FAIRFAX INDIA
HOLDINGS CORPORATION

3

INTERIM REPORT

For the nine months ended
September 30, 2016

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

	Notes	September 30, 2016	December 31, 2015
Assets			
Cash and cash equivalents		**169,000**	12,464
Restricted cash	7	**21,219**	6,457
Short term investments		**27,390**	50,143
Bonds		**533,360**	512,789
Common stocks		**575,766**	415,637
Total cash and investments	6	**1,326,735**	997,490
Interest receivable		**6,968**	27,680
Income taxes refundable	10	**7,848**	—
Other assets		**750**	281
Total assets		**1,342,301**	1,025,451
Liabilities			
Accrued liabilities		**813**	743
Payable to related parties	12	**4,298**	1,993
Income taxes payable	10	**—**	9,386
Term loan	7	**222,396**	—
Total liabilities		**227,507**	12,122
Equity			
Total common shareholders' equity	8	**1,114,794**	1,013,329
		1,342,301	1,025,451

See accompanying notes.

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

	Notes	Third quarter 2016	Third quarter 2015	First nine months 2016	First nine months 2015
Income					
Interest and dividends	6	**5,253**	13,915	**21,864**	32,716
Net realized gains (losses) on investments	6	**690**	(390)	**2,051**	(912)
Net unrealized gains (losses) on investments	6	**70,537**	12,682	**100,230**	(1,586)
Net foreign exchange gains (losses)	6	**(1,134)**	3,907	**(7,107)**	5,365
		75,346	30,114	**117,038**	35,583
Expenses					
Investment and advisory fees	12	**4,261**	1,417	**9,105**	3,506
General and administration expenses	14	**1,100**	3,001	**4,120**	4,843
Interest expense	7	**399**	—	**399**	—
		5,760	4,418	**13,624**	8,349
Earnings before income taxes		**69,586**	25,696	**103,414**	27,234
Provision for (recovery of) income taxes	10	**3,186**	7,378	**(1,987)**	7,086
Net earnings		**66,400**	18,318	**105,401**	20,148
Net earnings per basic share	9	**$ 0.62**	$ 0.17	**$ 0.99**	$ 0.21
Shares outstanding (weighted average - basic)	9	**106,678,879**	106,678,879	**106,678,879**	95,100,906

See accompanying notes.

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

	Third quarter		First nine months	
	2016	2015	**2016**	2015
Net earnings	**66,400**	18,318	**105,401**	20,148
Other comprehensive income (loss)				
Item that may be subsequently reclassified to net earnings (loss)				
Unrealized foreign currency translation gains (losses), net of income taxes of nil	**14,687**	(27,355)	**(5,592)**	(47,118)
Other comprehensive income (loss)	**14,687**	(27,355)	**(5,592)**	(47,118)
Comprehensive income (loss)	**81,087**	(9,037)	**99,809**	(26,970)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
for the nine months ended September 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	—	—	—	**105,401**	—	**105,401**
Other comprehensive loss:						
Unrealized foreign currency translation losses	—	—	—	—	**(5,592)**	**(5,592)**
Amortization	—	—	**106**	—	—	**106**
Tax benefit on IPO costs	**1,550**	—	—	—	—	**1,550**
Balance as of September 30, 2016	**729,522**	**300,000**	**(213)**	**146,340**	**(60,855)**	**1,114,794**

	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, 2015	—	—	—	—	—	—
Net earnings for the period	—	—	—	20,148	—	20,148
Other comprehensive loss:						
Unrealized foreign currency translation losses	—	—	—	—	(47,118)	(47,118)
Issuance of shares, net of issuance costs	725,825	300,000	—	—	—	1,025,825
Balance as of September 30, 2015	725,825	300,000	—	20,148	(47,118)	998,855

See accompanying notes.

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

		Third quarter		First nine months	
	Notes	**2016**	2015	**2016**	2015
Operating activities					
Net earnings		**66,400**	18,318	**105,401**	20,148
Net bond premium (discount) amortization		**20**	457	**(85)**	292
Deferred income taxes	10	**525**	1,825	**1,550**	—
Amortization of share-based payment awards		**26**	—	**106**	—
Net realized (gains) losses on investments	6	**(690)**	390	**(2,051)**	912
Net unrealized (gains) losses on investments	6	**(70,537)**	(12,682)	**(100,230)**	1,586
Net foreign exchange (gains) losses	6	**1,134**	(3,907)	**7,107**	(5,365)
Net sales (purchases) of short term investments classified as FVPTL		**(1,209)**	194,387	**22,590**	(75,023)
Purchases of bonds and common stock classified as FVPTL	13	**(131,804)**	(184,267)	**(423,639)**	(1,020,486)
Sales of bonds and common stock classified as FVTPL	13	**25,793**	36,372	**333,591**	125,381
Decrease (increase) in restricted cash in support of investments	6	**—**	(36,123)	**6,457**	(36,123)
Changes in operating assets and liabilities:					
Interest receivable		**(3,516)**	(11,288)	**20,664**	(26,450)
Income taxes (refundable) payable		**2,630**	4,918	**(17,301)**	6,079
Payable to related parties	12	**1,534**	655	**2,334**	1,191
Other		**2,013**	103	**8,389**	675
Cash provided by (used in) operating activities		**(107,681)**	9,158	**(35,117)**	(1,007,183)
Investing activities					
Purchases of premises and equipment		**(128)**	—	**(128)**	—
Cash used in investing activities		**(128)**	—	**(128)**	—
Financing activities					
Term loan:	7				
Issuance		**225,000**	—	**225,000**	—
Issuance costs		**(2,752)**	—	**(2,752)**	—
Increase in restricted cash in support of term loan		**(21,219)**	—	**(21,219)**	—
Subordinate voting shares:					
Issuances		**—**	—	**—**	766,789
Issuance costs		**—**	—	**—**	(40,964)
Multiple voting shares:					
Issuances		**—**	—	**—**	300,000
Cash provided by financing activities		**201,029**	—	**201,029**	1,025,825
Increase in cash and cash equivalents		**93,220**	9,158	**165,784**	18,642
Cash and cash equivalents - beginning of period		**76,736**	9,585	**12,464**	235
Foreign currency translation		**(956)**	(1,457)	**(9,248)**	(1,591)
Cash and cash equivalents - end of period		**169,000**	17,286	**169,000**	17,286

See accompanying notes.

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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 listed.

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. During the third quarter of 2016, certain Fairfax subsidiaries purchased 796,864 SVS through open market transactions. At September 30, 2016, Fairfax's MVS and SVS holdings represented 95.2% of the voting rights and 28.9% 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 nine months ended September 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 November 3, 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 and methods of computation 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 in notes 6 and 10 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.

The valuation of the company's investments is performed at the end of each reporting period. For each private investment completed during the reporting period, the transaction price is generally considered to be representative of fair value, subject to the background of the investment, changes in market conditions and factors specific to the investee. The company monitors various factors impacting the businesses of its investees and believes the transaction price of a private investment may no longer be an appropriate estimate of fair value upon occurrence of events such as significant under or over achievement of budgeted earnings; changes to the market sector; regulatory revisions; movements in interest rates, foreign exchange rates and other market variables; and the passage of time.

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. The company utilizes Fairfax's valuation personnel to assist with the valuation of its investment portfolio. Detailed valuations are performed for those financial instruments that are priced internally, while external pricing received from independent pricing service providers and third party broker-dealers are evaluated by the company for reasonableness. The company does not use independent valuation experts to determine the fair value of its investments.

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") since the time of its original investment as there had been no significant changes to NCML's business, capital structure and operating environment. Accordingly, at those dates, the company’s estimate of fair value was the original transaction price. 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. 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 September 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 14.9% and a long term growth rate of 6.0%. Free cash flow projections were based on EBITDA projections from financial information for NCML's two business units that had been prepared in the first quarter of 2016 by NCML and reviewed quarterly by NCML management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. At September 30, 2016 the company's internal valuation model indicated that there was an unrealized gain of $1,963 which was recorded in net unrealized gains on investments in the consolidated statement of earnings. Reasonably possible changes to the discount rate applied in the internal valuation model at September 30, 2016 could have increased (decreased) the fair value of NCML by as much as $24,236 ($20,458).

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") since the time of its original investment on April 28, 2016 as there had been no significant changes to Sanmar's business, capital structure or operating environment, and the key assumptions in the company's acquisition valuation model continued to be valid. Accordingly, the company’s estimate of fair value was the original transaction price. During the third quarter of 2016 management undertook a valuation study to formalize valuation models and determine the appropriate separate fair values for its bond and common stock investments in Sanmar. The fair value of the Sanmar investments cannot be derived from an active market and accordingly, are determined using industry accepted valuation techniques and models. Market observable inputs are used where possible, with unobservable inputs used where necessary. Use of unobservable inputs can involve significant judgment and may materially affect the reported fair value of the Sanmar investments.

Sanmar Common Stock

At September 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 16.2% to 20.4% and long term growth rates ranging from 2.0% to 3.6%. Free cash flow projections were based on EBITDA projections from financial information for Sanmar's three main business operations that had been prepared in the first quarter of 2016 by Sanmar and reviewed quarterly by Sanmar management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Sanmar operates. At September 30, 2016 the company's internal valuation model indicated there was no change in the fair value of Sanmar common stock.

Sanmar Bonds

At September 30, 2016 the Sanmar bonds were valued using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's assumed credit spread of 6% and certain redemption options embedded in the bonds. At September 30, 2016 the company's internal valuation model indicated there was an unrealized gain of $3,297 which was recorded in net unrealized gains on investments in the consolidated statement of earnings.

Privi Organics Limited

On July 12, 2016 the boards of directors of Adi Finechem Limited ("Adi") and Privi Organics Limited ("Privi") approved a merger arrangement (the "Merger") involving the two companies, which is expected to bring significant diversification and synergies to both. The Merger is expected to occur in the first quarter of 2017 and is subject to regulatory approvals in India and approvals by Adi and Privi shareholders. Upon completion of the Merger, Fairfax India will own approximately 49% of the merged entity. Under the terms of the Merger, the Privi shareholders will receive 27 subordinate voting shares and 27 compulsory convertible preference shares of the merged entity for every 40 Privi shares exchanged ("swap ratio").

At September 30, 2016 the company prepared a valuation model to determine the fair value of its holding of 9,517,042 Privi shares using the quoted bid price of Adi and the swap ratio. The company's internal valuation model indicated a fair value of $82,148 and an unrealized gain of $26,568, which was not recorded in the consolidated statement of earnings as the Merger is still pending regulatory and shareholders approvals. Transaction price was considered to approximate fair value due to the proximity of the transaction closing date to September 30, 2016.

5. Significant Investments

Nine months ended September 30, 2016

Investment in National Stock Exchange of India Limited

In the third quarter of 2016 the company, through its wholly-owned subsidiaries, acquired a 1.01% equity interest in the National Stock Exchange of India Limited ("NSE") for total consideration of approximately 1.8 billion Indian rupees (approximately $27 million). Transaction price was considered to approximate fair value due to the proximity of the transaction closing date to September 30, 2016.

NSE is one of India's leading stock exchanges covering various cities and towns across the country. In addition to being a platform for all exchange traded financial products in India, NSE's flagship index, Nifty50, is used extensively by investors in India and around the world as a barometer of the Indian capital markets.

Investment in Privi Organics Limited

On July 12, 2016 the company, through its wholly-owned subsidiaries, announced it had entered into a share purchase agreement with existing shareholders of Privi to acquire a 51% equity interest in Privi. On August 26, 2016 the company closed the acquisition of Privi for total consideration of approximately 3.7 billion Indian rupees (approximately $55 million).

Upon completion of the Merger as described in note 4, Fairfax India will own approximately 49% of the merged business. The Merger between Adi and Privi is expected to occur in the first quarter of 2017 subject to customary regulatory and shareholders' approvals in India.

Privi is a supplier of aroma chemicals to the fragrance industry.

Investment in Bangalore International Airport Limited

On March 28, 2016 the company and Fairfax, through their wholly-owned subsidiaries, 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 ("GVK") for an aggregate investment of approximately 21.49 billion Indian rupees (approximately $323 million at current exchange rates). Fairfax, through a wholly-owned subsidiary, entered into a separate share purchase agreement to acquire an additional 5% interest from Flughafen Zurich AG ("Zurich") for approximately $49 million. The acquisition of the additional 5% interest from Zurich in BIAL is contingent upon the company acquiring the 33% interest from GVK. As Fairfax India is limited to investing no more than 25% of its total assets in any single investment (at September 30, 2016 approximately $336 million, see note 11), the company will acquire up to its single investment limit from GVK and the company, or Fairfax, will acquire the remaining shares from Zurich. The transactions are subject to customary closing conditions and third party consents, including BIAL's lender consents, and are expected to be completed in the fourth quarter of 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 by investing in Sanmar Engineering Services Limited ("Sanmar") through a combination of equity and debt securities resulting in a 30% equity interest in Sanmar. On April 28, 2016 the company acquired the first tranche of $250 million, comprised of $1 million in equity and $249 million in bonds, and the second tranche of $50 million in bonds was acquired on September 26, 2016.

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, 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 based on exchange rates at 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 44.66% of the outstanding shares of Adi for aggregate consideration of approximately 1.3 billion Indian rupees (approximately $19 million based on exchange rates at 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 September 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:

	September 30, 2016					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)	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]	169,000	—	—	169,000	11,252,034	12,464	—	—	12,464	824,597
Restricted cash[2]	21,219	—	—	21,219	1,412,761	6,457	—	—	6,457	427,191
	190,219	—	—	190,219	12,664,795	18,921	—	—	18,921	1,251,788
Short term investments - U.S. treasury bills[3]	27,390	—	—	27,390	1,823,625	50,143	—	—	50,143	3,317,267
Bonds:										
Government of India bonds[4]	—	131,224	—	131,224	8,736,900	—	123,448	—	123,448	8,166,876
Indian corporate bonds[4]	—	100,893	—	100,893	6,717,483	—	389,341	—	389,341	25,757,320
Sanmar bonds[5]	—	—	301,243	301,243	20,056,715	—	—	—	—	—
	—	232,117	301,243	533,360	35,511,098	—	512,789	—	512,789	33,924,196
Common stocks:										
IIFL	278,956	—	—	278,956	18,572,889	220,747	—	—	220,747	14,603,787
NCML	—	—	147,491	147,491	9,819,947	—	—	146,445	146,445	9,688,230
Adi	39,629	—	—	39,629	2,638,511	—	—	—	—	—
Sanmar	—	—	999	999	66,496	—	—	—	—	—
Privi[6]	—	—	55,367	55,367	3,686,331	—	—	—	—	—
NSE[6]	—	—	27,017	27,017	1,798,824	—	—	—	—	—
Investment funds[7]	—	26,307	—	26,307	1,751,540	—	48,445	—	48,445	3,204,956
	318,585	26,307	230,874	575,766	38,334,538	220,747	48,445	146,445	415,637	27,496,973
Total cash and investments	536,194	258,424	532,117	1,326,735	88,334,056	289,811	561,234	146,445	997,490	65,990,224
	40.4%	19.5%	40.1%	100.0%	100.0%	29.1%	56.2%	14.7%	100.0%	100.0%

(1) Included U.S. treasury bills with maturity dates of less than three months of $139,998 at September 30, 2016 (December 31, 2015 - nil and $4,501 of fixed deposits).

(2) Comprised of a debt service reserve account used to fund term loan interest payments (December 31, 2015 - cash in escrow arising from investments in IIFL ($3,600) and Adi ($2,857)).

(3) 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).

(4) Priced based on information provided by independent pricing service providers as at September 30, 2016 and December 31, 2015. There has been no change in valuation techniques for these securities during 2016.

(5) Includes unrealized gains determined by the company's internal valuation model as the Sanmar bonds are considered to be Indian Investments.

(6) Transaction price was considered to approximate fair value due to the proximity of the transaction closing date to September 30, 2016.

(7) These investment funds were primarily valued based on net asset value statements provided by third party fund managers that were compared to published quotes for the underlying investments. The units of the funds are redeemable and priced daily. There has been no change in the valuation technique for investment funds during 2016.

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 nine months ended September 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 nine months ended September 30, 2016 and year ended December 31, 2015 are as follows:

	September 30, 2016						December 31, 2015	
	Indian corporate bonds	Common stocks				Total	Common stocks	Total
	Sanmar[(1)]	NCML	Sanmar	Privi	NSE		NCML	
Balance as of January 1	—	146,445	—	—	—	146,445	—	—
Purchases	299,000	—	1,000	54,975	26,783	381,758	148,716	148,716
Net unrealized gains included in the consolidated statements of earnings	3,297	1,963	—	—	—	5,260	—	—
Net unrealized foreign currency translation gains (losses) included in the consolidated statements of comprehensive income	(1,054)	(917)	(1)	392	234	(1,346)	(2,271)	(2,271)
Balance at period end	301,243	147,491	999	55,367	27,017	532,117	146,445	146,445

	September 30, 2016						December 31, 2015	
Indian rupees (in thousands)	Indian corporate bonds	Common stocks				Total	Common stocks	Total
	Sanmar[(1)]	NCML	Sanmar	Privi	NSE		NCML	
Balance as of January 1	—	9,688,230	—	—	—	9,688,230	—	—
Purchases	19,835,450	—	66,496	3,686,331	1,798,824	25,387,101	9,688,230	9,688,230
Net unrealized gains included in the consolidated statements of earnings	221,265	131,717	—	—	—	352,982	—	—
Balance at period end	20,056,715	9,819,947	66,496	3,686,331	1,798,824	35,428,313	9,688,230	9,688,230

(1) Includes unrealized gains determined by the company's internal valuation model as the Sanmar bonds 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 September 30, 2016, there were no bonds containing put features (December 31, 2015 - $137,400).

	September 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	433,230	441,367	237,348	235,867
Due after 10 years	86,934	91,993	87,553	86,513
	520,164	533,360	515,359	512,789

Investment Income

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

Interest and dividends

	Third quarter		First nine months	
	2016	2015	2016	2015
Interest income:				
Cash and cash equivalents	20	—	87	—
Short term investments	44	90	96	255
Bonds	4,443	13,825	16,604	32,461
	4,507	13,915	16,787	32,716
Dividends - common stocks	746	—	5,077	—
Interest and dividends	5,253	13,915	21,864	32,716

Net gains (losses) on investments

	Third 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	**(19)**	**—**	**(19)**	39	—	39
Bonds	**(19)**	**10,517** (1)	**10,498**	(429)	12,357	11,928
Common stocks	**21**	**58,285** (2)	**58,306**	—	—	—
Investment funds	**707**	**1,735**	**2,442**	—	325	325
	690	**70,537**	**71,227**	(390)	12,682	12,292
Net foreign currency gains (losses) on:						
Cash and cash equivalents	**(1,616)**	**—**	**(1,616)**	2,375	—	2,375
Investments	**1,600**	**(2,658)**	**(1,058)**	—	1,532	1,532
Term loan	**—**	**1,309**	**1,309**	—	—	—
Other	**231**	**—**	**231**	—	—	—
	215	**(1,349)**	**(1,134)**	2,375	1,532	3,907
Net gains (losses) on investments	**905**	**69,188**	**70,093**	1,985	14,214	16,199

	First nine 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	**(17)**	**—**	**(17)**	39	—	39
Bonds	**(3,327)**	**16,616** (1)	**13,289**	(951)	(383)	(1,334)
Common stocks	**4,688**	**80,839** (2)	**85,527**	—	—	—
Investment funds	**707**	**2,775**	**3,482**	—	(1,203)	(1,203)
	2,051	**100,230**	**102,281**	(912)	(1,586)	(2,498)
Net foreign currency gains (losses) on:						
Cash and cash equivalents	**(9,063)**	**—**	**(9,063)**	2,723	—	2,723
Investments	**2,499**	**(2,083)**	**416**	—	2,642	2,642
Term loan	**—**	**1,309**	**1,309**	—	—	—
Other	**231**	**—**	**231**	—	—	—
	(6,333)	**(774)**	**(7,107)**	2,723	2,642	5,365
Net gains (losses) on investments	**(4,282)**	**99,456**	**95,174**	1,811	1,056	2,867

(1) Includes unrealized gains determined by the company's internal valuation model as the Sanmar bonds are considered to be Indian Investments.

(2) Principally comprised of unrealized gains on the Indian investments in IIFL ($48,902 and $59,139) and Adi ($7,421 and $19,737) in the third quarter and first nine months of 2016 respectively.

7. Term Loan

	September 30, 2016			December 31, 2015		
	Principal	**Carrying value[1]**	**Fair value[2]**	Principal	Carrying value	Fair value
Secured Term Loan[3]	**225,000**	**222,396**	**222,396**	—	—	—

(1) Principal net of unamortized issue costs.

(2) Carrying value approximated fair value at September 30, 2016.

(3) Interest bearing at LIBOR plus 350 bps for the first six months increasing to LIBOR plus 500 bps thereafter.

On September 16, 2016, the company completed a 2-year secured term loan (the ''term loan'') bearing an interest rate of LIBOR plus 350 to 500 basis points with a syndicate of Canadian banks for $225,000. At September 30, 2016 the company used a portion of the net proceeds to complete the second tranche of the Sanmar bonds ($50,000). The remaining net proceeds were invested in cash and cash equivalents and will be used to partially fund the anticipated investment in BIAL in the fourth quarter of 2016.

Under the terms of the term loan, the company is required to maintain a debt service reserve account to fund the term loan interest payments. The reserve account is classified as restricted cash on the consolidated balance sheet (September 30, 2016 - $21,219). The company is also required to use the loan proceeds solely for the purposes of funding: (i) investments in Specified Portfolio Companies (comprised of NCML, IIFL, Adi, Sanmar, Privi or BIAL); (ii) investments in cash equivalents; (iii) transaction costs, fees and expenses related to Specified Portfolio Companies; and (iv) the debt service reserve account. The term loan also contains a financial covenant that requires the company to maintain total common shareholders' equity of not less than $750,000.

At September 30, 2016 the company was in compliance with the term loan covenants.

Term loan interest expense was $251 for the three and nine months ended September 30, 2016.

8. 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 - September 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 - September 30	**30,000,000**	30,000,000
Common shares effectively outstanding - September 30	**106,678,879**	106,678,879

9. Earnings per Share

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

	Third quarter		**First nine months**	
	2016	2015	**2016**	2015
Net earnings – basic	**66,400**	18,318	**105,401**	20,148
Weighted average common shares outstanding – basic	**106,678,879**	106,678,879	**106,678,879**	95,100,906
Net earnings per common share - basic	**$ 0.62**	$ 0.17	**$ 0.99**	$ 0.21

10. Income Taxes

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

	Third quarter		First nine months	
	2016	2015	**2016**	2015
Current income tax:				
Current year expense (recovery)	**2,647**	5,553	**(5,466)**	7,086
Adjustment to prior years' income taxes	**14**	—	**1,929**	—
	2,661	5,553	**(3,537)**	7,086
Deferred income tax:				
Origination and reversal of temporary differences	**525**	1,825	**1,549**	—
Adjustments to prior years' deferred income taxes	**—**	—	**1**	—
	525	1,825	**1,550**	—
Provision for (recovery of) income taxes	**3,186**	7,378	**(1,987)**	7,086

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 nine months ended September 30 are summarized in the following tables:

	Third quarter					
	2016			2015		
	Canada	**Mauritius**	**Total**	Canada	Mauritius	Total
Earnings (loss) before income taxes	**(1,708)**	**71,294**	**69,586**	(1,525)	27,221	25,696
Provision for (recovery of) income taxes	**2,470**	**716**	**3,186**	6,264	1,114	7,378
Net earnings (loss)	**(4,178)**	**70,578**	**66,400**	(7,789)	26,107	18,318

	First nine months					
	2016			2015		
	Canada	**Mauritius**	**Total**	Canada	Mauritius	Total
Earnings (loss) before income taxes	**307**	**103,107**	**103,414**	(3,931)	31,165	27,234
Provision for (recovery of) income taxes	**(4,911)**	**2,924**	**(1,987)**	4,440	2,646	7,086
Net earnings (loss)	**5,218**	**100,183**	**105,401**	(8,371)	28,519	20,148

The increase in pre-tax profitability in Mauritius in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015 primarily reflected increased net unrealized gains on investments, partially offset by increased investment and advisory fees. The increase in pre-tax losses in Canada in the third quarter of 2016 compared to the third quarter of 2015 primarily related to the increased investment and advisory fees. The decrease in pre-tax losses in Canada in the first nine months of 2016 compared to the first nine months of 2015 principally related to increased realized gains, primarily on common stocks.

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 September 30, 2016 were nil (December 31, 2015 - nil) as the company has not recorded deferred tax assets of $7,052 (December 31, 2015 - $8,602) related to costs of the public share offerings and net operating and foreign accrual property losses of $2,178 (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 nine months ended September 30 are summarized in the following table:

	Third quarter		First nine months	
	2016	2015	**2016**	2015
Canadian statutory income tax rate	**26.5%**	26.5%	**26.5%**	26.5%
Provision for income taxes at the Canadian statutory income tax rate	**18,441**	6,807	**27,405**	7,215
Tax rate differential on income earned and losses incurred outside of Canada	**(12,897)**	2,602	**(26,401)**	3,090
Provision relating to prior years	**13**	—	**1,929**	—
Change in unrecorded tax benefit of losses and temporary differences	**(450)**	(3,559)	**1,971**	—
Foreign exchange effect	**(1,921)**	1,485	**(6,891)**	(984)
Other including permanent differences	**—**	43	**—**	(2,235)
Provision for (recovery of) income taxes	**3,186**	7,378	**(1,987)**	7,086

The tax rate differential on income earned and losses incurred outside of Canada of $12,897 and $26,401 in the third quarter and first nine months of 2016 principally reflected the impact of foreign accrued property losses in Canada. The tax rate differential on income earned outside of Canada of $2,602 and $3,090 in the third quarter and first nine months of 2015 reflected the impact of net investment income taxed in India and Mauritius at higher rates.

The provision relating to prior years of $13 and $1,929 in the third quarter and first nine months of 2016 primarily related to a refinement of the company's computation of the foreign exchange component of net realized gains and losses on investments.

The change in unrecorded tax benefit of losses and temporary differences of $450 and $1,971 in the third quarter and first nine months of 2016 (2015 - $3,559 and nil) were primarily comprised of deferred tax assets in Canada of $9,229 (2015 - $8,728) that were not recorded by the company because the related pre-tax losses did not meet the applicable recognition criteria under IFRS.

Foreign exchange effect of $1,921 and $6,891 in the third quarter and first nine months of 2016 (2015 - $1,485 and $984) 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 subsidiaries is the Indian rupee.

Other including permanent differences of $2,235 in the first nine months of 2015 principally reflected amortization of the company's IPO issuance costs which are deductible as an expense for Canadian income tax determination but are treated as a permanent reduction of equity under IFRS.

Changes in net income taxes refundable (payable) for the nine months ended September 30 were as follows:

	2016	2015
Balance - January 1	**(9,386)**	—
Amounts recorded in the consolidated statements of earnings	**3,537**	(7,086)
Payments made during the period	**13,500**	845
Foreign currency translation	**197**	58
Balance - September 30	**7,848**	(6,183)

11. Financial Risk Management

Overview

There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at September 30, 2016 compared to those identified at December 31, 2015, and disclosed in the company's annual consolidated financial statements for the year ended December 31, 2015, except as discussed below.

Market Risk

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

Foreign Currency Risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument or another asset or liability will fluctuate because of changes in exchange rates and as a result, could produce an adverse effect on net earnings and equity when measured in Indian rupees, the company's functional currency. The company’s equity and net earnings may also be significantly affected by foreign currency translation movements as the majority of assets and net 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 net foreign currency exposure on balances denominated in currencies other than the Indian rupee (expressed in U.S. dollars) are comprised as follows:

	September 30, 2016					December 31, 2015				
	Cash and cash equivalents	**Investments**	**Term loan**	**Payable to related parties**	**Net exposure**	Cash and cash equivalents	Investments	Term loan	Payable to related parties	Net exposure
Canadian dollars	**936**	**—**	**—**	**—**	**936**	42	—	—	—	42
U.S. dollars	**188,748** [(1)]	**53,697**	**(222,396)**	**(4,298)**	**15,751**	12,367 [(1)]	98,588	—	(1,993)	108,962
Mauritius rupees	**34**	**—**	**—**	**—**	**34**	55	—	—	—	55
Total	**189,718**	**53,697**	**(222,396)**	**(4,298)**	**16,721**	12,464	98,588	—	(1,993)	109,059

(1) At September 30, 2016 cash and cash equivalent included restricted cash of $21,219 to fund term loan interest payments (December 31, 2015 - cash and cash equivalent included restricted cash held in escrow arising from investments in IIFL ($3,600) and Adi ($2,857)).

The company's net exposure to the U.S. dollar decreased at September 30, 2016 compared to December 31, 2015 primarily as a result of the term loan completed in the third quarter of 2016 for $225,000 and the sale of U.S. dollar denominated investments (primarily U.S. treasury bills) to purchase Indian Investments. A portion of the net proceeds from the term loan was used to invest in the second tranche of the Sanmar bonds. The remaining net proceeds were invested in cash and cash equivalents and will be used to partially fund the anticipated investment in BIAL in the fourth quarter of 2016.

Interest Rate Risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instruments will fluctuate because of changes in market interest rates. 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. There were no significant changes to the company's framework used to monitor, evaluate and manage interest rate risk at September 30, 2016 compared to December 31, 2015.

The table that follows displays the potential impact of changes in interest rates on the company's fixed income portfolio based on parallel 200 basis point shifts up and down, in 100 basis point increments. This analysis was performed on each individual security, with the hypothetical effect on net earnings calculated on an after-tax basis. The company is also exposed to indirect interest rate risk through investment funds with a fair value of $26,307 at September 30, 2016 (December 31, 2015 - $48,445) to the extent the funds are invested in fixed income securities. The company's exposure to interest rate risk increased during the first nine months of 2016 due to the Sanmar bond investment (see note 4 for details on the valuation of Sanmar bonds).

	September 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	**470,590**	**(54,452)**	**(11.8)%**	467,293	(33,439)	(8.9)%
100 basis point rise	**501,229**	**(27,874)**	**(6.0)%**	490,481	(16,396)	(4.4)%
No change	**533,360**	**—**	**—**	512,789	—	—
100 basis point decline	**568,860**	**30,797**	**6.7 %**	546,766	24,973	6.6 %
200 basis point decline	**587,615**	**47,067**	**10.2 %**	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 foreign currency risk), whether those changes are caused by factors specific to the individual investment or its issuer, or other factors affecting all similar investments in the market. Changes to the company's exposure to equity price risk through its equity instruments at September 30, 2016 compared to December 31, 2015 is described below.

At December 31, 2015 the company was exposed to market price risk solely through its investment in IIFL (classified as Level 1 in the fair value hierarchy). The company's exposure to market price risk increased during the first nine months of 2016 as a result of its investment in Adi (note 5).

The following table illustrates the potential impact on net earnings of a 10% change in the fair value of the company's Level 1 equity investments.

	September 30, 2016	
Change in fair value of the company's Level 1 equity investments	**+10%**	**-10%**
Level 1 equity investments	**318,585**	**318,585**
Pre-tax impact on net earnings	**31,859**	**(31,859)**
After-tax impact on net earnings	**27,638**	**(27,638)**

	December 31, 2015	
Change in fair value of the company's Level 1 equity investment	+10%	-10%
Level 1 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. There were no significant changes to the company's exposure to credit risk (except as set out in the discussion which follows) or the framework used to monitor, evaluate and manage credit risk at September 30, 2016 compared to December 31, 2015.

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

	September 30, 2016	December 31, 2015
Cash and cash equivalents	**169,000**	12,464
Restricted cash	**21,219**	6,457
Short term investments - U.S. treasury bills	**27,390**	50,143
Bonds:		
Government of India bonds	**131,224**	123,448
Indian corporate bonds	**100,893**	389,341
Sanmar bonds	**301,243**	—
Investment funds[1]	**26,307**	48,445
Interest receivable	**6,968**	27,680
Total gross credit risk exposure	**784,244**	657,978

(1) The company is exposed to indirect credit risk through its holdings of investment funds which primarily invest in Indian fixed income securities.

At September 30, 2016 the company had income taxes refundable of $7,848 (December 31, 2015 - income taxes payable of $9,386).

The composition of the company's fixed income portfolio is presented in the table below:

	September 30, 2016	**Rating**	December 31, 2015	Rating
Government of India bonds[1]	**131,224**	**Baa3/BBB-**	123,448	Baa3/BBB-
Indian corporate bonds[2]	**100,893**	**AAA**	389,341	AAA
Sanmar bonds[3]	**301,243**	**BBB-**	—	—
Total	**533,360**		512,789	

(1) Rated Baa3 by Moody's and BBB- by S&P.

(2) Rated AAA by subsidiaries of a Designated Rating Organization ("DRO"), being DBRS Limited, Standard & Poor's Rating Service ("S&P"), Fitch Inc. and Moody's Investors Service, Inc. ("Moody's"), or subsidiaries or affiliates of a DRO.

(3) Rated BBB- by Brickworks Rating, an Indian rating agency.

The company's exposure to credit risk from its investment in fixed income securities increased at September 30, 2016 compared to December 31, 2015 reflecting the company's sale of Indian corporate bonds rated as AAA to fund Indian Investments, including the investment in Sanmar bonds ($301,243) which is rated BBB-.

Liquidity Risk

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

The company believes that cash and cash equivalents at September 30, 2016, excluding the net proceeds received from the term loan, provides adequate liquidity to meet the company's remaining known significant expenses in 2016, which are principally comprised of investment and advisory fees, corporate income taxes and general and administration expenses. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. The net proceeds from the term loan that were invested in cash and cash equivalents (see note 7) together with net proceeds from the sale of a portion of the company's Government of India and Indian corporate bonds will be sufficient to fund the previously announced investment in BIAL. The company has adequate working capital to support its operations.

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:

	September 30, 2016			December 31, 2015		
	India	**U.S.**	**Total**	India	U.S.	Total
Cash and cash equivalents	**1,471** (1)	**188,748** (2)	**190,219**	6,554 (1)	12,367	18,921
Short term investments - U.S. treasury bills	**—**	**27,390**	**27,390**	—	50,143	50,143
Bonds:						
Government of India bonds	**131,224**	**—**	**131,224**	123,448	—	123,448
Indian corporate bonds	**100,893**	**—**	**100,893**	389,341	—	389,341
Sanmar bonds	**301,243**	**—**	**301,243**	—	—	—
	533,360	**—**	**533,360**	512,789	—	512,789
Common stocks:						
IIFL	**278,956**	**—**	**278,956**	220,747	—	220,747
NCML	**147,491**	**—**	**147,491**	146,445	—	146,445
Adi	**39,629**	**—**	**39,629**	—	—	—
Sanmar	**999**	**—**	**999**	—	—	—
Privi	**55,367**	**—**	**55,367**	—	—	—
NSE	**27,017**	**—**	**27,017**	—	—	—
Investment funds	**26,307**	**—**	**26,307**	48,445	—	48,445
	575,766	**—**	**575,766**	415,637	—	415,637
Total cash and investments	**1,110,597**	**216,138**	**1,326,735**	934,980	62,510	997,490

(1) Included cash and cash equivalents invested in Mauritius and Canada of $970 at September 30, 2016 (December 31, 2015 - $97 and restricted cash of $6,457).

(2) Included restricted cash of $21,219 at September 30, 2016 (December 31, 2015 - nil).

The company's holdings of common stocks and Sanmar bonds at September 30, 2016 and December 31, 2015 are summarized by the issuer's primary sector in the table below.

	September 30, 2016	December 31, 2015
Financial and investment funds	**332,280**	269,192
Commercial and industrial	**544,729**	146,445
	877,009	415,637

During the first nine months of 2016 the company's concentration risk in the financial and investments funds sector increased primarily due to the investment in NSE ($27,017) and the increase in fair value of IIFL, while the company's concentration risk in the commercial and industrial sector increased primarily due to the investments in Adi ($39,629), Privi ($55,367) and Sanmar (common stock - $999 and bonds - $301,243).

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 permitted to complete up to two Indian Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25% of the company's total assets (the "Investment Concentration Restriction"). The company's Investment Concentration Restriction limit increased to approximately $336 million at September 30, 2016 from approximately $250 million at December 31, 2015 principally as a result of unrealized gains on Indian Investments and net proceeds received from the term loan not yet invested in Specified Portfolio Companies (see note 7 for details of the term loan). The Investment Concentration Restriction is limited to two Indian Investments and at September 30, 2016 related to the company's investment in Sanmar and the anticipated fourth quarter of 2016 investment in BIAL. 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.

Capital Management

At September 30, 2016 the company's capital was comprised of its common shareholders' equity and the term loan. 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.

On September 16, 2016 the company completed a 2-year secured term loan bearing an interest rate of LIBOR plus 350 to 500 basis points with a syndicate of Canadian banks for $225,000. At September 30, 2016 the company used a portion of the net proceeds to complete the second tranche of the Sanmar bonds ($50,000). The remaining net proceeds were invested in cash and cash equivalents and will be used to partially fund the anticipated investment in BIAL in the fourth quarter of 2016.

12. Related Party Transactions

Payable to Related Parties

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

	September 30, 2016	December 31, 2015
Investment and advisory fees	**4,267**	1,803
Other	**31**	190
	4,298	1,993

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 total common shareholders' equity.

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 the company's total common shareholders' equity less the value of undeployed capital.

For the first nine months of 2016, the company has determined that the majority of its assets are invested in Indian Investments, which is considered deployed capital. The investment and advisory fee for the three and nine months ended September 30, 2016 was $4,261 and $9,105 respectively (2015 - $1,417 and $3,506).

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 total common shareholders' equity (including distributions) above a 5% per annum increase. The company determined that the performance fee was not applicable for the three and nine months ended September 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.

13. Supplementary Cash Flow Information

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

	Third quarter		First nine months	
	2016	2015	**2016**	2015
(a) Purchases of investments classified as FVTPL				
Bonds	**(50,000)**	(37,638)	**(299,642)**	(823,810)
Common stocks	**(81,804)**	(146,629)	**(123,997)**	(196,676)
	(131,804)	(184,267)	**(423,639)**	(1,020,486)
(b) Sales of investments classified as FVTPL				
Bonds	**—**	36,372	**280,960**	125,381
Common stocks	**25,793**	—	**52,631**	—
	25,793	36,372	**333,591**	125,381
(c) Net Interest and dividends received on securities				
Interest received	**10,880**	2,521	**37,499**	6,266
Dividends received	**746**	—	**5,077**	—
Interest paid on term loan	**781**	—	**781**	—
	12,407	2,521	**43,357**	6,266
(d) Income taxes paid	**74**	845	**13,500**	845

14. General and Administration Expenses

General and administration expenses for the three and nine months ended September 30 were comprised as follows:

	Third quarter		First nine months	
	2016	2015	**2016**	2015
Brokerage fee	**—**	—	**153**	984
Audit, legal and tax professional fees	**653**	2,706	**2,208**	2,985
Salaries and employee benefit expenses	**118**	57	**532**	169
Administrative expenses	**329**	238	**1,006**	474
Other	**—**	—	**221**	231
	1,100	3,001	**4,120**	4,843

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 nine months ended September 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 book value per share. On any date, book value per share is calculated as total common shareholders' equity divided by the total number of common shares of the company outstanding on that date. Book value per share is a key performance measure of the company and is closely monitored as it is used to calculate the performance fee payable, if any, to Fairfax Financial Holdings Limited ("Fairfax"). The performance fee is 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 total common shareholders' equity (including distributions) above a 5% per annum increase.

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 ("IIFL", formerly known as India Infoline Limited) 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 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

Nine months ended September 30, 2016

Investment in Bangalore International Airport Limited

On March 28, 2016 the company and Fairfax, through their wholly-owned subsidiaries, 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 ("GVK") for an aggregate investment of approximately 21.49 billion Indian rupees (approximately $323 million at current exchange rates). Fairfax, through a wholly-owned subsidiary, entered into a separate share purchase agreement to acquire an additional 5% interest from Flughafen Zurich AG ("Zurich") for approximately $49 million. The acquisition of the additional 5% interest from Zurich in BIAL is contingent upon the company acquiring the 33% interest from GVK. As Fairfax India is limited to investing no more than 25% of its total assets in any single investment (at September 30, 2016 approximately $336 million, see note 11 (Financial Risk Management) to the interim consolidated financial statements for the third quarter and nine months ended September 30, 2016), the company will acquire up to its single investment limit from GVK and the company, or Fairfax, will acquire the remaining shares from Zurich. The transactions are subject to customary closing conditions and third party consents, including BIAL's lender consents, and are expected to be completed in the fourth quarter of 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 National Stock Exchange of India Limited

In the third quarter of 2016 the company, through its wholly-owned subsidiaries, acquired a 1.01% equity interest in the National Stock Exchange of India Limited ("NSE") for total consideration of approximately 1.8 billion Indian rupees (approximately $27 million). Transaction price was considered to approximate fair value due to the proximity of the transaction closing date to September 30, 2016.

NSE is one of India's leading stock exchanges covering various cities and towns across the country. In addition to being a platform for all exchange traded financial products in India, NSE's flagship index, Nifty50, is used extensively by investors in India and around the world as a barometer of the Indian capital markets.

Investment in Privi Organics Limited

On July 12, 2016 the company, through its wholly-owned subsidiaries, announced it had entered into a share purchase agreement with existing shareholders of Privi to acquire a 51% equity interest in Privi. On August 26, 2016 the company closed the acquisition of Privi for total consideration of approximately 3.7 billion Indian rupees (approximately $55 million).

Additionally, on July 12, 2016 the boards of directors of Adi Finechem Limited ("Adi") and Privi approved a merger arrangement (the "Merger") involving the two companies, which is expected to bring significant diversification and synergies to both. The Merger is expected to occur in the first quarter of 2017 and is subject to regulatory approvals in India and approvals by Adi and Privi shareholders. Upon completion of the Merger, Fairfax India will own approximately 49% of the merged entity. Under the terms of the Merger, the Privi shareholders will receive 27 subordinate voting shares and 27 compulsory convertible preference shares of the merged entity for every 40 Privi shares exchanged ("swap ratio").

At September 30, 2016 the company prepared a valuation model to determine the fair value of its holding of 9,517,042 Privi shares using the quoted bid price of Adi and the swap ratio. The company's internal valuation model indicated a fair value of $82,148 and an unrealized gain of $26,568 which was not recorded in the consolidated statement of earnings as the Merger is still pending regulatory and shareholders approvals. Transaction price was considered to approximate fair value due to the proximity of the transaction closing date to September 30, 2016. At September 30, 2016 the company had appointed two of the eight Privi board members.

Privi is a supplier of aroma chemicals to the fragrance industry. 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 22,000 TPA of aroma chemicals, Privi enjoys a dominant position and economies of scale in its product categories.

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 by investing in Sanmar Engineering Services Limited ("Sanmar") through a combination of equity and debt securities resulting in a 30% equity interest in Sanmar. On April 28, 2016 the company acquired the first tranche of $250 million, comprised of $1 million in equity and $249 million in bonds, and the second tranche of $50 million in bonds was acquired on September 26, 2016.

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, an Indian rating agency.

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 since the time of its original investment on April 28, 2016 as there had been no significant changes to Sanmar's business, capital structure or operating environment, and the key assumptions in the company's acquisition valuation model continued to be valid. Accordingly, the company's estimate of fair value was the original transaction price. During the third quarter of 2016 management undertook a valuation study to formalize valuation models and determine the appropriate separate fair values for its bond and common stock investments in Sanmar. The fair value of the Sanmar investments cannot be derived from an active market and accordingly, are determined using industry accepted valuation techniques and models.

Sanmar Common Stock

At September 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. At September 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 16.2% to 20.4% and long term growth rates ranging from 2.0% to 3.6%. Free cash flow projections were based on EBITDA projections from financial information for Sanmar's three main business operations that had been prepared in the first quarter of 2016 by Sanmar and reviewed quarterly by Sanmar management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Sanmar operates. At September 30, 2016 the company's internal valuation model indicated there was no change in the fair value of Sanmar common stock.

Sanmar Bonds

At September 30, 2016 the Sanmar bonds were valued using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's assumed credit spread of 6% and certain redemption options embedded in the bonds. At September 30, 2016 the company's internal valuation model indicated there was an unrealized gain of $3,297 which was recorded in net unrealized gains on investments in the consolidated statement of earnings. The net unrealized gain of $3,297 was primarily related to the accretion of the security to the company's redemption value after incorporating both the issue's credit risk and the redemption option held by the issuer prior to maturity.

In the third quarter and first nine months of 2016 the consolidated statements of earnings included $3,297 of net unrealized gains on investments and the consolidated statements of comprehensive income included $1,054 of unrealized foreign currency translation losses related to the Sanmar bonds.

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.

On April 18, 2016 Sanmar acquired 100% of SHL Securities Alpha Limited ("SHL Alpha") and as a result of this transaction SHL Alpha became a wholly owned subsidiary of Sanmar. The historical audited financial statements of Sanmar do not include the consolidated financial information of SHL Alpha and its subsidiaries. Accordingly, the balance sheets of Sanmar and SHL Alpha at March 31, 2016 were combined ("Sanmar Combined") to give effect to the acquisition.

At September 30, 2016 the company had appointed two of the six Sanmar board members.

The company's fiscal year ends on December 31 and Sanmar's fiscal year ends on March 31.

Summarized below are Sanmar's balance sheets at June 30, 2016 and March 31, 2016.

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

	June 30, 2016[(1)]	March 31, 2016[(1)]
	Sanmar	Sanmar Combined
Current assets	**208,519**	148,892
Non-current assets	**1,254,463**	1,285,258
Current liabilities	**398,726**	463,725
Non-current liabilities	**1,184,502**	1,062,992
Shareholders' equity	**(120,246)**	(92,567)

Summarized below is Sanmar's statement of earnings for three months ended June 30, 2016.

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

	Three months ended June 30, 2016[(2)]
	Sanmar
Revenue	**153,076**
Net loss before taxes	**(18,370)**
Net loss	**(28,759)**

(1) The net assets of Sanmar were translated at June 30, 2016 at US$ 1 = 67.50 Indian rupees and at at March 31, 2016 at US$ 1 = 66.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

(2) Amounts for the three months ended June 30, 2016 were translated into US$ using the average exchange rates of US$ 1 = 66.90 Indian rupees prevailing during that period.

Sanmar's revenue for the three months ended June 30, 2016 was primarily from sales in its PVC business.

Current assets increased by $59,627 to $208,519 at June 30, 2016 from $148,892 at March 31, 2016 primarily due to increases in cash and cash equivalents and inventory.

Non-current assets decreased by $30,795 to $1,254,463 at June 30, 2016 from $1,285,258 at March 31, 2016 primarily due to a decrease in other assets which were principally comprised of deposits and customer prepayments.

Current liabilities decreased by $64,999 to $398,726 at June 30, 2016 from $463,725 at March 31, 2016 primarily due to a reduction in short term loans and borrowings.

Non-current liabilities increased by $121,510 to $1,184,502 at June 30, 2016 from $1,062,992 at March 31, 2016 primarily due to an increase in long term loans and borrowings.

Investment in Adi Finechem Limited

On February 8, 2016 the company acquired 44.66% ownership interest in Adi from existing shareholders for an aggregate investment of approximately 1.3 billion Indian rupees (approximately $19 million based on exchange rates at 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). Adi is a publicly traded entity in India. Accordingly, the company fair values its investment in Adi using the bid price at September 30, 2016 without adjustments or discounts. The consolidated statements of earnings included $7,421 and $19,737 of unrealized gains on investments related to the investment in Adi in the third quarter and first nine months of 2016, respectively. The company believes the increase in Adi's trading price from 345.05 Indian rupees per share at June 30,2016 to 426.75 Indian rupees per share at September 30, 2016 was primarily a result of the pending merger of Adi and Privi expected to occur in the first quarter of 2017.

At September 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 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 to convert waste generated during the production of soy, sunflower, corn and cotton oil into valuable chemicals. Those chemicals include acids used in the manufacture of 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.

At September 30, 2016 the company had appointed two of the twelve Adi board members.

The company's fiscal year ends on December 31 and Adi's fiscal year ends on March 31.

Summarized below are Adi's balance sheets at June 30, 2016 and March 31, 2016.

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

	June 30, 2016(1)	March 31, 2016(1)
Current assets	**5,779**	5,649
Non-current assets	**12,149**	11,928
Current liabilities	**4,622**	4,472
Non-current liabilities	**2,725**	2,944
Shareholders' equity	**10,581**	10,161

Summarized below is Adi's statement of earnings for three months ended June 30, 2016.

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

	Three months ended June 30, 2016(2)
Revenue	**7,497**
Net earnings before tax	**934**
Net earnings	**620**

(1) The net assets of Adi were translated at June 30, 2016 at US$ 1 = 67.50 Indian rupees and at at March 31, 2016 at US$ 1 = 66.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

(2) Amounts for the three months ended June 30, 2016 were translated into US$ using the average exchange rates of US$ 1 = 66.90 Indian rupees prevailing during that period.

Adi's revenue was comprised principally of sales of oleo chemicals and nutraceuticals products. For the three months ended June 30, 2016, revenue of $7,497 was primarily from sales of oleo chemicals products such as fatty acids, glycerine, methyl esters and fatty alcohols. With rising environmental concerns, the use of oleo chemicals is growing in the rubber, plastics, lubricants, paper, printing, paints and coatings and animal feed industries. Accordingly, the demand for oleo chemicals products had strong growth for the three months ended June 30, 2016.

Current assets increased by $130 to $5,779 at June 30, 2016 from $5,649 at March 31, 2016 primarily due to increased receivables.

Non-current assets increased by $221 to $12,149 at June 30, 2016 from $11,928 at March 31, 2016 primarily due to additions to property, plant and equipment.

Current liabilities increased by $150 to $4,622 at June 30, 2016 from $4,472 at March 31, 2016 primarily due to increased trade and other payables.

Non-current liabilities decreased by $219 to $2,725 at June 30, 2016 from $2,944 at March 31, 2016 primarily due to a reduction in long term loans and borrowings.

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). 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).

IIFL is a publicly traded entity in India. Accordingly, the company fair values its investment in IIFL using the bid price at September 30, 2016 without adjustments or discounts. The consolidated statements of earnings included $48,902 and $59,139 of unrealized gains on investment related to the investment in IIFL in the third quarter and first nine months of 2016 respectively. The company believes the increase in the share price of IIFL from 222.95 Indian rupees per share at June 30,2016 to 270.00 Indian rupees per share at September 30, 2016 was primarily related to the robust performance of the fund based activities segment of the company.

The consolidated statements of comprehensive income included $3,473 and $104 of unrealized foreign currency translation losses related to the investment in IIFL in the third quarter and first nine months of 2016. The company also earned dividend income from the investment in IIFL of nil and $4,356 in the third quarter and first nine months of 2016. At September 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.

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.

At September 30, 2016 the company did not have any board representation in IIFL. Fairfax had invested in IIFL prior to the company's December 1, 2015 investment and was able to recommend for appointment one board representative, out of the eight board members.

The company's fiscal year ends on December 31 and IIFL's fiscal year ends on March 31.

Summarized below are IIFL's balance sheets at June 30, 2016 and March 31, 2016.

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

	June 30, 2016[1]	March 31, 2016[1]
Current assets	**1,972,301**	1,846,590
Non-current assets	**1,704,122**	1,630,821
Current liabilities	**1,685,196**	1,456,112
Non-current liabilities	**1,385,935**	1,429,520
Shareholders' equity	**605,292**	591,779

Summarized below is IIFL's statement of earnings for three months ended June 30, 2016.

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

	Three months ended June 30, 2016[(2)]
Revenue	**153,528**
Net earnings before taxes	**35,157**
Net earnings	**22,714**

(1) The net assets of IIFL were translated at June 30, 2016 at US$ 1 = 67.50 Indian rupees and at at March 31, 2016 at US$ 1 = 66.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

(2) Amounts for the three months ended June 30, 2016 were translated into US$ using the average exchange rates of US$ 1 = 66.90 Indian rupees prevailing during that period.

IIFL's revenue is mostly comprised of service revenue from its three main segments, namely, fund based activities, financial products distribution and capital market activities. For the three months ended June 30, 2016, IIFL's consolidated revenue and net earnings of $153,528 were primarily driven by the fund based activities segment. The fund based activities segment makes loans to a well-diversified mix of customer segments, including capital markets, commercial vehicles, corporate, gold, home mortgage, property and medical equipment loans. IIFL's management continues to focus on reducing operating costs to achieve better economies of scale and leverage existing infrastructure to offer complementary products from multiple segments.

Current assets increased by $125,711 to $1,972,301 at June 30, 2016 from $1,846,590 at March 31, 2016 primarily due to an increase in cash and cash equivalents and trade receivables.

Non-current assets increased by $73,301 to $1,704,122 at June 30, 2016 from $1,630,821 at March 31, 2016 primarily reflecting an increase in loans and receivables.

Current liabilities increased by $229,084 to $1,685,196 at June 30, 2016 from $1,456,112 at March 31, 2016 primarily due to an increase in interest bearing loans and borrowings and trade payables, partially offset by a decrease in other current liabilities.

Non-current liabilities decreased by $43,585 to $1,385,935 at June 30, 2016 from $1,429,520 at March 31, 2016 primarily due to a decrease in short term interest bearing loans and borrowings.

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).

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") since the time of its original investment as there had been no significant changes to NCML's business, capital structure and operating environment. Accordingly, at those dates, the company’s estimate of fair value was the original transaction price. 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. 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 September 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 14.9% and a long term growth rate of 6.0%. Free cash flow projections were based on EBITDA projections from financial information for NCML's two business units that had been prepared in the first quarter of 2016 by NCML and reviewed quarterly by NCML management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. At September 30, 2016 the company's internal valuation model indicated that there was an unrealized gain of $1,963 which was recorded in net unrealized gains on investments in the consolidated statement of earnings.

The consolidated statements of comprehensive income included $1,987 and $917 of unrealized foreign currency translation losses related to the investment in NCML in the third quarter and first nine months of 2016. The unrealized gain of $1,963 was primarily driven by the growth in NCML's supply chain business and the success of the new non-bank financial segment. As of September 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 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.

At September 30, 2016 the company had appointed three of the six NCML board members.

The company's fiscal year ends on December 31 and NCML's fiscal year ends on March 31.

Summarized below are NCML's balance sheets at June 30, 2016 and March 31, 2016.

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

	June 30, 2016(1)	March 31, 2016(1)
Current assets	**84,234**	80,531
Non-current assets	**53,291**	54,582
Current liabilities	**35,417**	36,599
Non-current liabilities	**25,048**	21,342
Shareholders' equity	**77,060**	77,172

Summarized below are NCML's statement of earnings for three months ended June 30, 2016 and 2015.

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

	Three months ended June 30, 2016(2)	Three months ended June 30, 2015(2)
Revenue	**26,556**	11,267
Net earnings before taxes	**1,653**	1,790
Net earnings	**1,304**	1,578

(1) The net assets of NCML were translated at June 30, 2016 at US$ 1 = 67.50 Indian rupees and at at March 31, 2016 at US$ 1 = 66.22 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

(2) Amounts for the three months ended June 30, 2016 and 2015 were translated into US$ using the average exchange rates of US$ 1 = 66.90 Indian rupees and US$ 1= 63.44 Indian rupees prevailing during those respective periods.

NCML's revenue for the three months ended June 30, 2016 and June 30, 2015 is primarily driven by supply chain services, storage and preservation services and collateral management segments. Revenue of $26,556 for the three months ended June 30, 2016 increased from $11,267 for the three months ended June 30, 2015 principally as a result of a significant increase in the supply chain services segment offset by a reduction in the storage and preservation services segment. NCML's reported net earnings of $1,304 for the three months ended June 30, 2016 compared to net earnings of $1,578 for the three months ended June 30, 2015 with a year-over-year decrease of $274 primarily resulting from lower margins in the storage and preservation services segment.

Current assets increased by $3,703 to $84,234 at June 30, 2016 from $80,531 at March 31, 2016 primarily reflecting an increase of $7,274 and $4,143 in inventory and other current assets respectively, partially offset by decrease in trade receivables and short term investments.

Non-current assets decreased by $1,291 to $53,291 at June 30, 2016 from $54,582 at March 31, 2016 primarily driven by a decrease in income tax asset and other non-current assets, partially offset by an increase in property, plant and equipment.

Current liabilities decreased by $1,182 to $35,417 at June 30, 2016 from $36,599 at March 31, 2016 due to the reduction in loans and borrowings, partially offset by an increase in other payables.

Non-current liabilities increased by $3,706 to $25,048 at June 30, 2016 from $21,342 at March 31, 2016 primarily due to an increase in long term loans and borrowing of $3,270.

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 and as a result optimize investment returns for the shareholders of Fairfax India. 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 permitted to complete up to two Indian Investments where, after giving effect to each such investment, the total invested amount of each such investment would be less than or equal to 25% of the company's total assets (the "Investment Concentration Restriction"). The company's Investment Concentration Restriction limit increased to approximately $336 million at September 30, 2016 from approximately $250 million at December 31, 2015 principally as a result of unrealized gains on Indian Investments and net proceeds received from the term loan not yet invested in Specified Portfolio Companies as discussed in note 7 (Term Loan) to the interim consolidated financial statements for the third quarter and nine months ended September 30, 2016. The Investment Concentration Restriction is limited to two Indian Investments and at September 30, 2016 related to the company's investment in Sanmar and the anticipated fourth quarter of 2016 investment in BIAL. 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 September 30, 2016 the company determined that it was in compliance with these investment restrictions. With the completion of the investments in NSE and Privi in the third quarter of 2016, the company satisfied the voluntarily-adopted measure (set forth in the IPO prospectus) that it would invest the net proceeds of the offerings in at least six different Indian Investments.

Results of Operations

	Third quarter		First nine months	
	2016	2015	**2016**	2015
Interest and dividends	**5,253**	13,915	**21,864**	32,716
Net realized gains (losses) on investments	**690**	(390)	**2,051**	(912)
Net unrealized gains (losses) on investments	**70,537**	12,682	**100,230**	(1,586)
Net foreign currency gains (losses)	**(1,134)**	3,907	**(7,107)**	5,365
Total income	**75,346**	30,114	**117,038**	35,583
Total expenses	**5,760**	4,418	**13,624**	8,349
Earnings before income taxes	**69,586**	25,696	**103,414**	27,234
Provision for (recovery of) income taxes	**3,186**	7,378	**(1,987)**	7,086
Net earnings	**66,400**	18,318	**105,401**	20,148
Net earnings per basic share	**$ 0.62**	$ 0.17	**$ 0.99**	$ 0.21

Total income of $75,346 in the third quarter of 2016 increased from $30,114 in the third quarter of 2015 principally as a result of increased net unrealized gains on investments (primarily related to unrealized gains on the Indian investments IIFL and Adi, and India corporate and Government of India bonds), increased net realized gains on investments (principally related to the sale of investment funds), partially offset by decreased foreign currency gains principally on cash and cash equivalents and investments as a result of the strengthening of the Indian rupee relative to the U.S. dollar and decreased interest and dividends income (principally due to decreased holdings of Indian corporate bonds).

Total income of $117,038 in the first nine months of 2016 increased from $35,583 in the first nine months of 2015 principally as a result of the same factors which affected the increase in the third quarter of 2016 relating to net unrealized gains on investments and also included the impact of increased net realized gains on investments (principally related to the sale of common stocks and investment funds), partially offset by losses on the sale of Indian corporate bonds, decreased foreign currency gains principally on cash and cash equivalents as a result of the strengthening of the Indian rupee relative to the U.S. dollar and decreased interest and dividends income (principally due to decreased holdings of Indian corporate bonds).

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

	Third 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	**(19)**	**—**	**(19)**	39	—	39
Bonds	**(19)**	**10,517** (1)	**10,498**	(429)	12,357	11,928
Common stocks	**21**	**58,285** (2)	**58,306**	—	—	—
Investment funds	**707**	**1,735**	**2,442**	—	325	325
	690	**70,537**	**71,227**	(390)	12,682	12,292
Net foreign currency gains (losses) on:						
Cash and cash equivalents	**(1,616)**	**—**	**(1,616)**	2,375	—	2,375
Investments	**1,600**	**(2,658)**	**(1,058)**	—	1,532	1,532
Term loan	**—**	**1,309**	**1,309**	—	—	—
Other	**231**	**—**	**231**	—	—	—
	215	**(1,349)**	**(1,134)**	2,375	1,532	3,907
Net gains (losses) on investments	**905**	**69,188**	**70,093**	1,985	14,214	16,199

	First nine 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	**(17)**	**—**	**(17)**	39	—	39
Bonds	**(3,327)**	**16,616** (1)	**13,289**	(951)	(383)	(1,334)
Common stocks	**4,688**	**80,839** (2)	**85,527**	—	—	—
Investment funds	**707**	**2,775**	**3,482**	—	(1,203)	(1,203)
	2,051	**100,230**	**102,281**	(912)	(1,586)	(2,498)
Net foreign currency gains (losses) on:						
Cash and cash equivalents	**(9,063)**	**—**	**(9,063)**	2,723	—	2,723
Investments	**2,499**	**(2,083)**	**416**	—	2,642	2,642
Term loan	**—**	**1,309**	**1,309**	—	—	—
Other	**231**	**—**	**231**	—	—	—
	(6,333)	**(774)**	**(7,107)**	2,723	2,642	5,365
Net gains (losses) on investments	**(4,282)**	**99,456**	**95,174**	1,811	1,056	2,867

(1) Includes unrealized gains determined by the company's internal valuation model as the Sanmar bonds are considered to be Indian Investments.

(2) Principally comprised of unrealized gains on the Indian investments in IIFL ($48,902 and $59,139) and Adi ($7,421 and $19,737) in the third quarter and first nine months of 2016 respectively.

Total expenses increased from $4,418 in the third quarter of 2015 to $5,760 in the third quarter of 2016 (increased from $8,349 in the first nine months of 2015 to $13,624 in the first nine months of 2016) primarily as a result of higher investment and advisory fees and increased general and administrative expenses (principally related to the increased audit, legal and tax professional fees as a result of increased Indian Investment transactions).

The provision for income taxes of $3,186 in the third quarter of 2016 and the recovery of income taxes of $1,987 in the first nine 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 the tax rate differential on income earned outside of Canada and foreign exchange fluctuations, partially offset by unrecorded deferred taxes in Canada.

The provision for income taxes of $7,378 and $7,086 in the third quarter and first nine months of 2015 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings before income taxes primarily due to foreign exchange fluctuations, unrecorded deferred taxes in Canada and the tax treatment of financing costs.

The company reported net earnings of $66,400 (net earnings of $0.62 per basic share) in the third quarter of 2016 compared to net earnings of $18,318 (net earnings of $0.17 per basic share) in the third quarter of 2015. The company reported net earnings of $105,401 (net earnings of $0.99 per basic share) in the first nine months of 2016 compared to net earnings of $20,148 (net earnings of $0.21 per basic share) in the first nine months of 2015.

The year-over-year increase in profitability in the third quarter and first nine months of 2016 primarily reflected increased net unrealized gains on investments, partially offset by increased investment and advisory fees and increased general and administrative expenses (principally related to the increased audit, legal and tax professional fees as a result of increased Indian Investment transactions).

Consolidated Balance Sheet Summary

Assets

Total cash and investments increased to $1,326,735 at September 30, 2016 from $997,490 December 31, 2015. The company's cash and investment composition between Indian and U.S. investments was as follows:

	September 30, 2016			December 31, 2015		
	India	**U.S.**	**Total**	India	U.S.	Total
Cash and cash equivalents	**1,471** (1)	**188,748** (2)	**190,219**	6,554 (1)	12,367	18,921
Short term investments - U.S. treasury bills	**—**	**27,390**	**27,390**	—	50,143	50,143
Bonds:						
Government of India bonds	**131,224**	**—**	**131,224**	123,448	—	123,448
Indian corporate bonds	**100,893**	**—**	**100,893**	389,341	—	389,341
Sanmar bonds	**301,243**	**—**	**301,243**	—	—	—
	533,360	**—**	**533,360**	512,789	—	512,789
Common stocks:						
IIFL	**278,956**	**—**	**278,956**	220,747	—	220,747
NCML	**147,491**	**—**	**147,491**	146,445	—	146,445
Adi	**39,629**	**—**	**39,629**	—	—	—
Sanmar	**999**	**—**	**999**	—	—	—
Privi	**55,367**	**—**	**55,367**	—	—	—
NSE	**27,017**	**—**	**27,017**	—	—	—
Investment funds	**26,307**	**—**	**26,307**	48,445	—	48,445
	575,766	**—**	**575,766**	415,637	—	415,637
Total cash and investments	**1,110,597**	**216,138**	**1,326,735**	934,980	62,510	997,490

(1) Included cash and cash equivalents invested in Mauritius and Canada of $970 at September 30, 2016 (December 31, 2015 - $97 and restricted cash of $6,457).
(2) Included restricted cash of $21,219 at September 30, 2016 (December 31, 2015 - nil).

Restricted cash of $21,219 at September 30, 2016 related to requirements under the term loan for the company to establish a debt service reserve account to fund the term loan interest payments compared to $6,457 at December 31, 2015 related to cash in escrow arising from investments in IIFL ($3,600) and Adi ($2,857).

The company is actively seeking investment opportunities in India and will continue to re-direct capital from its cash and cash equivalents and 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 $1,326,735 at September 30, 2016 (December 31, 2015 - $997,490) see note 6 (Cash and Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2016.

Interest receivable of $6,968 at September 30, 2016 (December 31, 2015 - $27,680) principally related to accrued interest on the company's Indian corporate and Government of India bonds.

Income taxes refundable was $7,848 at September 30, 2016 compared to income taxes payable of $9,386 at December 31, 2015, primarily reflecting income tax payments made during 2016 relating to the company's 2015 Canadian corporate tax return filing. The current tax liability differed between the two respective years primarily due to the impact of foreign accrued property losses ("FAPL") and grossed up foreign tax deduction in Canada in 2016 whereas in 2015 the company generated significant foreign accrued property income ("FAPI") in Canada.

Liabilities

Payable to related parties increased to $4,298 at September 30, 2016 from $1,993 at December 31, 2015 principally reflecting higher investment and advisory fees as a result of increased total common shareholders' equity (primarily as a result of net earnings for the nine months ended 2016, principally from unrealized gains on Indian Investments).

Term loan - On September 16, 2016 the company completed a 2-year secured term loan (the ''term loan'') bearing an interest rate of LIBOR plus 350 to 500 basis points with a syndicate of Canadian banks for $225,000. At September 30, 2016 the company used a portion of the net proceeds to complete the second tranche of the Sanmar bonds ($50,000). The remaining net proceeds were invested in cash and cash equivalents and will be used to partially fund the anticipated investment in BIAL in the fourth quarter of 2016.

Financial Risk Management

There were no significant changes in the types of the company's risk exposures or the processes used by the company for managing those risk exposures at September 30, 2016 compared to those identified at December 31, 2015 and disclosed in the company's 2015 Annual Report other than as outlined in note 11 (Financial Risk Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2016. Additional risks arising from the completion of the term loan and the ongoing investment of the company's capital in Indian Investments include:

Access to Capital

The company's ability and/or the ability of its subsidiaries to obtain additional financing for working capital, capital expenditures or investments in the future may also be limited under the terms of the term loan discussed in note 7 (Term Loan) to the interim consolidated financial statements for the three and nine months ended September 30, 2016. The term loan contains various covenants that may restrict, among other things, the company's ability or the ability of its subsidiaries to incur additional indebtedness, to create liens or other encumbrances and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the term loan contains certain financial covenants that require the company to maintain total common shareholders' equity of not less than $750.0 million. A failure to comply with the obligations and covenants under the term loan could result in an event of default under such agreement which, if not cured or waived, could permit acceleration of indebtedness. If such indebtedness were to be accelerated, there can be no assurance that our liquid assets would be sufficient to repay that indebtedness in full. This risk is mitigated by maintaining high levels of liquid assets or conversion of Indian Investments into cash (if required). The company's management of liquidity risk is discussed further in note 11 (Financial Risk Management) to the interim consolidated financial statements for the three and nine months ended September 30, 2016 and in the Liquidity and Capital Resources section of this MD&A.

Weather Risk

Certain Indian Investments (including NCML, Adi and Privi) are operating in industries exposed to weather risk. The revenue of these portfolio companies may be adversely affected during a period of severe weather conditions in India. Because weather events are by their nature unpredictable, historical results of operations of certain Indian Investments may not be indicative of its future results of operations. As a result of the occurrence of one or more major weather catastrophe in any given period, the expected returns from Indian Investments impacted by weather risk may fall short of the company's expectations.

A significant increase in the price of crude oil could adversely affect the Indian economy, which could adversely affect Indian Investments

India imports a majority of its requirements of petroleum oil and petroleum products. The government of India has deregulated prices and has been reducing the subsidy in respect of certain oil products, resulting in international crude prices having a greater effect on domestic oil prices. While global oil prices continued to be relatively subdued, any increase or volatility in oil prices, as well as the impact of Indian rupee depreciation, which makes imports more expensive, and the pass-through of such increases to Indian consumers could have a material adverse impact on the Indian economy, including a rise in inflation and market interest rates resulting in a significant impact on the profitability of certain Indian Investments.

Liquidity and Capital Resources

Highlights in the first nine months of 2016 (with comparisons to the first nine months of 2015 except as otherwise noted) of major components of cash flow are presented in the following table:

	First nine months	
	2016	2015
Operating activities		
Cash provided by (used in) operating activities before the undernoted	**30,007**	(38,246)
Net sales (purchases) of short term investments classified as FVPTL	**22,590**	(75,023)
Purchases of bonds and common stock classified as FVPTL	**(423,639)**	(1,020,486)
Sales of bonds and common stock classified as FVTPL	**333,591**	125,381
Payable to related parties	**2,334**	1,191
Investing activities		
Purchases of premises and equipment	**(128)**	—
Financing activities		
Issuance of term loan, net of issuance costs	**222,248**	—
Increase in restricted cash in support of term loan	**(21,219)**	—
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	**165,784**	18,642

Cash provided by operating activities before the undernoted of $30,007 in the first nine months of 2016 increased from cash used in operating activities before the undernoted of $38,246 in the first nine months of 2015, principally reflecting higher net interest and dividends received on securities, partially offset by higher income taxes paid. Refer to note 13 (Supplementary Cash Flow Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2016 for details of purchases and sales of investments classified as FVTPL.

Issuance of term loan, net of issuance costs of $222,248 and increase in restricted cash in support of term loan of $21,219 in first nine months of 2016 related to the 2-year secured term loan where the company used a portion of the net proceeds from the term loan to complete the investment in Sanmar's second tranche bonds ($50,000). The remaining net proceeds were invested in cash and cash equivalents and will be used to partially fund the anticipated investment in BIAL in the fourth quarter of 2016. Issuance of subordinate voting shares, net of issuance costs of $725,825 and issuance of multiple voting shares of $300,000 in the first nine 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 September 30, 2016, excluding the net proceeds received from the term loan, provides adequate liquidity to meet the company's remaining known significant expenses in 2016, which are principally comprised of investment and advisory fees, corporate income taxes and general and administration expenses. The company expects to continue to receive investment income on its holdings of fixed income securities and dividends from its equity investments to supplement its cash and cash equivalents. The net proceeds from the term loan that were invested in cash and cash equivalents together with net proceeds from the sale of a portion of the company's Government of India and Indian corporate bonds will be sufficient to fund the previously announced investment in BIAL. The company has adequate working capital to support its operations.

Related Party Transactions

The company’s related party transactions are disclosed in note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 2016.

Book Value per Share

Total common shareholders’ equity at September 30, 2016 was $1,114,794 (December 31, 2015 - $1,013,329). The book value per share at September 30, 2016 was $10.45 compared to $9.50 at December 31, 2015 representing an increase in the first nine months of 2016 of 10.0%, primarily reflecting net earnings of $105,401, partially offset by unrealized foreign currency translation losses of $5,592.

	September 30, 2016	December 31, 2015
Total common shareholders' equity	**1,114,794**	1,013,329
Number of common shares effectively outstanding	**106,678,879**	106,678,879
Book value per share	**$10.45**	$9.50

On October 4, 2016 the company announced that the Toronto Stock Exchange (the "TSX") accepted a notice filed by Fairfax India of its intention to commence a normal course issuer bid for its subordinate voting shares by which it is authorized, until expiry of the bid on October 5, 2017, to acquire up to 3,500,000 subordinate voting shares representing approximately 6.4% of the public float in respect of the subordinate voting shares. Decisions regarding any future repurchases will be based on market conditions, share price and other factors including opportunities to invest capital for growth. The Notice of Intention to Make a Normal Course Issuer Bid is available, without charge, by contacting the Corporate Secretary of the company.

Outstanding Share Data

At September 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 book value per share of the company.

The investment and advisory fee for the three and nine months ended September 30, 2016 was $4,261 and $9,105 (2015 - $1,417 and $3,506).

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 total common shareholders' equity (including distributions) above a 5% per annum increase. The company determined that the performance fee was not applicable for the three and nine months ended September 30, 2016 and 2015.

On September 16, 2016, the company completed a 2-year secured term loan bearing an interest rate of LIBOR plus 350 to 500 basis points with a syndicate of Canadian banks for $225,000 (refer to note 7 (Term Loan) to the interim consolidated financial statements for the three and nine months ended September 30, 2016).

Comparative Quarterly Data (unaudited)

	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
Income	**75,346**	33,917	7,775	29,667	30,114	1,267	4,202	—
Expenses	**5,760**	3,967	3,897	2,559	4,418	2,487	1,444	—
Provision for (recovery of) income taxes	**3,186**	(8,309)	3,136	6,317	7,378	964	(1,256)	—
Net earnings (loss)	**66,400**	38,259	742	20,791	18,318	(2,184)	4,014	—
Net earnings (loss) per share	**$ 0.62**	$ 0.36	$ 0.01	$ 0.20	$ 0.17	$ (0.02)	$ 0.06	—

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

	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Income	**5,040,596**	2,276,566	524,810	1,902,290
Expenses	**383,530**	265,351	263,045	164,092
Provision for (recovery of) income taxes	**215,826**	(559,268)	211,699	405,088
Net earnings	**4,441,240**	2,570,483	50,066	1,333,110
Net earnings per share	**41.63**	24.10	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 Indian corporate bonds 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 during the first nine months of 2016 (primarily related to the company's investments in IIFL and Adi). The increase in expenses was consistent with the increase in Indian Investments (principally related to higher investment and advisory fees and increased general and administrative expenses).

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.

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