
FAIRFAX INDIA

FAIRFAX INDIA HOLDINGS CORPORATION



INTERIM REPORT

For the six months ended
June 30, 2015

CONSOLIDATED BALANCE SHEETS

as at June 30, 2015 and December 31, 2014
(unaudited - US\$)

	<u>Notes</u>	<u>June 30, 2015</u>	<u>December 31, 2014</u>
Assets			
Cash	5	9,584,775	234,732
Investments	5, 9	980,806,427	—
Interest receivable		17,831,249	—
Other assets		152,114	—
		<u>1,008,374,565</u>	<u>234,732</u>
Deferred income tax assets	8	1,824,673	—
		<u>1,010,199,238</u>	<u>234,732</u>
Liabilities			
Accrued expenses		374,645	—
Income taxes payable	8	1,161,230	—
Payable to related parties	10	770,997	234,722
		<u>2,306,872</u>	<u>234,722</u>
Equity			
Common shareholders' equity		1,007,892,366	10
Total equity		<u>1,007,892,366</u>	10
		<u>1,010,199,238</u>	<u>234,732</u>

See accompanying notes.

CONSOLIDATED STATEMENTS OF EARNINGS

for the three and six months ended June 30, 2015
(unaudited - US\$ except per share amounts)

	Notes	Second quarter	First six months
Income			
Interest income		13,900,284	18,800,951
Net realized losses on investments		(569,238)	(521,589)
Net unrealized losses on investments		(12,112,321)	(13,158,810)
Net foreign exchange gains		48,303	348,530
		<u>1,267,028</u>	<u>5,469,082</u>
Expenses			
Investment and advisory fees	10	1,233,677	2,089,178
General and administration expenses	12	1,253,331	1,841,478
		<u>2,487,008</u>	<u>3,930,656</u>
Earnings (loss) before income taxes		(1,219,980)	1,538,426
Provision for (recovery of) income taxes	8	964,581	(291,728)
Net earnings (loss) attributable to Common Shareholders		<u>(2,184,561)</u>	<u>1,830,154</u>
Net earnings (loss) per share	7	\$ (0.02)	\$ 0.02
Shares outstanding (weighted average)	7	106,678,879	89,215,969

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS*for the three and six months ended June 30, 2015**(unaudited – US\$)*

	<u>Second quarter</u>	<u>First six months</u>
Net earnings (loss)	(2,184,561)	1,830,154
Other comprehensive loss , net of income taxes of nil		
Item that may be subsequently reclassified to net earnings		
Unrealized foreign currency translation losses on foreign operations	(12,832,129)	(19,763,130)
Comprehensive loss attributable to Common Shareholders	<u>(15,016,690)</u>	<u>(17,932,976)</u>

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*for the six months ended June 30, 2015**(unaudited - US\$)*

	Subordinate voting shares	Multiple voting shares	Retained earnings	Accumulated other comprehensive loss	Equity attributable to shareholders of Fairfax India
Balance as of January 1, 2015	—	10	—	—	10
Net earnings for the period	—	—	1,830,154	—	1,830,154
Unrealized foreign currency translation losses on foreign operations	—	—	—	(19,763,130)	(19,763,130)
Issuance of shares, net of issuance costs	725,825,342	299,999,990	—	—	1,025,825,332
Balance as of June 30, 2015	<u>725,825,342</u>	<u>300,000,000</u>	<u>1,830,154</u>	<u>(19,763,130)</u>	<u>1,007,892,366</u>

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three and six months ended June 30, 2015
(unaudited - US\$)

	Notes	Second quarter	First six months
Operating activities			
Net earnings (loss)		(2,184,561)	1,830,154
Net bond discount amortization		(156,832)	(165,444)
Net realized losses on investments		569,238	521,589
Net realized gains on foreign exchange		(48,303)	(348,530)
Net unrealized losses on investments		12,112,321	13,158,810
Purchases of investments		(83,736,112)	(1,105,629,183)
Sales of investments		54,720,200	89,009,059
Changes in operating assets and liabilities:			
Interest receivable		(10,269,461)	(15,161,517)
Income taxes payable		592,866	1,161,230
Deferred income taxes	8	—	(1,824,673)
Other		333,612	1,107,064
Cash used in operating activities		<u>(28,067,032)</u>	<u>(1,016,341,441)</u>
Financing activities			
Subordinate voting shares:			
Issuances		—	766,788,790
Issuance costs		(2,624,000)	(40,963,448)
Multiple voting shares:			
Issuances		—	299,999,990
Cash provided by (used in) financing activities		<u>(2,624,000)</u>	<u>1,025,825,332</u>
Increase (decrease) in cash		(30,691,032)	9,483,891
Cash - beginning of period		40,392,368	234,732
Foreign currency translation		(116,561)	(133,848)
Cash - end of period		<u>9,584,775</u>	<u>9,584,775</u>
Interest (paid) received on securities			
Interest received		3,745,483	3,745,483
Interest on purchase or sale of securities		209,635	(2,958,563)
Taxes paid		351,649	351,649

See accompanying notes.

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Notes to Interim Consolidated Financial Statements

for the three and six months ended June 30, 2015

(unaudited - US\$ except per share amounts)

1. Business Operations

Fairfax India Holdings Corporation ("the company" or "Fairfax India") is an investment holding company. Its investment objective is to achieve long term capital appreciation, while preserving capital, by investing, either directly or through one of its wholly-owned subsidiaries, in public and private equities and debt instruments in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India ("Indian Investments"). The company makes all or substantially all of its investment either directly or through one of its wholly-owned subsidiaries, which currently include FIH Mauritius Investments Ltd ("MI Co") and FIH Private Investments Ltd ("MI Sub").

During early 2015, Fairfax India completed its initial public offering ("IPO") concurrent with two private placements followed by the exercise of an over allotment option by the underwriters (collectively "the offerings") and raised gross proceeds of approximately \$1.06 billion (net proceeds of \$1.02 billion). The company's Subordinate Voting Shares ("SVS") commenced trading on January 30, 2015 on the Toronto Stock Exchange ("TSX") under the symbol "FIH.U".

Fairfax Financial Holdings Limited ("Fairfax") has taken the initiative in creating the company and is Fairfax India's ultimate parent and acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management. Fairfax has been listed on the TSX under the symbol "FFH" for over 25 years.

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 for the company and its subsidiaries.

The company is federally incorporated and 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

These interim consolidated financial statements of the company for the second quarter and first six months ended June 30, 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard 34 *Interim Financial Reporting*. Accordingly, certain information and disclosures normally included in annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB have been omitted or condensed. These interim consolidated financial statements should be read in conjunction with the company's annual consolidated financial statements for the period November 25, 2014 (date of incorporation) to December 31, 2014, which have been prepared in accordance with IFRS as issued by the IASB.

These interim consolidated financial statements were approved for issue by the company's Board of Directors on July 30, 2015.

3. Summary of Significant Accounting Policies

The principal accounting policies applied to the preparation of these interim consolidated financial statements are as set out in the company's consolidated financial statements for the period ended December 31, 2014, prepared in accordance with IFRS as issued by the IASB. Those policies and methods of computation have been consistently applied to all periods presented.

New accounting pronouncements issued but not yet effective

The company is currently evaluating the impact of the following accounting pronouncements on its consolidated financial statements:

IFRS Annual Improvements 2012-2014

In September 2014 the IASB issued a limited number of amendments to clarify the requirements of four IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2016, with retrospective application.

IFRS 9 Financial Instruments ("IFRS 9")

In July 2014 the IASB published the complete version of IFRS 9 which supersedes 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 related to 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.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

In May 2014 the IASB published IFRS 15 which introduced a single model for recognizing revenue from contracts with customers. The standard is expected to be effective for annual periods beginning on or after January 1, 2018, with retrospective application.

4. Critical Accounting Estimates and Judgments

In the preparation of the company's interim consolidated financial statements, management has made a number of estimates and judgments, the more critical of 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.

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 subsidiaries at fair value through profit or loss ("FVTPL") rather than consolidate them (other than those subsidiaries that provide services to the company).

The three elements which define an investment entity are as follows: (i) obtains funds from one or more investors for the purpose of providing those investors with investment services; (ii) commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and, (iii) measures and evaluates the performance of substantially all of its investments on a fair value basis.

Other typical characteristics of an investment entity include: ownership interests in the entity are held in the form of equity; the entity has multiple investors; and, the entity's investors are primarily unrelated parties.

The company has concluded that it meets the definition of an investment entity under IFRS 10.

Income taxes

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. Failure to achieve projected levels of profitability could lead to a writedown of the company's deferred income tax asset if it is no longer probable that the asset will be realized.

The company is subject to income taxes in Canada, Mauritius and India, and the company's determination of its tax liability or receivable is subject to review by those applicable tax authorities. 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 specialist tax personnel responsible 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 the provision for (recovery of) income taxes and expected timing of the reversal of deferred income tax assets and liabilities.

Functional currency

The items included in the financial statements of the company's subsidiaries are measured using the currency of the primary economic environment in which those entities operate (the "functional currency"). The consolidated financial statements are presented in U.S. dollars, which is the functional currency of the holding company and the presentation currency of the consolidated group.

The company has determined that the Indian rupee is the functional currency of MI Co and MI Sub. Accordingly, the results of operations and financial position of MI Co and MI Sub are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the balance sheet date;
- income and expenses are translated at the average exchange rate for the period presented (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- all resulting exchange differences are recognized in other comprehensive income ("OCI") as a separate component of equity.

5. Cash and Investments

Fixed Income Maturity Profile

Bonds are summarized by the earliest contractual maturity date in the table below. Actual maturities may differ from maturities shown below due to the existence of put features. At June 30, 2015 bonds containing put features represented \$169.6 million of the total fair value of bonds in the table below.

	June 30, 2015	
	Amortized cost	Fair value
Due after 1 year through 5 years	243,404,523	239,661,958
Due after 5 years through 10 years	318,918,114	312,752,514
Due after 10 years	112,971,704	110,306,527
	<u>675,294,341</u>	<u>662,720,999</u>

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 and derivative contracts by type of issuer was as follows:

	June 30, 2015				December 31, 2014			
	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value of assets	Quoted prices (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value of assets
Cash	9,584,775	—	—	9,584,775	234,732	—	—	234,732
U.S. treasury bills	269,575,493	—	—	269,575,493	—	—	—	—
Government of India bonds	—	88,947,263	—	88,947,263	—	—	—	—
Indian corporate bonds	—	573,773,736	—	573,773,736	—	—	—	—
Investment funds ⁽¹⁾	—	48,509,935	—	48,509,935	—	—	—	—
	279,160,268	711,230,934	—	990,391,202	234,732	—	—	234,732
	28.2%	71.8%	—	100.0%	100.0%	—	—	100.0%

(1) These investments are primarily valued using net asset value statements provided by third party fund managers. The fair values used to compute net asset value in those statements are determined using quoted prices of the underlying assets, and to a lesser extent, observable inputs where available and unobservable inputs, in conjunction with industry accepted valuation models, where required. The units of the funds are redeemable daily.

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

6. Total Equity

Equity attributable to shareholders of Fairfax India

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

The number of shares outstanding was as follows:

	2015		
	Subordinate voting shares	Multiple voting shares	Common stock outstanding
Balance - January 1	—	1	1
Issuances	76,678,879	29,999,999	106,678,878
Balance - June 30	76,678,879	30,000,000	106,678,879

7. Earnings per Share

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

	Second quarter 2015	First six months 2015
Net earnings (loss) attributable to shareholders of Fairfax India – basic	(2,184,561)	1,830,154
Weighted average common shares outstanding – basic	106,678,879	89,215,969
Net earnings (loss) per common share	\$ (0.02)	\$ 0.02

8. Income Taxes

The company's provision for income taxes for the second quarter and first six months ended June 30, 2015 is summarized in the following table:

	Second quarter 2015	First six months 2015
Current income tax:		
Current year expenses	964,581	1,532,945
Deferred income tax:		
Origination and reversal of temporary differences	—	(1,824,673)
Provision for (recovery of) income taxes	<u>964,581</u>	<u>(291,728)</u>

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

The company's earnings before income taxes by jurisdiction and the associated provision for income taxes for the second quarter and first six months ended June 30, 2015 are summarized in the following tables:

	Second quarter 2015		
	Canada	Mauritius	Total
Earnings (loss) before income taxes	(1,474,318)	254,338	(1,219,980)
Provision for income taxes	—	964,581	964,581
Net loss	<u>(1,474,318)</u>	<u>(710,243)</u>	<u>(2,184,561)</u>

	First six months 2015		
	Canada	Mauritius	Total
Earnings (loss) before income taxes	(2,405,675)	3,944,101	1,538,426
Provision for (recovery of) income taxes	(1,824,673)	1,532,945	(291,728)
Net earnings (loss)	<u>(581,002)</u>	<u>2,411,156</u>	<u>1,830,154</u>

A reconciliation of the provision for income taxes calculated at the Canadian statutory income tax rate to the recovery of income taxes at the effective tax rate in the consolidated financial statements for the quarter ended June 30, 2015 is summarized in the following table:

	Second quarter 2015	First six months 2015
Canadian statutory income tax rate	26.5%	26.5%
Provision for income taxes at the Canadian statutory income tax rate	(322,062)	407,683
Income earned outside of local jurisdiction	487,758	487,758
Change in unrecorded tax benefit of losses and temporary differences	3,559,178	3,559,178
Foreign exchange	(884,599)	(2,468,995)
Other including permanent differences	(1,875,694)	(2,277,352)
Provision for (recovery of) income taxes	<u>964,581</u>	<u>(291,728)</u>

The tax rate differential on income earned outside of Canada principally reflects the investment income taxed in India and Mauritius.

The change in unrecorded tax benefit of losses and temporary differences is primarily comprised of deferred tax assets in Canada of \$3.6 million that were not recorded by the company because the related pre-tax losses do not meet the applicable recognition criteria under IFRS.

Foreign exchange principally reflects the impact of fluctuation in the value of the Canadian dollar relative to the U.S. dollar and the Indian rupee 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 Mauritius based subsidiaries (MI Co and MI Sub) is the U.S. dollar and the Indian rupee respectively.

Other permanent differences principally reflects the amortization of the company's IPO issuance costs which are deductible as an expense for Canadian income tax determination but are treated as a permanent reduction of equity under IFRS.

9. Financial Risk Management

The company's activities expose it to certain financial risks during or at the end of the reporting period as described below.

Market Risk

Foreign Currency Risk

The company's net assets and net earnings may be significantly affected by foreign currency translation movements as the majority of the company's assets and income are denominated in a currency other than the U.S. dollar, which is the holding company's functional currency and the consolidated group's presentation currency. The company has not hedged its foreign currency risk.

The company's foreign currency exposure (expressed in U.S. dollars) is comprised as follows:

	June 30, 2015			
	Cash	Investments	Interest receivable	Total
Canadian dollars	41,665	—	—	41,665
Indian rupees	3,269,925	662,720,999	17,831,249	683,822,173
Mauritius rupees	193,598	—	—	193,598
Total	3,505,188	662,720,999	17,831,249	684,057,436

Interest Rate Risk

Interest rate movements in India could significantly affect the company's net assets and profitability. The Portfolio Advisor and Fairfax actively monitor interest rates in India and the potential impact changes in interest rates may have on the company's investment portfolio.

The table below 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 company is also exposed to indirect interest rate risk through investment funds with a fair value of \$48.5 million at June 30, 2015 to the extent the funds invested in debt securities.

	June 30, 2015		
	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	602,835,219	(44,015,974)	(9.0)%
100 basis point rise	634,076,272	(21,053,800)	(4.3)%
No change	662,720,999	—	—
100 basis point decline	709,414,225	34,319,596	7.0 %
200 basis point decline	755,050,724	67,862,422	13.9 %

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

Credit Risk

Credit risk arises on investments and cash balances. Cash balances are held in high credit-quality financial institutions. As at June 30, 2015 the company had invested in securities rated as investment grade or higher by a Designated Rating Organization ("DRO"), being DBRS Limited, Standard & Poor's Ratings Service ("S&P"), Fitch Inc. and Moody's Investors Service, Inc. ("Moody's"), or subsidiaries or affiliates of a DRO. The company's investment portfolio includes U.S. treasury bills rated Aaa by Moody's and AA+ by S&P, Government of India bonds rated Baa3 by Moody's and BBB by S&P, Indian corporate bonds rated AAA by subsidiaries of a DRO and investment funds that are not rated.

The table below sets out the fair value of each of these categories of investments:

	<u>June 30, 2015</u>
U.S. treasury bills	269,575,493
Government of India bonds	88,947,263
Indian corporate bonds	573,773,736
Investment funds	48,509,935
Total	<u>980,806,427</u>

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 transactions on the due date.

Concentration Risk

The company's investments are primarily concentrated in India and in Indian businesses or businesses with customers, suppliers or business primary conducted in, or dependent on, India. 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 in India. Adverse changes in the economic condition, interest rates or regulatory environment in India may have a material adverse effect on the company's business, cash flows, financial condition and results of operations.

The company's investment portfolio composition between India and U.S. investments is as follows:

	<u>June 30, 2015</u>		
	<u>India</u>	<u>U.S.</u>	<u>Total</u>
U.S. treasury bills	—	269,575,493	269,575,493
Government of India bonds	88,947,263	—	88,947,263
Indian corporate bonds	573,773,736	—	573,773,736
Investment funds	48,509,935	—	48,509,935
Total	<u>711,230,934</u>	<u>269,575,493</u>	<u>980,806,427</u>

Capital Management

The company's capital is comprised of its shareholders' equity. The company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for 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 emphasize downside protection and minimize the loss of capital.

10. Related Party Transactions

Payables to Related Parties

Payables to related parties at June 30, 2015 included \$338,924 for certain expenses paid by Fairfax on behalf of Fairfax India and \$11,348 due to an affiliate of Fairfax for IT support services.

Investment Advisory Agreement

On January 30, 2015 the company and its subsidiaries 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 net asset value. In accordance with the Investment Advisory Agreement, on any date, net asset value is calculated by subtracting the aggregate carrying value of the liabilities of the company from the aggregate fair value of the assets of the company on that date.

Investment and Advisory Fee

The per annum investment and advisory fee is calculated as 0.5% of the value of undeployed capital and 1.5% of net asset value less the value of undeployed capital.

For the first six months of 2015, the company has determined that all of the assets are undeployed capital and that the 0.5% per annum fee is payable on the net asset value for the period from January 30, 2015 (the date of the offerings) to June 30, 2015. The investment and advisory fee for the second quarter and first six months ended June 30, 2015 was \$1,233,677 and \$2,089,178 respectively. At June 30, 2015, payable to related parties included \$420,725 for the June investment and advisory fee.

Performance Fee

The performance fee is paid for the period from January 30, 2015 to December 31, 2017 and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20% of any increase in net asset value (including distributions) above a 5% per annum increase. The company has determined that the performance fee is not applicable to the second quarter and first six months ended June 30, 2015.

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 Corporate Secretary of the company will be borne by Fairfax.

11. 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 return that are different from those of segments operating in other economic environments.

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

12. General and Administration Expenses

General and administration expenses for the second quarter and first six months ended June 30, 2015 were comprised as follows:

	<u>Second quarter</u> <u>2015</u>	<u>First six months</u> <u>2015</u>
Brokerage fees	653,444	984,483
Audit, legal and tax professional fees	199,051	278,764
Salaries and employee benefit expenses	75,960	112,037
Administrative expenses	94,147	235,465
Other	230,729	230,729
	<u>1,253,331</u>	<u>1,841,478</u>

13. Subsequent Events

IIFL Holdings Limited

On July 13, 2015 the company announced an open offer to acquire up to approximately 83,128,852 equity shares of IIFL Holdings Limited ("IIFL"), formerly India Infoline Limited, at a price of INR 195 per share (approximately US\$3.07 per share) other than those shares already owned by Fairfax and its affiliates in accordance with regulations of the Securities and Exchange Board of India for substantial acquisitions of shares and takeovers (the "Offer"). Assuming full acceptance of the Offer, Fairfax India, together with certain of its affiliates, will acquire 26% of the outstanding shares of IIFL for aggregate cash consideration of INR 16.2 billion (approximately US\$255 million). The transaction is expected to close later this year subject to receipt of regulatory approvals in India.

National Collateral Management Services Limited

On July 20, 2015 the company agreed to acquire approximately 74% of National Collateral Management Services Limited for aggregate consideration of INR 8.1 billion (approximately US\$126 million). The transaction is expected to close in the third quarter of 2015.

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Management's Discussion and Analysis of Financial Condition and Results of Operations (as of July 30, 2015)

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

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

- (1) Readers of the Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should review the notes to the interim consolidated financial statements for the second quarter and first six months ended June 30, 2015 and the company's audited financial statements and accompanying notes for the period ended December 31, 2014. Additional information relating to the Company's filings, including the company's Annual Information Form ("AIF") for the period ended December 31, 2014, is available on SEDAR at www.sedar.com.
- (2) The MD&A contains reference to Net Asset Value ("NAV") and NAV per share, which are non-IFRS measures. On any date, NAV is calculated by subtracting the aggregate carrying value of the liabilities of the company from the aggregate fair value of the assets of the company on that date. NAV per share is calculated by dividing NAV by the total number of common shares of the company outstanding on that date. The NAV per share is equal to book value per share.

Business Developments

Fairfax Financial Holdings Limited ("Fairfax") has taken the initiative in creating the company and is Fairfax India's ultimate parent. It also acts as its administrator. Fairfax is a holding company which, through its subsidiaries, is engaged in property and casualty insurance and reinsurance and investment management. Fairfax has been listed on the Toronto Stock Exchange ("TSX") under the symbol "FFH" for over 25 years.

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 for the company and its subsidiaries.

During early 2015 the company completed its Initial Public Offering ("IPO") of 50,000,000 subordinate voting shares at a price of \$10.00 per share for gross proceeds of \$500 million. The company's subordinate voting shares began trading on the TSX under the symbol "FIH.U" on January 30, 2015. Concurrent with the IPO, the company issued to Fairfax and its affiliates 30,000,000 multiple voting shares of the company on a private placement basis, for gross proceeds of approximately \$300 million. Also, concurrent with the closing of the IPO, the company issued 20,578,947 subordinate voting shares, on a private placement basis, for gross proceeds of approximately \$200 million. The combined gross proceeds of the IPO and private placements were approximately \$1.0 billion.

On February 10, 2015, a syndicate of underwriters exercised the IPO over-allotment option and the company issued an additional 6,099,932 subordinate voting shares at a price of \$10.00 per share for total gross proceeds of approximately \$61 million. The exercise of the over-allotment option increased the combined total gross proceeds from the IPO and private placements ("the offerings") to approximately \$1.06 billion (net proceeds of \$1.02 billion after issuance costs and expenses).

Acquisitions

Subsequent to June 30, 2015

IIFL Holdings Limited

On July 13, 2015 the company announced an open offer to acquire up to approximately 83,128,852 equity shares of IIFL Holdings Limited ("IIFL"), formerly India Infoline Limited, at a price of INR 195 per share (approximately US\$3.07 per share) other than those shares already owned by Fairfax and its affiliates in accordance with regulations of the Securities and Exchange Board of India for substantial acquisitions of shares and takeovers (the "Offer"). Assuming full acceptance of the Offer, Fairfax India, together with certain of its affiliates, will acquire 26% of the outstanding shares of IIFL for aggregate cash consideration of INR 16.2 billion (approximately US\$255 million). The transaction is expected to close later this year subject to receipt of regulatory approvals in India.

IIFL is a diversified financial services holding company in India operating in non-banking finance, house finance, wealth management, retail banking, institutional equities, investment banking and insurance distribution.

National Collateral Management Services Limited

On July 20, 2015 the company agreed to acquire approximately 74% of National Collateral Management Services Limited (NCML) for aggregate consideration of INR 8.1 billion (approximately US\$126 million). The transaction is expected to close in the third quarter of 2015.

NCML is India's leading private-sector agricultural commodities storage company. It is well positioned to take advantage of the significant market potential in India's under-developed agricultural storage industry. The company operates in the mid-stream agricultural value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management.

Business Objectives

Investment Objective

Fairfax India is an investment holding company. Its investment objective is to achieve long term capital appreciation, while preserving capital, by investing, either directly or through one of its wholly-owned subsidiaries, in public and private equities and debt instruments in India and Indian businesses or other businesses with customers, suppliers or business primarily conducted in, or dependent on, India (“Indian Investments”).

Investment Strategy

The company invests in businesses that are expected to benefit from India’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 Indian economy that the company believes will benefit most from such trends include infrastructure, consumer services, retail and exports. The company is not limited to investing solely in these sectors and intends to invest in other sectors as 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 Indian businesses. This approach is designed to compound book value per share over the long term. The company seeks attractive risk adjusted returns, but will at all times emphasize downside protection and minimize the loss of capital.

The company intends to make Indian Investments with a view to be a strategic partner to grow the business. The level and nature of this strategic relationship will vary by investment. It 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).

Investment Selection

To identify potential investments, the company principally relies on the expertise of the Portfolio Advisor and its affiliates.

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

Attractive valuation: The company’s conservative fundamental value approach lead it to focus on businesses that have positive, stable cash flows that can be purchased at discounted multiples. The company does not invest in start-up businesses or businesses that have speculative business plans.

Experienced and aligned management: The company focuses on businesses with experienced, entrepreneurial management teams with strong, long-term track records. The company generally requires the portfolio businesses to have in place, either prior to or immediately following investment by the company, proper incentives to drive the businesses’ profitability.

Strong competitive position in industry: The company seeks to invest in businesses that hold leading market positions, possess strong brand power and are well-positioned to capitalize on the growth opportunities in the Indian economy. The company also seeks to invest in businesses that demonstrate significant competitive advantages as compared to their peers and that position them to protect their market position and profitability.

Alignment of the management team with the values of the company: The company, Fairfax and the Portfolio Advisor 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 and its affiliates conduct thorough due diligence investigations when evaluating any Indian Investments prior to a recommendation to the company and its subsidiaries 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 Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20% of the company's total assets; provided, however, that the company is nonetheless permitted to complete up to two Indian 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"). The company intends to make multiple different investments as part of its prudent investment strategy, and, accordingly, will invest the net proceeds of the offerings in at least six different Indian Investments that satisfy the Investment Concentration Restriction.

Results of Operation

for the three and six months ended June 30, 2015

	Second quarter 2015	First six months 2015
Interest income	13,900,284	18,800,951
Net unrealized losses on investments	(12,112,321)	(13,158,810)
Other loss	(520,935)	(173,059)
Total expenses	<u>(2,487,008)</u>	<u>(3,930,656)</u>
Earnings (loss) before income taxes	(1,219,980)	1,538,426
Provision for (recovery of) income taxes	964,581	(291,728)
Net earnings (loss)	<u><u>(2,184,561)</u></u>	<u><u>1,830,154</u></u>

Fairfax India reported a net loss of \$2.2 million and net earnings of \$1.8 million in the second quarter and first six months ended June 30, 2015 respectively. In the second quarter, the company earned interest income of \$13.9 million (\$18.8 million in the first six months) on its bond portfolio of \$662.7 million which is principally denominated in Indian rupees. Net unrealized losses on investments of \$12.1 million in the second quarter (\$13.2 million in the first six months) primarily related to Indian corporate bonds. Other loss of \$0.5 million in the second quarter (\$0.2 million in the first six months) related to a realized loss on sale of certain bonds during the quarter.

Total expenses in the second quarter of 2015 were \$2.5 million (\$3.9 million in the first six months), primarily comprised of \$1.2 million (\$2.1 million in the first six months) of investment and advisory fees calculated on the NAV of Fairfax India and \$0.7 million (\$1.0 million in the first six months) of brokerage fees.

The \$1.0 million provision for income taxes in the second quarter of 2015 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 the tax treatment of financing costs.

Consolidated Balance Sheet Summary

	June 30, 2015
Total assets	1,010,199,238
Total liabilities	(2,306,872)
Common shareholders' equity	<u><u>1,007,892,366</u></u>

Assets

Cash of \$9.6 million at June 30, 2015 included a combination of U.S. dollars and foreign currencies (expressed in U.S. dollars) as shown below:

	June 30, 2015
Canadian dollars	41,665
Indian rupees	3,269,925
Mauritius rupees	193,598
U.S. dollars	6,079,587
Total	<u><u>9,584,775</u></u>

The company's investments totaled \$980.8 million at June 30, 2015, and was comprised of U.S. treasury bills of \$269.6 million, Indian corporate bonds of \$573.8 million (INR 36.5 billion), Government of India bonds of \$88.9 million (INR 5.7 billion) and investment funds of \$48.5 million.

Interest receivable of \$17.8 million at June 30, 2015 principally related to accrued interest on the company's Indian government and corporate bond portfolio.

Deferred income taxes of \$1.8 million at June 30, 2015 primarily reflected operating losses for tax purposes that arose in the first quarter of 2015 because the company computes its corporate income tax liability in Canadian dollars pursuant to the requirements of Canadian taxation authorities,

whereas the functional currency of the company is the U.S. dollar. The company has not recorded deferred tax assets primarily related to operating losses of \$7.5 million and costs of the offerings of \$8.9 million.

Liabilities

Payable to related parties of \$0.8 million at June 30, 2015 included investment and advisory fees of \$0.4 million and \$0.3 million payable to Fairfax in respect of certain expenses paid by Fairfax on behalf of the company.

Net Asset Value

	<u>June 30, 2015</u>
Net assets	\$ 1,007,892,366
Number of common shares outstanding	106,678,879
NAV per share	\$ 9.45

Investments

The company's investment portfolio was comprised as follows:

	<u>June 30, 2015</u>		
	<u>India</u>	<u>U.S.</u>	<u>Total</u>
U.S. treasury bills	—	269,575,493	269,575,493
Government of India bonds	88,947,263	—	88,947,263
Indian corporate bonds	573,773,736	—	573,773,736
Investment funds	48,509,935	—	48,509,935
Total	<u>711,230,934</u>	<u>269,575,493</u>	<u>980,806,427</u>

As at June 30, 2015 the company had invested in securities rated as investment grade or higher by a Designated Rating Organization ("DRO"), being DBRS Limited, Standard & Poor's Ratings Service ("S&P"), Fitch Inc. and Moody's Investors Service, Inc. ("Moody's"), or subsidiaries or affiliates of a DRO. The company's investment portfolio includes U.S. treasury bills rated Aaa by Moody's and AA+ by S&P, Government of India bonds rated Baa3 by Moody's and BBB by S&P, Indian corporate bonds rated AAA by subsidiaries of a DRO and investment funds that are not rated.

The company is actively seeking investment opportunities in India and will re-direct capital into Indian Investments as and when those opportunities are identified. For more information about recent acquisitions, see the Business Developments section of this MD&A.

Financial Risk Management

The company's risk exposures and processes for managing those risk exposures are disclosed in note 9 (Financial Risk Management) to the interim consolidated financial statements for the second quarter and first six months ended June 30, 2015.

Liquidity and Capital Resources

During the first six months of 2015 the company raised gross proceeds of \$1.06 billion through its offerings. Issuance costs of \$41.0 million were primarily comprised of fees paid to underwriters of the subordinate voting shares. For a discussion of purchases of investments, refer to the Consolidated Balance Sheet Summary section of this MD&A.

	<u>First six months 2015</u>
Operating activities	
Cash provided by (used in) operating activities before the undernoted	278,683
Net purchases of investments	(1,016,620,124)
Financing activities	
Issuance of subordinate voting shares	766,788,790
Issuance of multiple voting shares	299,999,990
Issuance costs	(40,963,448)
Increase in cash	<u>9,483,891</u>

The company believes it has adequate working capital to support its operations. The company's primary use of cash is to make investments and to pay related expenses.

Related Party Transactions

The company's related party transactions are disclosed in note 10 (Related Party Transactions) to the interim consolidated financial statements for the second quarter and first six months ended June 30, 2015.

Outstanding Share Data

At June 30, 2015 Fairfax India had 76,678,879 subordinate voting shares and 30,000,000 multiple voting shares outstanding (an aggregate of 106,678,879 shares effectively outstanding). Each subordinate voting shares carries one (1) vote per share at all meetings of shareholders except for separate meetings of holders of another class of shares. Each multiple voting shares carries fifty (50) 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.

Contractual Obligations

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

For the second quarter and first six months ended June 30, 2015, the company incurred investment and advisory fees of \$1,233,677 and \$2,089,178 respectively.

The performance fee is paid for the period from January 30, 2015 to December 31, 2017 and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20% of any increase in NAV (including distributions) above a 5% per annum increase. The company has determined that the performance fee for the second quarter ended June 30, 2015 is not applicable.

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 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 or the Indian 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 Indian securities markets; political, economic, social and other factors; governance issues risk; Indian tax law; changes in law; exposure to permanent establishment, etc.; enforcement of rights; smaller company risk; due diligence and conduct of potential investment entities; Asian economic risk; reliance on trading partners risk; natural disaster risks; government debt risk; and economic risk. Additional risks and uncertainties are described in the Company's annual information form dated March 30, 2015 which is available on SEDAR at www.sedar.com and on the Company's website at www.fairfaxindia.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.

FAIRFAX INDIA