December 31, 2017 for details.

Contractual Obligations

Under the terms of the Investment Advisory Agreement, the company and its subsidiaries are contractually obligated to pay Fairfax an investment and advisory fee and, if applicable, a performance fee. These fees will vary based on the company's common shareholders' equity and book value per share.

In 2017 the investment and advisory fee recorded in the consolidated statement earnings and comprehensive income was $3,400. The performance fee is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 (the "first calculation period") and for each consecutive three-year period thereafter. It is calculated on a cumulative basis, as 20.0% of any increase in common shareholders' equity per share (including distributions) above a 5.0% per annum increase. The amount of common shareholders' equity at any time which must be achieved before any performance fee would be payable is sometimes referred to as the "hurdle per share". The company determined that a performance fee of $319 should be accrued at December 31, 2017 as the book value per share of $10.21 (before factoring in the impact of the performance fee) at December 31, 2017 was greater than the hurdle per share at that date of $10.17.

If a performance fee is payable for the first calculation period, it will be paid within 30 days after the company issues its annual audited consolidated financial statements, in subordinate voting shares of the company unless the market price per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash. The number of subordinate voting shares to be issued will be calculated based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period in respect of which the performance fee is paid. At December 31, 2017 there were 22,294 contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax.

Related Party Transactions

The company's related party transactions are disclosed in note 12 (Related Party Transactions) to the consolidated financial statements for the year ended December 31, 2017.

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, 2017, as required by the Canadian securities legislation. Disclosure controls and procedures are designed to ensure that the information required to be disclosed by Fairfax Africa 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, 2017, 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, 2017. 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)*. The company's management, including the CEO and CFO, concluded that, as of December 31, 2017, 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, 2017.

Significant Accounting Changes

The company completed its initial public offering on February 17, 2017 and commenced its investment activities shortly thereafter. Please refer to note 3 (Summary of Significant Accounting Policies) to the consolidated financial statements for the year ended December 31, 2017 for a detailed discussion of the company's accounting policies.

Future Accounting Changes

Certain IFRS standards are currently undergoing modification or are yet to be issued for the first time. 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, 2017.

IFRS 9 Financial Instruments (''IFRS 9'')

In July 2014 the IASB issued the complete version of IFRS 9 which will supersede the 2010 version of IFRS 9 currently applied by the company. This complete version is effective for annual periods beginning on or after January 1, 2018, with retrospective application, and includes: requirements for the classification and measurement of financial assets and liabilities; an expected credit loss model that replaces the existing incurred loss impairment model; and new hedge accounting guidance.

The company evaluated the impact of IFRS 9 by assessing its business models and the cash flow characteristics of its financial assets to determine their appropriate classifications under the new standard, and is nearing completion of that analysis. The company expects equity investments held within the company's investment portfolio to continue to be classified as FVTPL under IFRS 9, and the classification of financial liabilities to also remain substantially unchanged compared to the 2010 version. The company continues to monitor and consider evolving guidance and interpretations related to IFRS 9 as it works through the classification analysis for its investments in debt instruments. Upon adopting IFRS 9 on January 1, 2018 the company does not expect to restate comparative periods, and will record any necessary adjustments to opening retained earnings as permitted by the standard.

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, 2017 compared to those identified and disclosed in the company's annual information form filed on March 31, 2017 and outlined in note 11 (Financial Risk Management) to the consolidated financial statements for the year ended December 31, 2017.

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.

Geographic Concentration of Investments

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 will be 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 will be particularly sensitive to changes in the condition and regulatory environment in Africa. Adverse changes in the economic condition or regulatory environment of Africa may have a material adverse effect on the company's business, cash flows, financial condition and results of operations.

Financial Market Fluctuations

The company invests in both private businesses and publicly traded businesses. With respect to publicly traded businesses, 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 Western economies and the introduction of austerity measures by 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 results of operations. 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 (from Net Proceeds of the Offering, from future inflows of capital, or otherwise) not yet invested, to hold significant levels of permitted investments. 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 control 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, it will be primarily the responsibility of the management of the business to operate the business on a day-to-day basis and the company may not have the right to control such business.

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, Paul Rivett, Quinn McLean 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 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, operating results 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

For purposes of IFRS-compliant financial reporting, the company's financial assets and liabilities will be 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. However, the company may be required to value its securities at fair value as determined in good faith by the company to the extent necessary to reflect significant events affecting the value of its securities. 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, 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, or in permitted investments, and the financial position and results for these investments are expected to be principally denominated

in currencies other than the United States dollar (other than permitted investments). The company's functional and reporting currency is the United States dollar. Accordingly, the revenues 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.

South African Currency Fluctuations

As a company incorporated in South Africa, SA Sub could be subject to fluctuations in the value of the South African Rand. In recent years, the value of the Rand as measured against the United States dollar, has fluctuated considerably. Fluctuations in the exchange rate between the Rand and the United States dollar could have an impact on the United States dollar or Canadian dollar equivalent of any dividends and distributions of SA Sub's shares, the comparability of SA Sub's results between financial periods and the amount in Rand of any non-Rand denominated debt. In addition, fluctuations in currency exchanges between the Rand and currencies in African countries where SA Sub invests could impact on the value of these investments and net profit.

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 businesses. As minimal public information exists about private 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 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 8, 2018, Fairfax and its affiliates hold a 98.8% and 64.2% voting and equity interest, respectively, in the company through ownership of all of the 30,000,000 issued and outstanding Multiple Voting Shares and 2,500,000 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 and the United States, 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 is seeking to invest in South Africa and that has made the AFGRI Investment, the entities in which the company 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.

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 has 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 African Jurisdictions

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 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. The DTC has not concluded all of its recommendations but published 6 final reports in November 2017. 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.

Trading Price of Common 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 its common 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 common shares may decrease.

Other

Quarterly Data (unaudited)

US$ thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2017					
Income (loss)	2,501	4,139	41,640	(16,429)	31,851
Expenses (recovery)	594	1,187	8,189	(2,088)	7,882
Provision for (recovery of) income taxes	1,357	(812)	432	(492)	485
Net earnings (loss)	550	3,764	33,019	(13,849)	23,484
Net earnings (loss) per share (basic and diluted)	$ 0.02	$ 0.07	$ 0.65	$ (0.27)	$ 0.54

Total loss of $16,429 in the fourth quarter of 2017 primarily related to a net change in unrealized loss on Atlas Mara ordinary shares of $26,866 and an unrealized loss on the indirect equity interest in AFGRI of $1,794, partially offset by net foreign exchange gains of $9,684 principally related to the indirect equity interest in AFGRI and the AFGRI Facility.

Total recovery of $2,088 in the fourth quarter of 2017 primarily related to a recovery of performance fees of $5,314 (as a result of common shareholder's equity decreasing in the fourth quarter of 2017), partially offset by investment advisory fees of $1,395, interest expense of $1,195 and general and administration expenses of $636.

Individual quarterly results have been (and are expected to continue to be) significantly impacted by net unrealized gains or losses on investments, the timing of which is not predictable.

Stock Prices and Share Information

At March 9, 2018, the company had 20,620,189 subordinate voting shares and 30,000,000 multiple voting shares outstanding (an aggregate of 50,620,189 common shares 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. 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. The multiple voting shares are not publicly traded.

The table that follows presents the Toronto Stock Exchange 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 2017.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
		($US)		
2017				
High	10.05	10.75	14.70	15.90
Low	9.65	9.90	10.45	14.05
Close	10.00	10.75	14.20	14.16

Compliance with Corporate Governance Rules

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

Forward-looking statements are based on 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 prospectus or in the documents incorporated by reference herein: taxation of the company; taxation of Fairfax Africa Holdings Investments Limited (''Mauritius Sub'') and Fairfax Africa Investments Proprietary Limited (''SA Sub''); substantial loss of capital; shareholders are not entitled to vote on our proposed investments; long term nature of investment; limited number of investments; geographic concentration of investments; potential lack of diversification; financial market fluctuations; pace of completing investments; control or significant influence position risk; minority investments; ranking of the company's investments and structural subordination; follow-on investments; prepayments of debt investments; risks upon dispositions of investments; bridge financings; reliance on key personnel and risks associated with the administration and investment advisory services agreement; effect of fees; performance fee could induce Fairfax to make speculative investments; operating and financial risks of African investments; allocation of personnel; potential conflicts of interest; the liability of Hamblin Watsa Investment Counsel Ltd. (the ''Portfolio Advisor'') is limited; employee misconduct at the Portfolio Advisor could harm the company; valuation methodologies involve subjective judgments; lawsuits; foreign currency fluctuation; derivative risks; unknown merits and risks of future investments; opinions from independent investment banks or accounting firms are not contemplated; resources could be wasted in researching investment opportunities that are not ultimately completed; investments may be made in foreign private businesses where information is unreliable or unavailable; material, non-public information; illiquidity of investments; competitive market for investment opportunities; use of leverage; investing in leveraged businesses; regulation; potential volatility of Subordinate Voting Share price; dilution; market discount; limited control; financial reporting and other public company requirements; limited voting rights of the Subordinate Voting Shares; significant ownership by Fairfax may adversely affect the market price of the Subordinate Voting Shares; United States Investment company Act of 1940; emerging markets; corporate disclosure, governance and regulatory requirements; legal and regulatory risks; volatility of the African securities markets; political, economic, social and other factors; governance issues risk; tax laws in African jurisdictions; changes in law; South African exchange control regulations; South African currency fluctuations; South African bilateral investment treaties; South African black economic empowerment; enforcement of rights; smaller company risk; due diligence and conduct of potential investment entities; reliance on trading partners; natural disaster risks; sovereign debt risk; and economic risk. 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

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

Louis von Zeuner
Chairman
African Bank

Operating Management

Fairfax Africa Investments Proprietary Limited

Fairfax Africa Holdings Investments Limited

Dylan Buttrick
Managing Director, South Africa and Mauritius

Officers of the Company

Guy Bentinck
Chief Financial Officer and Corporate Secretary

Paul C. Rivett
Vice Chairman of the Company

V. Prem Watsa
Chairman of the Company

Michael Wilkerson
Chief Executive Officer of the Company

Head Office

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Suite 800
Toronto, Ontario, Canada M5J 2N7
Telephone: (416) 367-4755
Website: www.fairfaxafrica.ca

Auditor

PricewaterhouseCoopers LLP

Transfer Agents and Registrars

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 25, 2018 at 2:30 p.m. (Toronto time) at The Sheraton Centre Toronto Hotel, Provincial Ballroom North, 2nd Floor, 123 Queen Street West, Toronto, Canada