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

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

(1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the notes to the interim consolidated financial statements for the three and six months ended June 30, 2017 and the company's audited financial statements and accompanying notes for the year ended December 31, 2016, which were incorporated in the company's IPO prospectus filed on SEDAR on February 8, 2017.

(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"). The performance fee is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20% of any increase in common shareholders' equity per share (including distributions) above a 5% per annum increase.

(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

Fairfax had taken the initiative in creating the company 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 the associated investment management. Fairfax is a Canadian reporting issuer with securities listed on the Toronto Stock Exchange ("TSX") under the symbol FFH (Canadian dollars) FFH.U (U.S. dollars).

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 subsidiaries, responsible to source and advise with respect to all investments.

On February 17, 2017 the company completed its IPO of 5,622,000 subordinate voting shares at a price of $10.00 per share for gross proceeds of $56,220 and 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 these transactions, certain Cornerstone Investors purchased 14,378,000 subordinate voting shares, on a private placement basis, for gross proceeds of $143,780. Concurrent with the closing of the IPO and private placements, the company completed the acquisition of 42.2% indirect interest in AFGRI Holdings Proprietary Limited ("AFGRI") in exchange for 7,284,606 multiple voting shares issued to certain affiliates of Fairfax and 212,189 subordinate voting shares issued to certain other Joseph Holdings shareholders for $74,968 (the "AFGRI Transaction"). The combined gross proceeds of the IPO, private placements and AFGRI Transaction were approximately $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 a price of $10.00 per share for total gross proceeds of approximately $4,080. The exercise of the over-allotment option increased the combined total gross proceeds from the IPO, private placements and AFGRI Transaction (collectively "the Offerings") to approximately $506,202 (net proceeds of $493,326 after issuance costs and expenses).

Full descriptions of the African Investments for the three and six months ended June 30, 2017 are provided in the African Investments section of this MD&A.

South African Credit Rating Downgrade

On April 3, 2017, S&P lowered the foreign currency credit rating of government of South Africa bonds from BBB- to BB+ and assigned a negative outlook, citing fiscal policy risk following the dismissal of the country's finance minister. The foreign currency credit rating applies to U.S. dollar currency debt, which accounts for about 10% of the government South Africa's debt. The local currency credit rating applies to debt raised in South African rand through the domestic market. S&P retained an investment-grade rating for South Africa's local currency credit rating, but put this rating on a negative outlook. On April 7, 2017, FitchRatings downgraded South Africa's foreign and local currency credit ratings from BBB- to BB+, expressing concerns that the replacement of the country's finance minister and the deputy finance minister may result in a change in the direction of the country's economic policy and in a reversal of improvements in state-owned entity governance. On June 9, 2017, Moody's downgraded the long-term issuer and senior unsecured bond rating to Baa3.

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 invests in businesses that are expected to benefit from Africa's pro-business political environment, its growing middle class and its demographic trends that are expected to underpin strong growth for several years. Sectors of the African economy that the company believes will benefit most from such trends include infrastructure, financial institutions, consumer services, retail and exports. The company is not limited to investing solely in these sectors and intends to invest in other sectors as and when opportunities arise.

The company utilizes, and expects to benefit significantly, from the experience and expertise of Fairfax and the Portfolio Advisor.

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

Investment Restrictions

The company will not make an African Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20% 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% 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 June 30, 2017 the company determined that it was in compliance with these investment restrictions.

African Investments

Cautionary Statement Regarding Financial Information of African Investments

Fairfax Africa has agreed to voluntarily provide within its MD&A, unaudited summarized financial information prepared in accordance with IFRS for all of its African Investments for which a business acquisition report in accordance with section 8.2 of *National Instrument 51-102 Continuous Disclosure Obligations ("NI 51-102"*) is required to be filed.

Fairfax Africa is limited in respect to the amount of independent verification it is able to perform with respect to its African Investments financial statements. The unaudited summarized financial information contained in this MD&A was prepared exclusively for Fairfax Africa. Such financial information is the responsibility of the respective managements and has been prepared by them using recognition, measurement and presentation principles consistent with IFRS, and provided to the company.

At June 30, 2017, AFGRI is the only African Investment requiring inclusion of unaudited summarized financial information in this MD&A. The unaudited summarized financial information for AFGRI included in this MD&A is the latest information available to Fairfax Africa's management and should be read in conjunction with Fairfax Africa's historical interim and annual consolidated financial statements (which were incorporated in the company's IPO prospectus filed on SEDAR on February 8, 2017) including the notes thereto and the related MD&A as well as Fairfax Africa's other public filings, including the company IPO prospectus filed on February 8, 2017. Fairfax Africa has no knowledge that would indicate that AFGRI's unaudited summarized financial information contained herein requires material modifications. However, readers are cautioned that the AFGRI unaudited summarized financial information contained in the MD&A may not be appropriate for their purposes.

Cautionary Statement Regarding the Valuation of Private African Investments

In the absence of an active market for its 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.

The table below provides a summary of the company's African Investments completed at June 30, 2017:

	Date Acquired	Ownership %	Initial transaction price	Fair value at June 30, 2017	Net change
Indirect Investment in AFGRI (1)	February 17, 2017	42.2%	74,968	81,222	6,254
AFGRI Facility	June 21, 2017	—	23,255	22,929	(326)
Nova Pioneer Facility (2)	June 8, 2017	—	3,000	3,000	—
Total African Investments completed at June 30, 2017 (3)			101,223	107,151	5,928

(1) Through the ownership in Joseph Holdings, the company is the largest beneficial shareholder of AFGRI with 42.2% indirect equity interest and controls 60% of AFGRI's voting shares.

(2) On June 30, 2017 Fairfax Africa announced that it had agreed to invest $20,000 in Nova Pioneer Eduction Group (see details under Nova Pioneer Eduction Group section in this MD&A).

(3) On June 21, 2017 the company entered into a placing agreement to invest a minimum of $130,000 in Atlas Mara Limited (see details under Atlas Mara Limited section in this MD&A).

AFGRI Holdings Proprietary Limited

Business Overview

A private company based in South Africa, 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 hi-tech equipment through the John Deere brand supported by a large retail footprint. AFGRI is involved in the manufacture of animal feeds, the processing of yellow maize and wheat and the 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).

AFGRI manages critical components of the food value chain to enable food production and agricultural sector growth in Africa. It is 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 is also one of South Africa's largest non-bank lenders to the agricultural sector with an average loan book value for fiscal year 2017 of approximately ZAR 13 billion (approximately $1 billion) 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 and has 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. Additionally, AFGRI provides 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. One of AFGRI's current strategic initiatives is 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.

Additional information can also be accessed from AFGRI's website www.afgri.co.za.

Transaction Description

On February 17, 2017, the company purchased from AgriGroupe LP the beneficial ownership interests held by Fairfax in Joseph Holdings, comprised of 156,055,775 ordinary shares and 49,942,549 class A shares for $25.1 million and $49.9 million respectively in exchange for 7,284,606 multiple voting shares at $10.00 per multiple voting share. The company also purchased additional ownership 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 had a 70.3% equity interest and 73.3% interest in the class A shares of Joseph Holdings through which it is the largest beneficial shareholder of AFGRI with a 42.2% indirect equity interest. Through its ownership of Joseph Holdings, Fairfax Africa controls 60% of the voting shares of AFGRI.

On June 21, 2017, Fairfax Africa, through a wholly owned subsidiary, entered into a secured lending arrangement with AFGRI, pursuant to which Fairfax Africa provided approximately $23,255 (300 million South African rand) (the "AFGRI Facility"). AFGRI sought out the financing ahead of an expected future equity capital raise by AFGRI for growth initiatives. The AFGRI Facility matures on December 24, 2017 with an option for AFGRI to repay in shares, subject to certain conditions. The AFGRI Facility bears interest at a rate of South African Prime plus 2% per annum. Fairfax Africa is entitled to receive a fee equal to 2% of the loan proceeds. This fee will be paid on maturity or on repayment of the AFGRI Facility. The company earns interest on the fee at the same rate as the AFGRI Facility. Fairfax Africa anticipates that it will participate in the equity capital raise proportionate to its ownership, and that the proceeds of the equity capital raise would be used to repay the AFGRI Facility. The AFGRI Facility is not rated.

At June 30, 2017, through Joseph Holdings, the company had appointed five of the ten members of AFGRI's board of directors.

Key Business Drivers, Events, and Risks

Drought conditions in Southern Africa have eased in recent months, with rainfall substantially above historical averages in many countries in which AFGRI operates. As a result, AFGRI's management expects trading conditions to improve to normalized levels during the 2018 financial year. According to the South Africa Crop Estimates Committee, South Africa's national maize forecast is 15.6 million tonnes for calendar year 2017, more than doubling from 2016's total, 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 AFGRI's profitability not only in grain management, but also in the mechanization businesses in fiscal year 2018, as farmers use their higher income to catch up on equipment purchases delayed during the prior two-year drought.

AFGRI undertook during the fiscal year 2017 a corporate restructuring to create a holding company structure with independent invested companies, primarily comprising Agricultural Services (grain management, equipment, agricultural finance and insurance, retail and farmer development), Philafrica Foods (Nedan, Animal Feeds, and Milling), Investment Services, and non-South African Operations. The primary purpose of the restructuring 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. This restructuring is expected to be completed before the end of the year.

AFGRI recruited and hired during the financial year a seasoned international food company executive as Chief Executive Officer of Philafrica Foods to lead the turnaround of AFGRI's existing Foods platform and to focus on growth opportunities that leverage AFGRI's core competencies in grain management and agri-processing. Philafrica's new management team has achieved a variety of technical and efficiency improvements, and made new complimentary investments in rendering and pet foods. Further investments are anticipated reflecting the growth potential of this segment.

As part of a strategy to expand its financial services businesses, AFGRI announced in early 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 NGB, Greece'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 of innovation and an enabler to food security. The acquisition is expected to close by the end of 2017, subject to various conditions including regulatory approvals from each of the South African Reserve Bank, Ministry of Finance, and Competition Commission.

On June 9, 2017, South Africa was downgraded by Moody's to Baa3 with a negative watch. South Africa's economy contracted by 0.7% in Q1, 2017 and sits in a technical recession.

Valuation and Interim Consolidated Financial Statement Impact

Indirect investment in AFGRI

At June 30, 2017, the company estimated the fair value of its indirect investment in AFGRI using a discounted cash flow analysis of multi-year, free cash flow projections of AFGRI's business units with assumed after-tax discount rates ranging from 11.6% to 18.4% and a long term growth rate of 3.0%. Free cash flow projections were based on EBITDA projections derived from financial information for AFGRI's business units prepared in the second 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 June 30, 2017, the company's internal valuation model indicated that the fair value of its indirect investment in AFGRI is $81,222. The change in the fair value of the company's indirect investment in AFGRI resulted in a net change in unrealized gain on investments of $1,899 on both the three and six months ended June 30, 2017, and a net foreign exchange gains of $1,765 and $4,355, for the three and six months ended June 30, 2017. Each of these amounts was recorded in the consolidated statements of comprehensive income.

AFGRI Facility

At June 30, 2017, based on the market interest rate and on the creditworthiness of AFGRI, the company determined that the transaction price in South African rand is the most relevant representation of fair value. For the three and six months ended June 30, 2017 the company recorded a net foreign exchange loss of $326 and interest income of $42 in the consolidated statements of comprehensive income.

AFGRI's Summarized Financial Information

The company's fiscal year ends on December 31 and AFGRI's fiscal year ends on March 31. Summarized below are AFGRI's balance sheets at March 31, 2017 and March 31, 2016.

Balance Sheets
unaudited - US$ thousands

	March 31, 2017	March 31, 2016
Current assets	**400,236**	351,238
Non-current assets	**334,342**	297,568
Current liabilities	**339,121**	388,827
Non-current liabilities	**253,071**	220,688
Shareholders' equity	**142,386**	39,291

Current assets increased at March 31, 2017 from March 31, 2016 (excluding the impact of acquisitions of $27 million) primarily driven by a buildup of stock at Grain Management in Zambia of approximately $22 million. The Zambia borders remained closed to exports in an effort by Zambia's government to secure national food stock levels.

Non-current assets increased at March 31, 2017 from March 31, 2016 (excluding the impact of acquisitions of $8 million) primarily related to capital expenditures incurred on property, plant and equipment for approximately $17 million and loans granted to joint ventures and associates for approximately $6 million. Some of the notable capital expenditures included approximately $4 million incurred in Animal Feeds at the Dryden plant and approximately $3 million incurred by Grain Management to increase storage capacity in Uganda.

Current liabilities decreased at March 31, 2017 from March 31, 2016 primarily related to the conversion of shareholders' loans on April 6, 2016 (as described below) partially offset by increase due to purchase of John Deer equipment on a floor plan basis.

Non-current liabilities increased at March 31, 2017 from March 31, 2016 primarily related to long-term borrowings from Land Bank for the Afgrico acquisition and additional loans to expand production capacity at Animal Feeds at the Dryden plant.

Shareholders' equity increased at March 31, 2017 from March 31, 2016 primarily related to conversion of shareholders' loans into Ordinary Shares on April 6, 2016. The capital portions of the shareholders loans were converted into Ordinary A Shares, a new class of Ordinary Share, which were issued at a face value equal to $106,000. These loans were included under current liabilities in the previous financial year.

Summarized below are AFGRI's statements of earnings for the year-ends ended March 31, 2017 and 2016.

Statements of Earnings
unaudited - US$ thousands

	Year ended March 31, 2017	Year ended March 31, 2016
Revenue	**801,076**	741,656
Earnings (loss) before taxes	**(7,683)**	1,821
Net loss	**(9,440)**	(2,980)

AFGRI's earnings before taxes decreased for the year ended March 31, 2017 compared to earnings before taxes in the year ended March 31, 2016 principally as a result of severe drought conditions in southern Africa, the depreciation of the South African rand and high volatility of agricultural commodity prices, along with operational under performance in Philafrica Foods business. The drought, one of the worst on record for the region, also impacted AFGRI's John Deere equipment and retail businesses as farmers deferred purchases.

Nova Pioneer Education Group

Business Overview

Nova Pioneer Education Group ("Nova Pioneer") is a Pan-African independent school network offering preschool through secondary education for students from ages 3 through 19. Nova Pioneer was started in 2014, and launched its first campus in 2015 in South Africa, and now operates 5 campuses with a combined approximately 1,300 students: approximately 390 in Kenya across 2 campuses (through Nova Academies) and approximately 900 in South Africa across 3 campuses (through Pioneer Academies). Average tuition is approximately $3,000 (whole U.S. dollars) per year and is priced to target middle to upper-middle income families.

Additional information can also be accessed from Nova Pioneer's website: http://novapioneer.com.

Transaction Description

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 ("Nova Pioneer"), pursuant to which Ascendant is permitted to borrow up to $4,000 ("Nova Pioneer Facility"). The Nova Pioneer Facility matures on June 8, 2018 with initial interest at a rate of 5% per annum, which increased to 18% per annum on June 30, 2017. The Nova Pioneer Facility is secured against certain assets of Ascendant and its subsidiaries. The Nova Pioneer Facility is not rated.

On June 30, 2017, Fairfax Africa announced that it had agreed to invest $20,000 in Nova Pioneer (the "Nova Pioneer Investment"). The Nova Pioneer Investment will consist of $20,000 of secured debentures (maturity date of December 31, 2024) (the "Nova Debentures") and 2,000,000 warrants (the "Nova Warrants").

The Nova Debentures will bear interest at a rate of 20% per annum and will be redeemable by Ascendant at par at any time after June 30, 2021, except in the event of the satisfaction of certain conditions after a change of control or value realization event. Each Nova Warrant will be exercisable to acquire one ordinary share of Ascendant (an "Ascendant Share"). Assuming the exercise of all of the Nova Warrants, Fairfax Africa will beneficially own 2,000,000 of the issued and outstanding Ascendant Shares, representing approximately 9.2% of all issued and outstanding Ascendant Shares at June 30, 2017. Except in certain circumstances relating to a change of control or value realization event, the Nova Warrants may only be exercised after June 30, 2021. The Nova Pioneer Investment is expected to close in the third quarter of 2017, and the Nova Pioneer Facility will be repaid in full upon the closing of the Nova Pioneer Investment.

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.

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 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 approached with a specific entry plan tailored to local market, target community, 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. Given this, the Nova Pioneer team intends to secure the right local partnerships before entering a market.

Nova Pioneer is committed to putting excellence above short term growth. Rigorous leadership and teacher training takes precedence over filling schools. Nova Pioneer schools typically enroll one grade at a time in order to infuse the right culture in the organization.

Valuation and Interim Consolidated Financial Statement Impact

At June 30, 2017, Ascendant borrowed $3,000 under the Nova Pioneer Facility. At June 30, 2017, based on the market interest rate and the creditworthiness of Ascendant, the company determined that the U.S. dollar transaction price is the most relevant representation of fair value.

For the three and six months ended June 30, 2017, the company recorded an interest income of $10 in the consolidated statements of comprehensive income.

Atlas Mara Limited

Business Overview

Atlas Mara is a Sub-Saharan African financial services group founded in 2013 and it is listed on the London Stock Exchange under the symbol ATMA. Atlas Mara's vision is to establish itself as a premier financial institution across key markets in Sub-Saharan Africa by way of five acquisition transactions. Since its inception, 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 also be accessed from Atlas Mara’s website: http://atlasmara.com.

Transaction Description

On June 21, 2017 the company entered into a placing agreement to invest a minimum of $130,000 in Atlas Mara Limited ("Atlas Mara"). This investment will be comprised of: (i) a $100 million equity offering of new ordinary shares of Atlas Mara at a price of $2.25 per share (the "Issue Price") to Fairfax Africa and existing Atlas Mara shareholders (the "Atlas Mara Equity Offering"), and (ii) a $100 million mandatory convertible bond ("Atlas Mara Convertible Bond") issued to Fairfax Africa, which will convert into new ordinary shares at the Issue Price upon closing of the Atlas Mara Equity Offering. Fairfax Africa will serve as the committed underwriter of the Atlas Mara Equity Offering, with the right to secure a minimum of 30% of the offering and the obligation for Fairfax Africa or its affiliates to acquire any shares not taken up by qualifying Atlas Mara shareholders. The closing of the Atlas Mara Convertible Bond and Atlas Mara Equity Offering are subject to shareholder approval. In addition, the Atlas Mara Equity Offering is subject to regulatory approval.

To the extent that the company’s total commitment to Atlas Mara would be greater than the company’s Investment Concentration Restriction (as defined in the Concentration Risk section in note 10), the company’s intention is that it would transfer its obligation to invest in such excess portion to Fairfax (or one of its affiliates).

On July 17, 2017, upon approval of the Atlas Mara shareholders, the company through a wholly-owned subsidiary completed its initial investment in Atlas Mara by way of the Atlas Mara Convertible Bond. The Atlas Mara Convertible Bond matures on July 17, 2018 with initial interest at a rate of 5% per annum increasing to 10% per annum on August 31, 2017. The company expects the Atlas Mara Equity Offering to close in the third quarter of 2017, and upon closing of the Atlas Mara Equity Offering, the company will receive a placing fee in the amount of $2.8 million.

Results of Operations

Fairfax Africa's consolidated statement of comprehensive income for the three and six months ended June 30, 2017 is shown in the following table:

	Second quarter	First six months
Income		
Interest income	**962**	**1,189**
Net change in unrealized gains on investments	**2,009**	**1,675**
Net foreign exchange gains	**1,168**	**3,776**
	4,139	**6,640**
Expenses		
Investment and advisory fees	**800**	**1,180**
General and administration expenses	**387**	**601**
	1,187	**1,781**
Earnings before income taxes	**2,952**	**4,859**
Provision for (recovery of) income taxes	**(812)**	**545**
Net earnings and comprehensive income	**3,764**	**4,314**
Net earnings per share (basic and diluted)	**$ 0.07**	**$ 0.12**

Total Income of $4,139 and $6,640 in the second quarter and first six months of 2017 related principally to net foreign exchange gains of $1,765 and $4,355 for the second quarter and first six months of 2017, respectively and net change in unrealized gains on investments of $1,899 for the second quarter and first six months of 2017 relating to its indirect investment in AFGRI, partially offset by a net foreign exchange loss on the AFGRI Facility and government of South Africa bonds. In addition, the total income increased as a result of interest income on cash and cash equivalent and on government of South Africa bonds.

The investment and advisory fees relate to fees for administration and investment advisory services provided by Fairfax and the Portfolio Advisor. The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. For the second quarter and first six months of 2017, the company determined that the majority of its assets were invested in permitted investments, considered to be undeployed capital.

The recovery of income taxes of $812 in the second quarter of 2017 and the provision for income taxes of $545 in the first six months of 2017 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily due to foreign exchange fluctuations, unrecorded benefit of Canadian deferred tax assets, and income earned outside the local jurisdiction.

The company reported net earnings of $3,764 (net earnings of $0.07 per basic and diluted share) and $4,314 (net earnings $0.12 per basic and diluted share) in the second quarter and first six months of 2017 respectively primarily related to net foreign exchange gains, net change in unrealized gains on investments and interest income, partially offset by investment and advisory fees.

Consolidated Balance Sheet Summary

Total Assets

Total assets at June 30, 2017 of $499,824 were principally comprised of total cash and investments as follows:

	June 30, 2017		
	Africa	North America	Total
Cash and cash equivalents	**2,038**	**240,686** (1)	**242,724**
Short term investments - U.S. treasury bills	**—**	**99,960** (2)	**99,960**
Bonds - government of South Africa	**49,051**	**—**	**49,051**
Loans:			
AFGRI Facility	**22,929**	**—**	**22,929**
Nova Pioneer Facility	**3,000**	**—**	**3,000**
Common stock - indirect investment in AFGRI	**81,222**	**—**	**81,222**
Total cash and investments	**158,240**	**340,646**	**498,886**

(1) Includes U.S. treasury bills of $209,902 with maturity dates of less than three months as at investment date.
(2) Short term U.S. treasury bills have a maturity date of July 20, 2017.

Cash and cash equivalents and short term investments - U.S. treasury bills of $342,684 at June 30, 2017 primarily reflected the net proceeds received from the Offerings completed in the first quarter of 2017 that had not yet been invested into African Investments.

Bonds of $49,051 at June 30, 2017 primarily reflected the investment in U.S. dollar denominated government of South Africa bonds.

Loans of $25,929 at June 30, 2017 primarily related to AFGRI Facility of $22,929 and Nova Pioneer Facility of $3,000.

Common stock of $81,222 at June 30, 2017 reflected the acquisition of a 42.2% indirect interest in AFGRI (through the acquisition of Joseph Holdings ordinary and class A shares as described in the Business Developments of this MD&A) in exchange for 7,284,606 multiple voting shares issued to certain affiliates of Fairfax and 212,189 subordinate voting shares issued to certain other Joseph Holdings shareholders for $74,978. The increase primarily reflected the net foreign exchange gain of $4,355 and the net change in unrealized gains on the indirect investment in AFGRI of $1,899.

Total Liabilities

Total liabilities at June 30, 2017 of $1,850 were comprised as follows:

Accounts payable and accrued liabilities of $889 at June 30, 2017 primarily related to unpaid IPO cost.

Payable to related parties of $824 primarily reflected the investment and advisory fees accrued for the second quarter of 2017.

Income tax payable of $137 reflected the income tax liability for the company's South African subsidiary.

Financial Condition

The primary goals of the company's financial risk management program are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheets from events that have the potential to materially impair its financial strength. There were no significant changes in the types of the company’s risk exposures or the processes used by the company for managing those risk exposures at June 30, 2017 compared to those identified and disclosed in the company’s annual information form filed on March 31, 2017, other than as outlined in note 10 (Financial Risk Management) to the interim consolidated financial statements for the three and six months ended June 30, 2017.

Capital Resources and Management

The company’s objectives when managing capital are 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 June 30, 2017, comprised of common shareholders’ equity was $497,974 compared to a deficit of $74 at December 31, 2016. The significant increase in total capital in the second quarter of 2017, primarily reflected the impact of the net proceeds of Offerings and net earnings for the the six months ended June 30, 2017.

The company will use its capital resources to acquire African Investments pending such investments, the company will invest exclusively in permitted investments, and the remainder will be used for general corporate and working capital purposes.

Book Value per Share

Common shareholders’ equity and the book value per share at June 30, 2017 was as follows:

	June 30, 2017
Common shareholders' equity	**497,974**
Number of common shares outstanding	**50,620,189**
Book value per share	**$9.84**

Liquidity

The company believes that cash and cash equivalents at June 30, 2017 provides adequate liquidity to meet the company's remaining known significant commitments in 2017, which are principally comprised of investment and advisory fees, an additional investment in Nova Pioneer (see note 5), Atlas Mara Convertible Bond and Atlas Mara Equity Offering investments (see note 5), corporate income taxes and general and administration expenses. The company expects to continue to receive investment income on its holdings of fixed income securities to supplement its cash and cash equivalents. The company has adequate working capital to support its operations.

Highlights in the first six months of 2017 of major components of cash flow are presented in the following table:

	First six months
Operating activities	
Cash used in operating activities before the undernoted	**(959)**
Net purchases of short term investments classified as FVTPL	**(99,770)**
Purchases of bonds and issuance of loans classified as FVTPL	**(75,529)**
Financing activities	
Issuance of subordinate voting shares, net of issuance costs	**191,828**
Issuance of multiple voting shares	**227,154**
Increase in cash and cash equivalents during the period	**242,724**

Cash provided by operating activities before the undernoted is comprised of net earnings adjusted for items not affecting cash and cash equivalents and changes in operating assets and liabilities. Cash used by operating activities before the undernoted of $959 in the first six months principally reflecting Offering expenses partially offset by interest income received on cash and cash equivalents.

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

Purchases of bonds and issuance of loans classified as FVTPL of $75,529 in the first six months of 2017 primarily related to purchases of South African government bonds, the AFGRI Facility and the Nova Pioneer Facility.

Issuance of subordinate voting shares, net of issuance costs of $191,828 and issuance of multiple voting shares of $227,154 in the first six months reflected net proceeds received from the Offerings. Issuance costs were primarily comprised of fees paid to underwriters of the subordinate voting shares. At June 30, 2017 unpaid expenses relating to the Offerings were recorded in accounts payable and accrued liabilities on the consolidated balance sheets. Refer to note 7 (Total Equity) to the interim consolidated financial statements for the three and six months ended June 30, 2017 for details.

Contractual Obligations

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

In the three and six months ended June 30, 2017 the investment and advisory fee recorded in the consolidated statement of comprehensive income were $800 and $1,180, respectively.

The performance fee is accrued quarterly and paid for the period from February 17, 2017 to December 31, 2019 and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20% of any increase in common shareholders' equity per share (including distributions) above a 5% 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 the performance fee was not applicable for the quarter ended ended June 30, 2017.

At June 30, 2017 under the terms of Nova Pioneer Facility, Nova Pioneer Investment, Atlas Mara Convertible Bond, and Atlas Mara Equity Offering, the company and its subsidiaries have certain contractual obligations (see the details provided in the African Investments section of this MD&A).

Related Party Transactions

The company's related party transactions are disclosed in note 11 (Related Party Transactions) to the interim consolidated financial statements for the three and six months ended June 30, 2017.

Other

Quarterly Data (unaudited)

	June 30, 2017	March 31, 2017
Income	**4,139**	2,501
Expenses	**1,187**	594
Provision for (recovery of) income taxes	**(812)**	1,357
Net earnings	**3,764**	550
Net earnings per share	**$ 0.07**	$ 0.02

Income was primarily comprised of net foreign exchange gains and net change in unrealized gains on investments (principally the company's indirect investment in AFGRI) in the second quarter and first six months of 2017, the timing of which are not predictable. Individual quarterly results have been (and may in the future be) affected by increased expenses impacted by the growth in the company's African Investments which result in higher performance fees and investment and advisory fees.

Forward-Looking Statements

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

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

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

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