FAIRFAX INDIA
HOLDINGS CORPORATION

2

# INTERIM REPORT

**For the six months ended**
**June 30, 2016**

**CONSOLIDATED BALANCE SHEETS**
*as at June 30, 2016 and December 31, 2015*
*(unaudited - US$ thousands)*

| | Notes | June 30, 2016 | December 31, 2015 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | **76,736** | 12,464 |
| Restricted cash | | **—** | 6,457 |
| Short term investments | | **27,352** | 50,143 |
| Bonds | | **466,187** | 512,789 |
| Common stocks | | **452,417** | 415,637 |
| Total cash and investments | 6 | **1,022,692** | 997,490 |
| Interest receivable | | **3,501** | 27,680 |
| Income taxes refundable | 9 | **10,336** | — |
| Other assets | | **192** | 281 |
| Total assets | | **1,036,721** | 1,025,451 |
| **Liabilities** | | | |
| Accrued liabilities | | **772** | 743 |
| Payable to related parties | 11 | **2,793** | 1,993 |
| Income taxes payable | 9 | **—** | 9,386 |
| Total liabilities | | **3,565** | 12,122 |
| **Equity** | | | |
| Total common shareholders' equity | 7 | **1,033,156** | 1,013,329 |
| | | **1,036,721** | 1,025,451 |

*See accompanying notes.*

**CONSOLIDATED STATEMENTS OF EARNINGS**
*for the three and six months ended June 30, 2016 and 2015*
*(unaudited - US$ thousands except per share amounts)*

| | | Second quarter | | First six months | |
|---|---|---|---|---|---|
| | **Notes** | **2016** | 2015 | **2016** | 2015 |
| **Income** | | | | | |
| Interest and dividends | 6 | **4,518** | 13,900 | **16,611** | 18,801 |
| Net realized gains (losses) on investments | 6 | **4,669** | (570) | **1,361** | (522) |
| Net unrealized gains (losses) on investments | 6 | **22,351** | (12,983) | **29,693** | (14,268) |
| Net foreign exchange gains (losses) | 6 | **2,379** | 920 | **(5,973)** | 1,458 |
| | | **33,917** | 1,267 | **41,692** | 5,469 |
| **Expenses** | | | | | |
| Investment and advisory fees | 11 | **2,703** | 1,233 | **4,844** | 2,089 |
| General and administration expenses | 12 | **1,264** | 1,254 | **3,020** | 1,842 |
| | | **3,967** | 2,487 | **7,864** | 3,931 |
| **Earnings (loss) before income taxes** | | **29,950** | (1,220) | **33,828** | 1,538 |
| Provision for (recovery of) income taxes | 9 | **(8,309)** | 964 | **(5,173)** | (292) |
| **Net earnings (loss) attributable to common shareholders** | | **38,259** | (2,184) | **39,001** | 1,830 |
| **Net earnings (loss) per basic share** | 8 | **$ 0.36** | $ (0.02) | **$ 0.37** | $ 0.02 |
| **Shares outstanding** (weighted average - basic) | 8 | **106,678,879** | 106,678,879 | **106,678,879** | 89,215,969 |

*See accompanying notes.*

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
*for the three and six months ended June 30, 2016 and 2015*
*(unaudited - US$ thousands)*

| | Second quarter | | First six months | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **Net earnings (loss) attributable to common shareholders** | **38,259** | (2,184) | **39,001** | 1,830 |
| **Other comprehensive loss** | | | | |
| **Item that may be subsequently reclassified to net earnings (loss)** | | | | |
| Unrealized foreign currency translation losses, net of income taxes of nil | **(19,320)** | (12,832) | **(20,279)** | (19,763) |
| **Other comprehensive loss** | **(19,320)** | (12,832) | **(20,279)** | (19,763) |
| **Comprehensive income (loss) attributable to common shareholders** | **18,939** | (15,016) | **18,722** | (17,933) |

*See accompanying notes.*

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
*for the six months ended June 30, 2016 and 2015*
*(unaudited - US$ thousands)*

| | Subordinate voting shares | Multiple voting shares | Share-based payments, net | Retained earnings | Accumulated other comprehensive loss | Equity attributable to common shareholders |
|---|---|---|---|---|---|---|
| **Balance as of January 1, 2016** | **727,972** | **300,000** | **(319)** | **40,939** | **(55,263)** | **1,013,329** |
| Net earnings for the period | — | — | — | **39,001** | — | **39,001** |
| Other comprehensive loss: | | | | | | |
| Unrealized foreign currency translation losses | — | — | — | — | **(20,279)** | **(20,279)** |
| Amortization | — | — | **80** | — | — | **80** |
| Tax benefit on IPO costs | **1,025** | — | — | — | — | **1,025** |
| **Balance as of June 30, 2016** | **728,997** | **300,000** | **(239)** | **79,940** | **(75,542)** | **1,033,156** |
| | | | | | | |
| **Balance as of January 1, 2015** | — | — | — | — | — | — |
| Net earnings for the period | — | — | — | 1,830 | — | 1,830 |
| Other comprehensive loss: | | | | | | |
| Unrealized foreign currency translation losses | — | — | — | — | (19,763) | (19,763) |
| Issuance of shares, net of issuance costs | 725,825 | 300,000 | — | — | — | 1,025,825 |
| **Balance as of June 30, 2015** | 725,825 | 300,000 | — | 1,830 | (19,763) | 1,007,892 |

*See accompanying notes.*

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
*for the three and six months ended June 30, 2016 and 2015*
*(unaudited - US$ thousands)*

| | Notes | Second quarter 2016 | Second quarter 2015 | First six months 2016 | First six months 2015 |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| Net earnings (loss) | | **38,259** | (2,184) | **39,001** | 1,830 |
| Net bond discount amortization | | **(1)** | (156) | **(105)** | (165) |
| Deferred income taxes | 9 | **(975)** | — | **1,025** | (1,825) |
| Amortization of share-based payment awards | | **27** | — | **80** | — |
| Net realized (gains) losses on investments | 6 | **(4,669)** | 570 | **(1,361)** | 522 |
| Net unrealized (gains) losses on investments | 6 | **(22,351)** | 12,983 | **(29,693)** | 14,268 |
| Net foreign exchange (gains) losses | 6 | **(2,379)** | (920) | **5,973** | (1,458) |
| Net purchases (sales) of short term investments classified as FVPTL | 12 | **16,678** | — | **23,799** | (269,410) |
| Purchases of bonds and common stock classified as FVPTL | 12 | **(250,669)** | (83,736) | **(293,788)** | (836,219) |
| Sales of bonds and common stock classified as FVTPL | 12 | **26,528** | 54,720 | **316,642** | 89,009 |
| Decrease in restricted cash in support of investments | 6 | **—** | — | **6,457** | — |
| Changes in operating assets and liabilities: | | | | | |
| Interest receivable | | **2,346** | (10,270) | **24,180** | (15,162) |
| Income taxes (refundable) payable | | **(19,655)** | 593 | **(19,931)** | 1,161 |
| Other | | **(349)** | 333 | **285** | 1,108 |
| Cash provided by (used in) operating activities | | **(217,210)** | (28,067) | **72,564** | (1,016,341) |
| **Financing activities** | | | | | |
| Subordinate voting shares: | | | | | |
| Issuances | | **—** | — | **—** | 766,789 |
| Issuance costs | | **—** | (2,624) | **—** | (40,964) |
| Multiple voting shares: | | | | | |
| Issuances | | **—** | — | **—** | 300,000 |
| Cash provided by (used in) financing activities | | **—** | (2,624) | **—** | 1,025,825 |
| **Increase (decrease) in cash and cash equivalents** | | **(217,210)** | (30,691) | **72,564** | 9,484 |
| Cash and cash equivalents - beginning of period | | **293,889** | 40,393 | **12,464** | 235 |
| Foreign currency translation | | **57** | (117) | **(8,292)** | (134) |
| **Cash and cash equivalents - end of period** | | **76,736** | 9,585 | **76,736** | 9,585 |

*See accompanying notes.*

**Index to Notes to Interim Consolidated Financial Statements**

## 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 investments either directly or through one of its wholly-owned subsidiaries, which currently include FIH Mauritius Investments Ltd ("FIH Mauritius") and FIH Private Investments Ltd ("FIH Private").

In the first quarter of 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) by issuance of subordinate voting shares ("SVS") and multiple voting shares ("MVS"). The company's SVS commenced trading on January 30, 2015 on the Toronto Stock Exchange ("TSX") under the symbol "FIH.U". The MVS are not traded.

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 principally engaged in property and casualty insurance and reinsurance and the associated investment management. Fairfax has been listed on the TSX under the symbol "FFH" for 30 years. Fairfax, through its subsidiaries, owns 30 million MVS. At June 30, 2016 these MVS represented 95.1% of the voting rights and 28.1% of the equity interest in Fairfax India (December 31, 2015 - 95.1% and 28.1% respectively).

Hamblin Watsa Investment Counsel Ltd. (the "Portfolio Advisor"), a wholly-owned subsidiary of Fairfax and registered portfolio manager in the province of Ontario, is the portfolio advisor of the company and its consolidated subsidiaries, responsible to source and advise with respect to all investments.

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 three and six months ended June 30, 2016 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 year ended December 31, 2015, 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 28, 2016.

## 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 annual consolidated financial statements for the year ended December 31, 2015, prepared in accordance with IFRS as issued by the IASB. Those policies have been consistently applied to all periods presented except as described below.

***New accounting pronouncements adopted in 2016***

The company adopted the following amendments, effective January 1, 2016. These changes were adopted in accordance with the applicable transitional provisions of each amendment, and did not have a significant impact on the consolidated financial statements.

*IFRS Annual Improvements 2012-2014*
In September 2014 the IASB issued a limited number of amendments to clarify the requirements of four IFRS standards.

*Disclosure Initiative (Amendments to IAS 1)*
In December 2014 the IASB issued certain narrow-focus amendments to IAS 1 Presentation of Financial Statements to clarify existing presentation and disclosure requirements.

## 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 which are consistent with those as described in the company's annual consolidated financial statements for the year ended December 31, 2015, with the exception of those described 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.

*National Collateral Management Services Limited*

At December 31, 2015 and March 31, 2016 the company had concluded that there were no changes to the fair value of its investment in National Collateral Management Services Limited ("NCML") as there were no significant changes to NCML's business, capital structure and operating environment. During the second quarter of 2016 the company refined its internal valuation model used in the determination of NCML's fair value. The fair value of NCML cannot be derived from an active market and accordingly, is determined using industry accepted valuation techniques and models. The company does not use independent valuation experts to determine fair value. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of NCML.

At June 30, 2016 the company performed a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 11.7% to 15% and a long term growth rate of 6%. Free cash flow projections are based on EBITDA projections from financial information for NCML's two business units. Discount rates are based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. The company also compared its discounted cash flow valuation to an alternative valuation prepared using observable market multiples. The difference between the fair values calculated by the two valuation models was insignificant. At June 30, 2016 the company's internal valuation model indicated that there was no change in the fair value of NCML from March 31, 2016.

*Sanmar Chemicals Group*

At June 30, 2016 the company had concluded that there were no changes to the aggregate fair value of its bond and common stock investments in Sanmar Chemicals Group ("Sanmar") as there were no significant changes to Sanmar's business, capital structure or operating environment since the initial investment in Sanmar closed on April 28, 2016, and the key assumptions in the company's acquisition valuation model continued to be valid. Management has commenced a valuation study to formalize valuation models and determine the appropriate separate fair values for its bond and common stock investments in Sanmar.

## 5. Significant Investments

***Subsequent to June 30, 2016***

*Investment in Privi Organics Limited*

On July 12, 2016, Fairfax India, through its wholly-owned subsidiaries, announced that they had entered into a share purchase agreement with existing shareholders of Privi Organics Limited ("Privi") to acquire 51% equity ownership in Privi for total consideration of approximately 3.7 billion Indian rupees (approximately $55 million at exchange rates on the announcement date).

Additionally, the board of directors of Adi Finechem Limited ("Adi") and Privi have approved a merger arrangement involving the two companies, bringing significant diversification and synergies to both partners. Fairfax India had acquired a 44.9% equity ownership in Adi in the first quarter of 2016. After the merger arrangement is effective, Fairfax India would own approximately 49% in the merged business. Closing of the acquisition and the merger is expected to occur in the third quarter of 2016 and the first quarter of 2017 respectively subject to customary regulatory approvals.

Privi is a key supplier of aroma chemicals to many large fragrance companies globally.

***Six months ended June 30, 2016***

*Investment in Bangalore International Airport Limited*

On March 28, 2016 the company and Fairfax, through their wholly-owned subsidiaries in Mauritius, announced that they will collectively acquire 33% of the equity of Bangalore International Airport Limited (“BIAL”) from Bangalore Airport & Infrastructure Developers Private Limited, a wholly-owned subsidiary of GVK Power and Infrastructure Limited for an aggregate investment of approximately 21.49 billion Indian rupees (approximately $318 million at current exchange rates). As Fairfax India is limited to investing no more than 25% of its total assets in any single investment (this currently limits any single investment to approximately $250 million), Fairfax India will invest $250 million and the company, Fairfax or another investor will invest the remaining amount. The transaction is subject to customary closing conditions and third party consents, including lender consents, and is expected to be completed later in 2016.

BIAL owns and operates the Kempegowda International Airport in Bangalore, India through a public-private partnership.

*Investment in Sanmar Chemicals Group*

On April 8, 2016 the company announced that, through its wholly-owned subsidiaries, it had agreed to invest $300 million into the Sanmar Chemicals Group ("Sanmar") by investing in Sanmar Engineering Services Limited ("SESL"), through a combination of equity and debt securities resulting in a 30% equity ownership in Sanmar. As Fairfax India is currently limited to investing approximately $250 million, as described above, Fairfax India will fund an initial tranche of $250 million upon the closing of the transaction, and the second tranche of $50 million will be funded on or before September 30, 2016 by the company, Fairfax or another investor.

On April 28, 2016 the company closed the first tranche of $250 million. If the second tranche is not completed, the company's equity ownership in Sanmar will be reduced to 25%.

Sanmar is one of the largest suspension PVC manufacturers in India and is in the process of expanding its PVC capacity in Egypt. Sanmar also manufactures caustic soda, chloromethanes, refrigerant gases, industrial salt and specialty chemical intermediates.

*Investment in Adi Finechem Limited*

On November 4, 2015, Fairfax India, through its wholly-owned subsidiary, FIH Mauritius, entered into an agreement with existing shareholders of Adi Finechem Limited ("Adi") to acquire approximately 44.66% of the outstanding shares of Adi at a price per share of 212 Indian rupees (collectively the "Adi Shareholder Transaction") for total consideration of approximately 1.3 billion Indian rupees (approximately $20 million at exchange rates on the announcement date).

Adi's shares are listed on the Bombay Stock Exchange and the National Stock Exchange of India. As a result of such listings, Fairfax India was also required to make an open offer (the "Adi Open Offer") for an additional 26% of the shares outstanding of Adi in accordance with applicable regulations of the Securities and Exchange Board of India ("SEBI"). The company therefore deposited approximately 190.1 million Indian rupees ($2.9 million) in escrow to partially fund the Adi Open Offer as required by SEBI.

On February 8, 2016 the company closed the Adi Shareholder Transaction and the Adi Open Offer. Upon closing of the Adi Shareholder Transaction, the company acquired a 44.66% of the outstanding shares of Adi for an aggregate consideration of approximately 1.3 billion Indian rupees (approximately $19 million based on the exchange rates on the date of close). Pursuant to the open offer, 847 shares were tendered and the company purchased an additional 33,894 shares during the first quarter of 2016. At June 30, 2016 the company held approximately 44.9% of the outstanding shares of Adi.

Adi is a specialty chemical manufacturer located near Ahmedabad, Gujarat, India. Adi manufactures oleo chemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products.

## 6. Cash and Investments

*Fair Value Disclosures*

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

| | June 30, 2016 | | | | |
|---|---|---|---|---|---|
| | **Quoted prices (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total fair value of assets** | **Total fair value of assets in Indian rupees (in thousands)** |
| Cash and cash equivalents[1] | **76,736** | **—** | **—** | **76,736** | **5,179,283** |
| Short term investments - U.S. treasury bills[2] | **27,352** | **—** | **—** | **27,352** | **1,846,108** |
| Bonds: | | | | | |
| Government of India bonds | **—** | **124,275** | **—** | **124,275** | **8,387,969** |
| Indian corporate bonds | **—** | **96,139** | **—** | **96,139** | **6,488,848** |
| Sanmar bonds[3] | **—** | **—** | **245,773** | **245,773** | **16,588,466** |
| | **—** | **220,414** | **245,773** | **466,187** | **31,465,283** |
| Common stocks: | | | | | |
| IIFL | **226,560** | **—** | **—** | **226,560** | **15,291,680** |
| NCML | **—** | **—** | **143,540** | **143,540** | **9,688,230** |
| Adi | **31,727** | **—** | **—** | **31,727** | **2,141,426** |
| Sanmar | **—** | **—** | **985** | **985** | **66,496** |
| Investment funds[4] | **—** | **49,605** | **—** | **49,605** | **3,348,057** |
| | **258,287** | **49,605** | **144,525** | **452,417** | **30,535,889** |
| Total cash and investments | **362,375** | **270,019** | **390,298** | **1,022,692** | **69,026,563** |
| | **35.4%** | **26.4%** | **38.2%** | **100.0%** | **100.0%** |

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Quoted prices (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total fair value of assets | Total fair value of assets in Indian rupees (in thousands) |
| Cash and cash equivalents[1] | 12,464 | — | — | 12,464 | 824,597 |
| Restricted cash[5] | 6,457 | — | — | 6,457 | 427,191 |
| | 18,921 | — | — | 18,921 | 1,251,788 |
| Short term investments - U.S. treasury bills[2] | 50,143 | — | — | 50,143 | 3,317,267 |
| Bonds: | | | | | |
| Government of India bonds | — | 123,448 | — | 123,448 | 8,166,876 |
| Indian corporate bonds | — | 389,341 | — | 389,341 | 25,757,320 |
| | — | 512,789 | — | 512,789 | 33,924,196 |
| Common stocks: | | | | | |
| IIFL | 220,747 | — | — | 220,747 | 14,603,787 |
| NCML | — | — | 146,445 | 146,445 | 9,688,230 |
| Investment funds[4] | — | 48,445 | — | 48,445 | 3,204,956 |
| | 220,747 | 48,445 | 146,445 | 415,637 | 27,496,973 |
| Total cash and investments | 289,811 | 561,234 | 146,445 | 997,490 | 65,990,224 |
| | 29.1% | 56.2% | 14.7% | 100.0% | 100.0% |

*(1)* Includes U.S. treasury bills with maturity dates of less than three months of $34,988 at June 30, 2016 (December 31, 2015 - nil and $4,501 of fixed deposits).

*(2)* Short term U.S. treasury bills have a maturity date of June 22, 2017 (December 31, 2015 - maturity dates of June 23, 2016 and March 3, 2016).

*(3)* Includes accrued interest income as the Sanmar debentures are considered to be Indian Investments.

*(4)* These investment funds are primarily valued based on net asset value statements provided by third party fund managers that are compared to published quotes for the underlying investments. The units of the funds are redeemable and priced daily.

*(5)* Restricted cash is comprised of cash in escrow at December 31, 2015 arising from investments in IIFL ($3,600) and Adi ($2,857).

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the three and six months ended June 30, 2016 and 2015 there were no transfers of financial instruments between Level 1 and Level 2 and there were no transfers of financial instruments in or out of Level 3 as a result of changes in the observability of valuation inputs.

A summary of changes in the fair value of Level 3 financial assets for the six months ended June 30, 2016 and year ended December 31, 2015 are as follows:

| | **June 30, 2016** | | | | December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Indian corporate bonds** | **Common stocks** | | **Total** | Indian corporate bonds | Common stocks | | Total |
| | **Sanmar** | **NCML** | **Sanmar** | | Sanmar | NCML | Sanmar | |
| Balance as of January 1 | **—** | **146,445** | **—** | **146,445** | — | — | — | — |
| Purchases | **249,000** | **—** | **1,000** | **250,000** | — | 148,716 | — | 148,716 |
| Net unrealized gains in the consolidated statement of earnings | **1,408** (1) | **—** | **—** | **1,408** | — | — | — | — |
| Net unrealized foreign currency translation losses in the consolidated statement of comprehensive income | **(4,635)** | **(2,905)** | **(15)** | **(7,555)** | — | (2,271) | — | (2,271) |
| Balance at period end | **245,773** | **143,540** | **985** | **390,298** | — | 146,445 | — | 146,445 |

| Indian rupees (in thousands) | **June 30, 2016** | | | | December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Indian corporate bonds** | **Common stocks** | | **Total** | Indian corporate bonds | Common stocks | | Total |
| | **Sanmar** | **NCML** | **Sanmar** | | Sanmar | NCML | Sanmar | |
| Balance as of January 1 | **—** | **9,688,230** | **—** | **9,688,230** | — | — | — | — |
| Purchases | **16,493,450** | **—** | **66,496** | **16,559,946** | — | 9,688,230 | — | 9,688,230 |
| Net unrealized gains in the consolidated statement of earnings | **95,016** (1) | **—** | **—** | **95,016** | — | — | — | — |
| Balance at period end | **16,588,466** | **9,688,230** | **66,496** | **26,343,192** | — | 9,688,230 | — | 9,688,230 |

*(1)* Includes accrued interest income as the Sanmar debentures are considered to be Indian Investments.

*Fixed Income Maturity Profile*

Bonds are summarized by their 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, 2016, there were no bonds containing put features (December 31, 2015 - $137,400).

| | **June 30, 2016** | | December 31, 2015 | |
|---|---|---|---|---|
| | **Amortized cost** | **Fair value** | Amortized cost | Fair value |
| Due after 1 year through 5 years | **—** | **—** | 190,458 | 190,409 |
| Due after 5 years through 10 years | **377,840** | **379,266** | 237,348 | 235,867 |
| Due after 10 years | **85,780** | **86,921** | 87,553 | 86,513 |
| | **463,620** | **466,187** | 515,359 | 512,789 |

***Investment Income***

An analysis of investment income for the three and six months ended June 30 is summarized in the following table:

*Interest and dividends*

| | **Second quarter** | | **First six months** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Interest income: | | | | |
| Cash and cash equivalents | **26** | — | **67** | — |
| Short term investments | **22** | 156 | **52** | 165 |
| Bonds | **4,470** | 13,744 | **12,161** | 18,636 |
| | **4,518** | 13,900 | **12,280** | 18,801 |
| Dividends - common stocks | **—** | — | **4,331** | — |
| Interest and dividends | **4,518** | 13,900 | **16,611** | 18,801 |

*Net gains (losses) on investments*

| | Second quarter | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | **Net realized gains (losses)** | **Net change in unrealized gains (losses)** | **Net gains (losses) on investments** | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) on investments |
| Short term investments | **2** | **—** | **2** | — | — | — |
| Bonds | **—** | **3,564** (1) | **3,564** | (570) | (11,455) | (12,025) |
| Common stocks | **4,667** | **18,771** (2) | **23,438** | — | — | — |
| Investment funds | **—** | **16** | **16** | — | (1,528) | (1,528) |
| | **4,669** | **22,351** | **27,020** | (570) | (12,983) | (13,553) |
| Net foreign currency gains on: | | | | | | |
| Cash and cash equivalents | **853** | **—** | **853** | 48 | — | 48 |
| Investments | **709** | **817** | **1,526** | — | 872 | 872 |
| | **1,562** | **817** | **2,379** | 48 | 872 | 920 |
| **Net gains (losses) on investments** | **6,231** | **23,168** | **29,399** | (522) | (12,111) | (12,633) |

| | First six months | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | **Net realized gains (losses)** | **Net change in unrealized gains (losses)** | **Net gains (losses) on investments** | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) on investments |
| Short term investments | **2** | **—** | **2** | — | — | — |
| Bonds | **(3,308)** | **6,099** (1) | **2,791** | (522) | (12,740) | (13,262) |
| Common stocks | **4,667** | **22,554** (2) | **27,221** | — | — | — |
| Investment funds | **—** | **1,040** | **1,040** | — | (1,528) | (1,528) |
| | **1,361** | **29,693** | **31,054** | (522) | (14,268) | (14,790) |
| Net foreign currency gains (losses) on: | | | | | | |
| Cash and cash equivalents | **(7,447)** | **—** | **(7,447)** | 348 | — | 348 |
| Investments | **899** | **575** | **1,474** | — | 1,110 | 1,110 |
| | **(6,548)** | **575** | **(5,973)** | 348 | 1,110 | 1,458 |
| **Net gains (losses) on investments** | **(5,187)** | **30,268** | **25,081** | (174) | (13,158) | (13,332) |

*(1)* Includes accrued interest income as the Sanmar debentures are considered to be Indian Investments.

*(2)* Principally comprised of unrealized gains on the investments in IIFL of $16,352 and $10,238 and Adi of $8,256 and $12,316 in the second quarter and first six months of 2016 respectively.

## 7. Total Equity

### Equity attributable to common shareholders

*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.

*Common shares*

The number of shares outstanding was as follows:

| | **2016** | 2015 |
|---|---|---|
| Subordinate voting shares - January 1 | **76,678,879** | — |
| Issuances of shares | **—** | 76,678,879 |
| Subordinate voting shares - June 30 | **76,678,879** | 76,678,879 |
| Multiple voting shares - January 1 | **30,000,000** | 1 |
| Issuances of shares | **—** | 29,999,999 |
| Multiple voting shares - June 30 | **30,000,000** | 30,000,000 |
| Common shares effectively outstanding - June 30 | **106,678,879** | 106,678,879 |

## 8. Earnings per Share

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

| | **Second quarter** | | **First six months** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Net earnings (loss) attributable to common shareholders – basic | **38,259** | (2,184) | **39,001** | 1,830 |
| Weighted average common shares outstanding – basic | **106,678,879** | 106,678,879 | **106,678,879** | 89,215,969 |
| Net earnings (loss) per common share - basic | **$ 0.36** | $ (0.02) | **$ 0.37** | $ 0.02 |

## 9. Income Taxes

The company's provision for (recovery of) income taxes for the three and six months ended June 30 are summarized in the following table:

| | **Second quarter** | | **First six months** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Current income tax: | | | | |
| Current year expense (recovery) | **(9,249)** | 964 | **(8,113)** | 1,533 |
| Adjustment to prior years' income taxes | **1,915** | — | **1,915** | — |
| | **(7,334)** | 964 | **(6,198)** | 1,533 |
| Deferred income tax: | | | | |
| Origination and reversal of temporary differences | **(976)** | — | **1,024** | (1,825) |
| Adjustments to prior years' deferred income taxes | **1** | — | **1** | — |
| | **(975)** | — | **1,025** | (1,825) |
| Provision for (recovery of) income taxes | **(8,309)** | 964 | **(5,173)** | (292) |

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).

During the second quarter of 2016, India and Mauritius amended their double income tax treaty. As a result, investments acquired and held up to April 1, 2017 will not be assessed by India for tax on their future disposition. After April 1, 2017, India will levy capital gains tax at half the India domestic rate on equity investments purchased or sold through Mauritius until March 31, 2019 and at the full rate from April 1, 2019 onward.

The company's earnings (loss) before income taxes by jurisdiction and the associated provision for (recovery of) income taxes for the three and six months ended June 30 are summarized in the following tables:

| | Second quarter | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | | | 2015 | | |
| | **Canada** | **Mauritius** | **Total** | Canada | Mauritius | Total |
| Earnings (loss) before income taxes | **203** | **29,747** | **29,950** | (1,474) | 254 | (1,220) |
| Provision for (recovery of) income taxes | **(9,381)** | **1,072** | **(8,309)** | — | 964 | 964 |
| Net earnings (loss) | **9,584** | **28,675** | **38,259** | (1,474) | (710) | (2,184) |

| | First six months | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | | | 2015 | | |
| | **Canada** | **Mauritius** | **Total** | Canada | Mauritius | Total |
| Earnings (loss) before income taxes | **2,015** | **31,813** | **33,828** | (2,406) | 3,944 | 1,538 |
| Provision for (recovery of) income taxes | **(7,381)** | **2,208** | **(5,173)** | (1,824) | 1,532 | (292) |
| Net earnings (loss) | **9,396** | **29,605** | **39,001** | (582) | 2,412 | 1,830 |

The increase in pre-tax profitability in Canada and Mauritius in the second quarter and first six months of 2016 compared to the second quarter and first six months of 2015 primarily reflected increased net unrealized gains on investments, partially offset by increased investment and advisory fees.

Management reviews the recoverability of potential deferred tax assets on an ongoing basis and adjusts, as necessary, to reflect their anticipated realization. Deferred income taxes at June 30, 2016 were nil (December 31, 2015 - nil) as the company has not recorded deferred tax assets of $7,577 (December 31, 2015 - $8,602) related to costs of the public share offerings and net operating and foreign accrual property losses of $2,833 (December 31, 2015 - $206).

A reconciliation of the provision for (recovery of) income taxes calculated at the Canadian statutory income tax rate to the provision for (recovery of) income taxes at the effective tax rate in the consolidated financial statements for the three and six months ended June 30 are summarized in the following table:

| | Second quarter | | First six months | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Canadian statutory income tax rate | **26.5%** | 26.5% | **26.5%** | 26.5% |
| Provision for (recovery of) income taxes at the Canadian statutory income tax rate | **7,936** | (322) | **8,964** | 408 |
| Tax rate differential on income earned and losses incurred outside of Canada | **(5,638)** | 488 | **(13,504)** | 488 |
| Provision relating to prior years | **1,916** | — | **1,916** | — |
| Change in unrecorded tax benefit of losses and temporary differences | **(8,943)** | 3,559 | **2,421** | 3,559 |
| Foreign exchange effect | **(3,580)** | (885) | **(4,970)** | (2,469) |
| Other including permanent differences | **—** | (1,876) | **—** | (2,278) |
| Provision for (recovery of) income taxes | **(8,309)** | 964 | **(5,173)** | (292) |

The tax rate differential on income earned and losses incurred outside of Canada of $5,638 and $13,504 in the second quarter and first six months of 2016 principally reflected the impact of foreign accrued property losses in Canada, partially offset by the net investment income taxed in India and Mauritius.

The provision relating to prior years of $1,916 in both the second quarter and first six months of 2016 primarily related to a refinement of the company's computation of the foreign exchange component of realized gains and losses.

The change in unrecorded tax benefit of losses and temporary differences of $8,943 and $2,421 in the second quarter and first six months of 2016 were primarily comprised of deferred tax assets in Canada of $2,600 that were not recorded by the company because the related pre-tax losses do not meet the applicable recognition criteria under IFRS.

Foreign exchange effect of $3,580 and $4,970 in the second quarter and first six months of 2016 principally reflected the impact of fluctuations 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 is the Indian rupee.

Changes in net income taxes refundable (payable) for the quarter ended June 30, 2016 and year ended December 31, 2015 were as follows:

| | **Quarter ended June 30, 2016** | Year ended December 31, 2015 |
|---|---|---|
| Balance - beginning of period | **(9,386)** | — |
| Amounts recorded in the consolidated statements of earnings | **6,197** | (11,257) |
| Payments made during the period | **13,426** | 1,573 |
| Gain on translation to the functional currency | **99** | 298 |
| Balance - end of period | **10,336** | (9,386) |

## 10. Financial Risk Management

The company's activities expose it to certain financial risks during or at the end of the reporting period. These risks, and the company's management thereof, are described below.

***Market Risk***

*Foreign Currency Risk*

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

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

| | **June 30, 2016** | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **Cash and cash equivalents** | **Investments** | **Total** | Cash and cash equivalents | Investments | Total |
| Canadian dollars | **1,217** | **—** | **1,217** | 42 | — | 42 |
| U.S. dollars | **52,766** | **76,957** | **129,723** | 12,367 | 98,588 | 110,955 |
| Mauritius rupees | **67** | **—** | **67** | 55 | — | 55 |
| Total | **54,050** | **76,957** | **131,007** | 12,464 | 98,588 | 111,052 |

*Interest Rate Risk*

Interest rate movements in India may affect the company's net assets and net earnings. 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 $49,605 at June 30, 2016 (December 31, 2015 - $48,445) to the extent the funds are invested in fixed income securities.

| | **June 30, 2016** | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **Fair value of fixed income portfolio** | **Hypothetical $ change effect on net earnings** | **Hypothetical % change in fair value** | 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 | **412,230** | **(39,348)** | **(11.6)%** | 467,293 | (33,439) | (8.9)% |
| 100 basis point rise | **438,544** | **(20,008)** | **(5.9)%** | 490,481 | (16,396) | (4.4)% |
| No change | **466,187** | **—** | **—** | 512,789 | — | — |
| 100 basis point decline | **498,127** | **23,786** | **6.9 %** | 546,766 | 24,973 | 6.6 % |
| 200 basis point decline | **531,904** | **48,612** | **14.1 %** | 580,625 | 49,860 | 13.2 % |

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.

*Market Price Fluctuations*

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

The following table illustrates the potential impact on net earnings of a 10% change in the fair value of the company's publicly traded equity investments.

| | **June 30, 2016** | |
|---|---|---|
| Change in fair value of the company's publicly traded equity investments | **+10%** | **-10%** |
| Publicly traded equity investments | **258,287** | **258,287** |
| Pre-tax impact on net earnings | **25,829** | **(25,829)** |
| After-tax impact on net earnings | **22,406** | **(22,406)** |

| | December 31, 2015 | |
|---|---|---|
| Change in fair value of the company's publicly traded equity investment | +10% | -10% |
| Publicly traded equity investment | 220,747 | 220,747 |
| Pre-tax impact on net earnings | 22,075 | (22,075) |
| After-tax impact on net earnings | 19,150 | (19,150) |

***Credit Risk***

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company. Credit risk arises predominantly with respect to cash and cash equivalents, short term investments and investments in debt instruments. Cash balances are held in high credit-quality financial institutions. The company has 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 short term 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 Sanmar bonds rated BBB- by Brickworks Rating. The company is exposed to indirect credit risk through its holdings of investment funds.

The company’s aggregate gross credit risk exposure was comprised as follows:

| | **June 30, 2016** | December 31, 2015 |
|---|---|---|
| Cash and cash equivalents | **76,736** | 12,464 |
| Restricted cash | **—** | 6,457 |
| Short term investments - U.S. treasury bills | **27,352** | 50,143 |
| Bonds: | | |
| Government of India bonds | **124,275** | 123,448 |
| Indian corporate bonds | **96,139** | 389,341 |
| Sanmar bonds | **245,773** | — |
| Investment funds | **49,605** | 48,445 |
| Interest receivable | **3,501** | 27,680 |
| Total gross credit risk exposure | **623,381** | 657,978 |

The company had income taxes refundable of $10,336 at June 30, 2016 (December 31, 2015 - income taxes payable of $9,386).

***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 due dates. All liabilities are due within three months, with the exception of income taxes payable that must be remitted to the respective tax jurisdictions within six months.

*Concentration Risk*

The company's cash and investments are primarily concentrated in India and in Indian businesses or businesses with customers, suppliers or business primarily 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 of India. Adverse changes to 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 net earnings.

The company's cash and investment portfolio composition between Indian and U.S. investments was as follows:

| | **June 30, 2016** | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **India** | **U.S.** | **Total** | India | U.S. | Total |
| Cash and cash equivalents | **23,970** [(1)] | **52,766** | **76,736** | 97 [(1)] | 12,367 | 12,464 |
| Restricted cash | **—** | **—** | **—** | 6,457 | — | 6,457 |
| Short term investments - U.S. treasury bills | **—** | **27,352** | **27,352** | — | 50,143 | 50,143 |
| Bonds: | | | | | | |
| Government of India bonds | **124,275** | **—** | **124,275** | 123,448 | — | 123,448 |
| Indian corporate bonds | **96,139** | **—** | **96,139** | 389,341 | — | 389,341 |
| Sanmar bonds | **245,773** | **—** | **245,773** | — | — | — |
| Common stocks: | | | | | | |
| IIFL | **226,560** | **—** | **226,560** | 220,747 | — | 220,747 |
| NCML | **143,540** | **—** | **143,540** | 146,445 | — | 146,445 |
| Adi | **31,727** | **—** | **31,727** | — | — | — |
| Sanmar | **985** | **—** | **985** | — | — | — |
| Investment funds | **—** | **49,605** | **49,605** | — | 48,445 | 48,445 |
| Total cash and investments | **892,969** | **129,723** | **1,022,692** | 886,535 | 110,955 | 997,490 |

*(1)* Included cash and cash equivalents invested in Mauritius and Canada of $1,284 at June 30, 2016 (December 31, 2015 - $97).

*Capital Management*

The company's capital is comprised of its common 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 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 emphasize downside protection and minimize the loss of capital.

## 11. Related Party Transactions

### Payable to Related Parties

Payable to related parties at June 30, 2016 of $2,793 was comprised of investment and advisory fees (discussed below). Payable to related parties at December 31, 2015 of $1,993 was comprised of investment and advisory fees ($1,803), certain expenses paid by Fairfax on behalf of Fairfax India ($181) and fees for information technology support provided by a Fairfax affiliate ($9).

### Investment Advisory Agreement

The company and its subsidiaries have entered into an agreement with Fairfax and the Portfolio Advisor to provide administration and investment advisory services to the company (the "Investment Advisory Agreement"). As compensation for the provision of these services, the company pays an investment and advisory fee, and if applicable, a performance fee. Such fees are determined with reference to the company's net asset value. In accordance with the Investment Advisory Agreement, on any date, the 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 2016, the company has determined that the majority of its assets are invested in Indian Investments, which is considered deployed capital. At June 30, 2016, the 1.5% per annum fee was payable on the net asset value of the Indian Investments and 0.5% per annum fee on the residual of undeployed capital. A fee of 1.5% per annum based on the fair values of the Indian Investments as at June 30, 2016 was accrued for the period. The investment and advisory fee for the three and six months ended June 30, 2016 was $2,703 and $4,844 respectively (2015 - $1,233 and $2,089).

***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 determined that the performance fee was not applicable for the three and six months ended June 30, 2016 and 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.

## 12. Supplementary Cash Flow Information

Details of certain cash flows included in the consolidated statements of cash flows for the three and six months ended June 30 were as follows:

| | Second quarter | | First six months | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| **(a) Purchases of investments classified as FVTPL** | | | | |
| Bonds | **(250,507)** | (83,736) | **(251,174)** | (786,172) |
| Common stocks | **(162)** | — | **(42,614)** | (50,047) |
| | **(250,669)** | (83,736) | **(293,788)** | (836,219) |
| **(b) Sales of investments classified as FVTPL** | | | | |
| Bonds | **—** | 54,720 | **290,114** | 89,009 |
| Common stocks | **26,528** | — | **26,528** | — |
| | **26,528** | 54,720 | **316,642** | 89,009 |
| **(c) Net Interest and dividends received on securities** | | | | |
| Interest received | **6,812** | 3,745 | **26,619** | 3,745 |
| Dividends received | **—** | — | **4,331** | — |
| Net interest received (paid) on purchases and sales of securities | **—** | 210 | **(9,086)** | (2,958) |
| | **6,812** | 3,955 | **21,864** | 787 |
| **(d) Income taxes paid** | **12,029** | 352 | **13,426** | 352 |

## 13. General and Administration Expenses

General and administration expenses for the three and six months ended June 30 were comprised as follows:

| | Second quarter | | First six months | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Brokerage fees | **75** | 653 | **153** | 984 |
| Audit, legal and tax professional fees | **657** | 199 | **1,555** | 279 |
| Salaries and employee benefit expenses | **204** | 76 | **414** | 112 |
| Administrative expenses | **321** | 95 | **677** | 236 |
| Other | **7** | 231 | **221** | 231 |
| | **1,264** | 1,254 | **3,020** | 1,842 |

**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, 2016 and the company's audited financial statements and accompanying notes for the year ended December 31, 2015. Additional information relating to the company's filings, including its annual information form, can be found on SEDAR at *www.sedar.com*. Additional information can also be accessed from the company's website at *www.fairfaxindia.ca*.

(2) The MD&A contains references 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.

**Cautionary Statement Regarding the Valuation of Investments in Private Indian Companies**

In the absence of an active market for its investments in private Indian companies, fair values for 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 investments in private Indian companies could be disposed of may differ from the fair values assigned and those differences may be material.

**Cautionary Statement Regarding Financial Information of Sanmar Chemicals Group, IIFL Holdings Limited (formerly known as India Infoline Limited) and Adi Finechem Limited**

Sanmar Chemicals Group ("Sanmar"), IIFL Holdings Limited (formerly known as India Infoline Limited (“IIFL”)) and Adi Finechem Limited ("Adi") (collectively, "Investee") prepare their financial statements in accordance with Indian Generally Accepted Accounting Principles ("Indian GAAP"). Fairfax India is limited in respect to the amount of independent verification it is able to perform with respect to Investee financial statements. The selected financial information contained in this MD&A was prepared exclusively for Fairfax India. Such financial information is the responsibility of the respective managements, has been prepared by them in accordance with IFRS as issued by the IASB and is presented in Indian rupees.

Investee financial information should be read in conjunction with Fairfax India’s historical financial statements including the notes thereto and the related MD&A as well as Fairfax India’s other public filings.

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

**Business Developments**

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 principally engaged in property and casualty insurance and reinsurance and the associated investment management. Fairfax has been listed on the TSX under the symbol “FFH” for 30 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 consolidated subsidiaries, responsible to source and advise with respect to all investments for the company and its consolidated subsidiaries.

In the first quarter of 2015, Fairfax India completed its initial public offering (“IPO”) of 50,000,000 subordinate voting shares ("SVS") at a price of $10.00 per share for gross proceeds of $500 million. The company's SVS commenced trading on January 30, 2015 on the Toronto Stock Exchange ("TSX") under the symbol "FIH.U". 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 $1.06 billion.

### Significant Investments

#### *Subsequent to June 30, 2016*

*Investment in Privi Organics Limited*

On July 12, 2016, Fairfax India, through its wholly-owned subsidiaries, announced that they had entered into a share purchase agreement with existing shareholders of Privi Organics Limited ("Privi") to acquire 51% equity ownership in Privi for total consideration of approximately 3.7 billion Indian rupees (approximately $55 million at exchange rates on the announcement date).

Additionally, the board of directors of Adi Finechem Limited ("Adi") and Privi have approved a merger arrangement involving the two companies, bringing significant diversification and synergies to both partners. Fairfax India had acquired a 44.9% equity ownership in Adi in the first quarter of 2016. After the merger arrangement is effective, Fairfax India would own approximately 49% in the merged business. Closing of the acquisition and the merger is expected to occur in the third quarter of 2016 and the first quarter of 2017 respectively subject to customary regulatory approvals.

Privi is a key supplier of aroma chemicals to many large fragrance companies globally. Privi's world-class products are the result of its very strong research and development team that has proven expertise in developing new products, customizing odor as per customer requirements, scaling up products from basic research to commercial scale, and designing process improvements to drive quality and cost optimization. With an installed capacity of 15,500 TPA of aroma chemicals, Privi enjoys a dominant position and economies of scale in its product categories.

#### *Six months ended June 30, 2016*

*Investment in Bangalore International Airport Limited*

On March 28, 2016 the company and Fairfax, through their wholly-owned subsidiaries in Mauritius, announced that they will collectively acquire 33% of the equity of Bangalore International Airport Limited (“BIAL”) from Bangalore Airport & Infrastructure Developers Private Limited, a wholly-owned subsidiary of GVK Power and Infrastructure Limited for an aggregate investment of approximately 21.49 billion Indian rupees (approximately $318 million at current exchange rates). As Fairfax India is limited to investing no more than 25% of its total assets in any single investment (this currently limits any single investment to approximately $250 million), Fairfax India will invest $250 million and the company, Fairfax or another investor will invest the remaining amount. The transaction is subject to customary closing conditions and third party consents, including lender consents, and is expected to be completed later in 2016.

BIAL owns and operates the Kempegowda International Airport Bengaluru (“KIAB”), under a 30+30 year concession agreement from the government of India. KIAB has the distinction of being the first airport in India that was built to the highest international standards by the private sector under a public-private partnership.

*Investment in Sanmar Chemicals Group*

On April 8, 2016 the company announced that, through its wholly-owned subsidiaries, it had agreed to invest $300 million into the Sanmar Chemicals Group ("Sanmar") by investing in Sanmar Engineering Services Limited ("SESL"), through a combination of equity and debt securities resulting in a 30% equity ownership in Sanmar. As Fairfax India is currently limited to investing approximately $250 million, as described above, Fairfax India will fund an initial tranche of $250 million upon the closing of the transaction, and the second tranche of $50 million will be funded on or before September 30, 2016 by the company, Fairfax or another investor.

The debt securities mature 7 years from the date of issuance of the first tranche, subject to earlier redemption by SESL in certain circumstances. The company is entitled to a coupon payment payable in kind and capitalized in lieu of payment of such amount in cash on an annual basis and a redemption premium may also be payable in kind to the company. The Sanmar debt securities are currently rated BBB- with a stable outlook by Brickworks Rating, a local Indian rating agency.

On April 28, 2016 the company closed the first tranche of $250 million. If the second tranche is not completed, the company's equity ownership in Sanmar will be reduced to 25%.

At June 30, 2016 the company had concluded that there were no changes to the aggregate fair value of its bond and common stock investments in Sanmar as there were no significant changes to Sanmar's business, capital structure or operating environment since the initial investment in Sanmar closed on April 28, 2016, and the key assumptions in the company's acquisition valuation model continued to be valid. Management has commenced a valuation study to formalize valuation models and determine the appropriate separate fair values for its bond and common stock investments in Sanmar.

In the second quarter and first six months of 2016 the consolidated statements of earnings included $1,408 of net unrealized gains on investments and the consolidated statements of comprehensive income included $4,635 of unrealized foreign currency translation losses related to the Sanmar debt securities. At June 30, 2016 the company held approximately 30.0% of the outstanding common shares of Sanmar. Sanmar's key business drivers will be the increase of its PVC manufacturing capacity in Egypt and an overall improvement in the capacity utilization of all of its PVC production facilities. Sanmar's operating results are in line with management's expectations.

Sanmar is one of the largest suspension PVC manufacturers in India with an installed capacity of almost 300,000 tons per annum, and is the largest specialty PVC company in India. Sanmar is in the process of expanding its PVC capacity in Egypt from 200,000 tons per annum to 400,000 tons per annum. Once the expansion is completed, Sanmar will have a total PVC capacity of over 700,000 tons per annum, making it among the largest PVC companies in the world.

The company's fiscal year ends on December 31 and Sanmar's fiscal year ends on March 31. On April 18, 2016 SESL acquired 100% of SHL Securities Alpha Limited ("SHL Alpha") and as a result of this transaction SHL Alpha became a wholly owned subsidiary of SESL. The historical audited financial statements of SESL do not include the consolidated financial information of SHL Alpha and its subsidiaries. Accordingly, the financial results of SESL and SHL Alpha for the fiscal year ended March 31, 2016 were combined ("SESL Combined") to give effect to the acquisition and are summarized below. Separate financial information of SESL and SHL Alpha for the fiscal year ended March 31, 2015 are summarized below without giving effect to the acquisition.

**Balance Sheets**
***(**unaudited - US$ thousands**)***

| | **March 31, 2016**(1) | March 31, 2015(1) | | |
|---|---|---|---|---|
| | **SESL Combined** | SESL | SHL Alpha | Total |
| Current assets | 148,892 | 739 | 175,581 | 176,320 |
| Non-current assets | 1,285,258 | 85,034 | 1,277,060 | 1,362,094 |
| Current liabilities | 463,725 | 4,435 | 451,581 | 456,016 |
| Non-current liabilities | 1,062,992 | 105,128 | 936,046 | 1,041,174 |
| Shareholders' equity | (92,567) | (23,790) | 65,014 | 41,224 |

**Statements of Earnings**
***(**unaudited - US$ thousands**)***

| | **Year ended March 31, 2016**(2) | Year ended March 31, 2015(2) | | |
|---|---|---|---|---|
| | **SESL Combined** | SESL | SHL Alpha | Total |
| Revenue | 565,584 | 4,044 | 604,943 | 608,987 |
| Net earnings before tax | (77,437) | (12,421) | (67,816) | (80,237) |
| Net earnings (loss) | (81,200) | (12,427) | (86,233) | (98,660) |

*(1)* The net assets of Sanmar were translated at March 31, 2016 at US$ 1 = 66.22 Indian rupees and at March 31, 2015 at US$ 1 = 62.58 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

*(2)* Amounts for the years ended March 31, 2016 and 2015 were translated into US$ using the average exchange rates of US$ 1 = 65.38 Indian rupees and US$ 1 = 61.12 Indian rupees prevailing during those respective periods.

*Investment in Adi Finechem Limited*

On February 8, 2016 the company acquired a 44.66% ownership interest in Adi Finechem Limited ("Adi") from existing shareholders for an aggregate investment of approximately 1.3 billion Indian rupees (approximately $19 million based on the exchange rates on the date of close) which represented a purchase price of 212 Indian rupees per share (approximately $3.12 per share based on the exchange rates on the date of close).

The consolidated statements of earnings included $8,256 and $12,316 of net unrealized gains on investments related to the investment in Adi in the second quarter and first six months of 2016 respectively. At June 30, 2016, the company held approximately 44.9% of the outstanding shares of Adi. Adi's key business driver will be the growth of its oleo chemicals business. Adi's operating results are in line with management's expectations.

Adi is a specialty chemical manufacturer located near Ahmedabad, Gujarat, India. Adi manufactures oleo chemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. It has developed an in-house technology that uses machinery manufactured by leading European companies to convert waste generated during the production of soy, sunflower, corn and cotton oil into valuable chemicals. Those chemicals include acids that go into non-edible products like soap, detergents, personal care products and paints, and other products that are used in the manufacture of health foods and vitamin E. Adi’s customers include major multinational companies such as BASF, Archer Daniels Midland, Cargill, Advanced Organic Materials, IFFCO Chemicals and Asian Paints.

The company's fiscal year ends on December 31 and Adi's fiscal year ends on March 31. Summarized below is Adi's financial information for the fiscal years ended March 31, 2016 and 2015.

**Balance Sheets**
***(****unaudited - US$ thousands****)***

| | **March 31, 2016**(1) | March 31, 2015(1) |
|---|---|---|
| Current assets | **5,649** | 5,740 |
| Non-current assets | **11,928** | 11,128 |
| Current liabilities | **4,473** | 3,906 |
| Non-current liabilities | **2,944** | 3,231 |
| Shareholders' equity | **10,161** | 9,731 |

**Statements of Earnings**
***(****unaudited - US$ thousands****)***

| | **Year ended March 31, 2016**(2) | Year ended March 31, 2015(2) |
|---|---|---|
| Revenue | **25,603** | 26,959 |
| Net earnings before tax | **2,536** | 3,413 |
| Net earnings | **1,624** | 2,273 |

*(1)* The net assets of Adi were translated at March 31, 2016 at US$ 1 = 66.22 Indian rupees and at March 31, 2015 at US$ 1 = 62.58 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

*(2)* Amounts for the years ended March 31, 2016 and 2015 were translated into US$ using the average exchange rates of US$ 1 = 65.38 Indian rupees and US$ 1 = 61.12 Indian rupees prevailing during those respective periods.

***Year ended December 31, 2015***

*Investment in IIFL Holdings Limited*

On December 1, 2015, the company acquired a 21.85% ownership interest in IIFL by purchasing 68,788,445 shares for an aggregate consideration of 13.4 billion Indian rupees (approximately $202 million at exchange rates on close). Prior to the company's investment in IIFL, Fairfax, through its subsidiaries, owned 8.88% of the issued and outstanding IIFL shares and had an economic interest in approximately another 5.19% of IIFL shares through derivative instruments (all acquired prior to the establishment of Fairfax India).

The consolidated statements of earnings included $16,352 and $10,238 of net unrealized gains on investment related to the investment in IIFL in the second quarter and first six months of 2016 respectively. The consolidated statements of comprehensive income included $4,086 and $4,424 of unrealized foreign currency translation losses related to the investment in IIFL in the second quarter and first six months of 2016. The company also earned dividend income from the investment in IIFL of nil and $4,331 in the second quarter and first six months of 2016. At June 30, 2016 the company held approximately 21.72% of the outstanding common shares of IIFL. IIFL's key business drivers will be the growth and penetration of their financial services products, particularly in the areas of lending and wealth management. IIFL's operating results are in line with management's expectations.

FIH Mauritius and the Fairfax affiliates have undertaken not to exercise voting rights on IIFL shareholder resolutions for any IIFL shares exceeding 25% of the issued and outstanding IIFL shares at the time of voting, effectively limiting voting to 25% even in cases where FIH Mauritius and Fairfax affiliates own more than 25% of the IIFL shares.

IIFL is a publicly traded, diversified financial services holding company in India with subsidiaries in non-banking finance, wealth management, retail broking, institutional equities, investment banking and financial products distribution. IIFL serves over three million customers from 2,500 business locations in 850 cities and towns in India. It also has an international presence, with offices in New York, Singapore, Dubai, Geneva, Hong Kong, London and Mauritius.

The company's fiscal year ends on December 31 and IIFL's fiscal year ends on March 31. Summarized below is IIFL's financial information for the fiscal years ended March 31, 2016 and 2015.

**Balance Sheets**
*(unaudited - US$ thousands)*

| | **March 31, 2016[1]** | March 31, 2015[1] |
|---|---|---|
| Current assets | **1,846,590** | 2,029,446 |
| Non-current assets | **1,630,821** | 1,059,447 |
| Current liabilities | **1,456,112** | 1,096,818 |
| Non-current liabilities | **1,429,520** | 1,575,121 |
| Shareholders' equity | **591,779** | 416,954 |

**Statements of Earnings**
*(unaudited - US$ thousands)*

| | **Year ended March 31, 2016[2]** | Year ended March 31, 2015[2] |
|---|---|---|
| Revenue | **608,515** | 598,148 |
| Net earnings before taxes | **125,467** | 116,948 |
| Net earnings | **82,327** | 75,514 |

*(1)* The net assets of IIFL were translated at March 31, 2016 at US$ 1 = 66.22 Indian rupees and at March 31, 2015 at US$ 1 = 62.58 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

*(2)* Amounts for the years ended March 31, 2016 and 2015 were translated into US$ using the average exchange rates of US$ 1 = 65.38 Indian rupees and US$ 1 = 61.12 Indian rupees prevailing during those respective periods.

*Investment in National Collateral Management Services Limited ("NCML")*

On August 19, 2015 the company, through its wholly-owned subsidiary, FIH Mauritius, acquired a 73.56% ownership interest in NCML by purchasing 23,326,335 newly issued shares and 71,050,691 shares from certain shareholders for 2.0 billion Indian rupees ($30.7 million) and 6.1 billion Indian rupees ($93.5 million) respectively for an aggregate investment of 8.1 billion Indian rupees ($124.2 million) (collectively, the “NCML Acquisition”). Subsequently, the company, through FIH Mauritius, acquired an additional 14.51% ownership interest in NCML by purchasing 18,618,420 shares from minority shareholders for 1.6 billion Indian rupees ($24.5 million).

The consolidated statements of comprehensive income included $2,759 and $2,905 of unrealized foreign currency translation losses related to the investment in NCML in the second quarter and first six months of 2016. As of June 30, 2016, the company held 88.07% of the outstanding common shares of NCML. NCML's key business drivers will be the long term modernization of its grain storage facilities and the development of its new financing subsidiary. NCML's operating results are in line with management's expectations. Based on the company's valuation, there was no change in the fair value of its investment in NCML at June 30, 2016. Refer to note 4 (Critical Accounting Estimates and Judgments) to the interim consolidated financial statements for the three and six months ended June 30, 2016 for a discussion on the determination of fair value for NCML.

NCML is a ten year old company now preparing to expand to take advantage of the significant market potential in India’s under-developed agricultural storage industry. NCML operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management. As a result of recently announced fiscal and non-fiscal changes in agriculture and food policy, private companies like NCML are enhancing their range of services provided to Indian farmers, traders, food processors, banks, the government and other businesses connected to the agriculture supply chain. This is expected to significantly improve efficiencies to help India achieve its stated national objective of greater food security.

The company's fiscal year ends on December 31 and NCML's fiscal year ends on March 31. Summarized below is NCML's financial information for the fiscal years ended March 31, 2016 and 2015.

**Balance Sheets**
***(**unaudited - US$ thousands**)***

| | **March 31, 2016[(1)]** | March 31, 2015[(1)] |
|---|---|---|
| Current assets | **80,531** | 43,671 |
| Non-current assets | **54,582** | 45,411 |
| Current liabilities | **36,599** | 30,091 |
| Non-current liabilities | **21,342** | 13,512 |
| Shareholders' equity | **77,172** | 45,479 |

**Statements of Earnings**
***(**unaudited - US$ thousands**)***

| | **Year ended March 31, 2016[(2)]** | Year ended March 31, 2015[(2)] |
|---|---|---|
| Revenue | **77,757** | 62,629 |
| Net earnings before taxes | **5,557** | 4,279 |
| Net earnings | **4,698** | 4,722 |

*(1)* The net assets of NCML were translated at March 31, 2016 at US$ 1 = 66.22 Indian rupees and at March 31, 2015 at US$ 1 = 62.58 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

*(2)* Amounts for the years ended March 31, 2016 and 2015 were translated into US$ using the average exchange rates of US$ 1 = 65.38 Indian rupees and US$ 1 = 61.12 Indian rupees prevailing during those respective periods.

**Business Objectives**

**Investment Objective**

The company 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, 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 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 leads 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.

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

The company would exit its private investments either through initial public offering or private sale. For publicly traded investments, exit strategies may include selling the investments through private placements or in public markets.

### 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"). Indian 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, and, accordingly, will invest the net proceeds of the offerings that satisfy the Investment Concentration Restriction. At June 30, 2016 the company determined that it was in compliance with these investment restrictions.

## Results of Operations

| | Second quarter | | First six months | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Interest and dividends | **4,518** | 13,900 | **16,611** | 18,801 |
| Net realized gains (losses) on investments | **4,669** | (570) | **1,361** | (522) |
| Net unrealized gains (losses) on investments | **22,351** | (12,983) | **29,693** | (14,268) |
| Foreign currency gains (losses) on investments | **2,379** | 920 | **(5,973)** | 1,458 |
| Total income | **33,917** | 1,267 | **41,692** | 5,469 |
| Total expenses | **3,967** | 2,487 | **7,864** | 3,931 |
| Earnings (loss) before income taxes | **29,950** | (1,220) | **33,828** | 1,538 |
| Provision for (recovery of) income taxes | **(8,309)** | 964 | **(5,173)** | (292) |
| Net earnings (loss) | **38,259** | (2,184) | **39,001** | 1,830 |
| **Net earnings (loss) per basic share** | **$ 0.36** | $ (0.02) | **$ 0.37** | $ 0.02 |

Income of $33,917 in the second quarter of 2016 increased from $1,267 in the second quarter of 2015 principally as a result of increased net unrealized gains on investments (primarily related to unrealized gains on the investment in IIFL and Adi), increased net realized gains on investments (principally related to the sale of other common stock) and increased foreign currency gains on investments as a result of the weakening of the Indian rupee relative to the U.S. dollar, partially offset by decreased interest and dividends income (principally due to decreased holdings of Indian corporate and Government of India bonds).

Income of $41,692 in the first six months of 2016 increased from $5,469 in the first six months of 2015 principally as a result of increased net unrealized gains on investments (primarily related to unrealized gains on the investments in Adi and IIFL) and increased net realized gains on investments (principally related to the sale of other common stock), partially offset by decreased foreign currency gains on cash and cash equivalents as a result of the strengthening of the Indian rupee relative to the U.S. dollar (principally related to the sale of Indian corporate bonds that were invested into U.S. dollar cash equivalents in March 2016) and decreased interest and dividends income (principally due to decreased holdings of Indian corporate and Government of India bonds).

Net gains (losses) on investments for the three and six months ended June 30 were comprised as shown in the following tables:

| | Second quarter | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | **Net realized gains (losses)** | **Net change in unrealized gains (losses)** | **Net gains (losses) on investments** | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) on investments |
| Short term investments | **2** | **—** | **2** | — | — | — |
| Bonds | **—** | **3,564** (1) | **3,564** | (570) | (11,455) | (12,025) |
| Common stocks | **4,667** | **18,771** (2) | **23,438** | — | — | — |
| Investment funds | **—** | **16** | **16** | — | (1,528) | (1,528) |
| | **4,669** | **22,351** | **27,020** | (570) | (12,983) | (13,553) |
| Net foreign currency gains on: | | | | | | |
| Cash and cash equivalents | **853** | **—** | **853** | 48 | — | 48 |
| Investments | **709** | **817** | **1,526** | — | 872 | 872 |
| | **1,562** | **817** | **2,379** | 48 | 872 | 920 |
| **Net gains (losses) on investments** | **6,231** | **23,168** | **29,399** | (522) | (12,111) | (12,633) |

| | First six months | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | **Net realized gains (losses)** | **Net change in unrealized gains (losses)** | **Net gains (losses) on investments** | Net realized gains (losses) | Net change in unrealized gains (losses) | Net gains (losses) on investments |
| Short term investments | **2** | **—** | **2** | — | — | — |
| Bonds | **(3,308)** | **6,099** (1) | **2,791** | (522) | (12,740) | (13,262) |
| Common stocks | **4,667** | **22,554** (2) | **27,221** | — | — | — |
| Investment funds | **—** | **1,040** | **1,040** | — | (1,528) | (1,528) |
| | **1,361** | **29,693** | **31,054** | (522) | (14,268) | (14,790) |
| Net foreign currency gains (losses) on: | | | | | | |
| Cash and cash equivalents | **(7,447)** | **—** | **(7,447)** | 348 | — | 348 |
| Investments | **899** | **575** | **1,474** | — | 1,110 | 1,110 |
| | **(6,548)** | **575** | **(5,973)** | 348 | 1,110 | 1,458 |
| **Net gains (losses) on investments** | **(5,187)** | **30,268** | **25,081** | (174) | (13,158) | (13,332) |

*(1)* Includes accrued interest income as the Sanmar debentures are considered to be Indian Investments.

*(2)* Principally comprised of unrealized gains on the investments in IIFL of $16,352 and $10,238 and Adi of $8,256 and $12,316 in the second quarter and first six months of 2016 respectively.

Total expenses increased from $2,487 in the second quarter of 2015 to $3,967 in the second quarter of 2016 (increased from $3,931 in the first six months of 2015 to $7,864 in the first six months of 2016) primarily as a result of higher investment and advisory fees and increased general and administrative expenses (principally related to increased audit, legal and tax professional fees as a result of increased Indian Investment transactions).

The recovery of income taxes of $8,309 and $5,173 in the second quarter and first six months of 2016 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 as a result of unrecorded deferred taxes in Canada, foreign exchange fluctuations and the tax rate differential on income earned outside of Canada.

The provision for income taxes of $964 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 loss before income taxes primarily due to foreign exchange fluctuations, unrecorded deferred taxes in Canada and the tax treatment of financing costs.

The company reported net earnings of $38,259 (net earnings of $0.36 per basic share) in the second quarter of 2016 compared to a net loss of $2,184 (net loss of $0.02 per basic share) in the second quarter of 2015. The company reported net earnings of $39,001 (net earnings of $0.37 per basic share) in the first six months of 2016 compared to net earnings of $1,830 (net earnings of $0.02 per basic share) in the first six months of 2015. The year-over-year increase in profitability in the second quarter and first six months of 2016 primarily reflected increased net unrealized gains on investments, partially offset by increased investment and advisory fees.

## Consolidated Balance Sheet Summary

### Assets

**Total cash and investments** increased to $1,022,692 at June 30, 2016 from $997,490 December 31, 2015. The company's cash and investment portfolio composition between Indian and U.S. investments was as follows:

| | **June 30, 2016** | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | **India** | **U.S.** | **Total** | India | U.S. | Total |
| Cash and cash equivalents | **23,970** [(1)] | **52,766** | **76,736** | 97 [(1)] | 12,367 | 12,464 |
| Restricted cash | **—** | **—** | **—** | 6,457 | — | 6,457 |
| Short term investments - U.S. treasury bills | **—** | **27,352** | **27,352** | — | 50,143 | 50,143 |
| Bonds: | | | | | | |
| Government of India bonds | **124,275** | **—** | **124,275** | 123,448 | — | 123,448 |
| Indian corporate bonds | **96,139** | **—** | **96,139** | 389,341 | — | 389,341 |
| Sanmar bonds | **245,773** | **—** | **245,773** | — | — | — |
| Common stocks: | | | | | | |
| IIFL | **226,560** | **—** | **226,560** | 220,747 | — | 220,747 |
| NCML | **143,540** | **—** | **143,540** | 146,445 | — | 146,445 |
| Adi | **31,727** | **—** | **31,727** | — | — | — |
| Sanmar | **985** | **—** | **985** | — | — | — |
| Investment funds | **—** | **49,605** | **49,605** | — | 48,445 | 48,445 |
| Total cash and investments | **892,969** | **129,723** | **1,022,692** | 886,535 | 110,955 | 997,490 |

*(1)* Includes cash and cash equivalents invested in Mauritius and Canada of $1,284 at June 30, 2016 (December 31, 2015 - $97).

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

For more information on the company's total cash and investment holdings of $1,022,692 at June 30, 2016 (December 31, 2015 - $997,490) see note 6 (Cash and Investments) to the interim consolidated financial statements for the three and six months ended June 30, 2016.

Interest receivable of $3,501 at June 30, 2016 (December 31, 2015 - $27,680) principally related to accrued interest on the company's Indian corporate and Government of India bonds.

### Liabilities

Payable to related parties of $2,793 at June 30, 2016 (December 31, 2015 - $1,993) was comprised of investment and advisory fees payable to Fairfax.

### Net Asset Value

| | **June 30, 2016** | December 31, 2015 |
|---|---|---|
| Net assets | **$ 1,033,156** | $ 1,013,329 |
| Number of common shares effectively outstanding | **106,678,879** | 106,678,879 |
| NAV per share | **$ 9.68** | $ 9.50 |

The NAV at June 30, 2016 was $9.68 compared to $9.50 at December 31, 2015 representing an increase in the first six months of 2016 of 1.9% primarily reflecting net earnings of $39,001, partially offset by unrealized foreign currency translation losses on foreign operations of $20,279.

**Liquidity and Capital Resources**

In the first six months of 2016, the company sold certain Indian bonds to finance its investments in Sanmar and Adi.

| | First six months | |
|---|---|---|
| | **2016** | 2015 |
| **Operating activities** | | |
| Cash provided by operating activities before the undernoted | **25,911** | 279 |
| Net (purchases) sales of short term investments classified as FVPTL | **23,799** | (269,410) |
| Purchases of bonds and common stock classified as FVPTL | **(293,788)** | (836,219) |
| Sales of bonds and common stock classified as FVTPL | **316,642** | 89,009 |
| **Financing activities** | | |
| Issuance of subordinate voting shares, net of issuance costs | **—** | 725,825 |
| Issuance of multiple voting shares | **—** | 300,000 |
| **Increase in cash and cash equivalents during the period** | **72,564** | 9,484 |

Excluding purchases and sales of investments classified as FVTPL and the impact of foreign currency translation, cash provided by operating activities was $25,911 in the first six months of 2016 compared to $279 in the first six months of 2015, with the increase in cash flows principally reflecting higher net interest and dividends received on securities, partially offset by higher income taxes paid. Refer to note 12 (Supplementary Cash Flow Information) to the interim consolidated financial statements for the three and six months ended June 30, 2016 for details of purchases and sales of investments classified as FVTPL.

Issuance of subordinate voting shares, net of issuance costs of $725,825 and issuance of multiple voting shares of $300,000 in the first six months of 2015 reflected net proceeds received from the IPO and private placement offerings. Issuance costs were primarily comprised of fees paid to underwriters of the subordinate voting shares.

The company believes that cash and cash equivalents at June 30, 2016 of $76,736 provides adequate liquidity to meet the company's remaining known obligations in 2016. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments. The company's remaining known significant commitments for 2016 consist of payments of investment and advisory fees and general and administration expenses, and the previously announced investments in Bangalore International Airport Limited and Privi. The company has adequate working capital to support its operations.

**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, 2016.

**Outstanding Share Data**

At June 30, 2016, the company 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 share 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 share 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.

The investment and advisory fee for the three and six months ended June 30, 2016 was $2,703 and $4,844 (2015 - $1,233 and $2,089).

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 determined that the performance fee was not applicable for the three and six months ended June 30, 2016 and 2015.

**Comparative Quarterly Data** (unaudited)

| | **June 30, 2016** | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 | December 31, 2014 |
|---|---|---|---|---|---|---|---|
| Income | **33,917** | 7,775 | 29,667 | 30,114 | 1,267 | 4,202 | — |
| Expenses | **3,967** | 3,897 | 2,559 | 4,418 | 2,487 | 1,444 | — |
| Provision for (recovery of) income taxes | **(8,309)** | 3,136 | 6,317 | 7,378 | 964 | (1,256) | — |
| Net earnings (loss) | **38,259** | 742 | 20,791 | 18,318 | (2,184) | 4,014 | — |
| Net earnings (loss) per share | **0.36** | 0.01 | 0.20 | 0.17 | (0.02) | 0.06 | — |

*(in Indian rupees and in thousands)*[(1)]

| | **June 30, 2016** | March 31, 2016 | December 31, 2015 |
|---|---|---|---|
| Income | **2,276,566** | 524,810 | 1,902,290 |
| Expenses | **265,351** | 263,045 | 164,092 |
| Provision for (recovery of) income taxes | **(559,268)** | 211,699 | 405,088 |
| Net earnings | **2,570,483** | 50,066 | 1,333,110 |
| Net earnings per share | **24.1** | 0.47 | 12.50 |

*(1) Presented for the quarters subsequent to October 1, 2015, the date upon which the company's functional currency changed from the U.S. dollar to the Indian rupee.*

Income in the first nine months of 2015 principally related to interest income from fixed income securities (primarily Government of India bonds, corporate Indian bonds and U.S. treasury bills) pending deployment of that capital into Indian Investments. In the third quarter of 2015, the company commenced investing its capital into public and private Indian Investments resulting in increased unrealized gains and dividend income during the first six months of 2016. The increase in expenses is consistent with the increase in Indian Investments (primarily related to higher investment and advisory fees and increased general and administrative expenses incurred as a result of Indian Investment transactions).

**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 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
HOLDINGS CORPORATION