FAIRFAX INDIA
HOLDINGS CORPORATION

3

INTERIM REPORT

For the nine months ended September 30, 2017

Consolidated Balance Sheets
as at September 30, 2017 and December 31, 2016
(unaudited - US$ thousands)

	Notes	September 30, 2017	December 31, 2016
Assets			
Cash and cash equivalents	14	**38,777**	146,960
Restricted cash	7	**15,424**	18,810
Short term investments		**—**	27,428
Bonds		**686,075**	528,857
Common stocks	5	**1,750,273**	539,284
Total cash and investments	6	**2,490,549**	1,261,339
Interest receivable		**9,881**	7,493
Income taxes refundable		**3,010**	7,326
Other assets		**140**	27,339
Total assets		**2,503,580**	1,303,497
Liabilities			
Accounts payable and accrued liabilities		**939**	606
Payable for rights issue	5	**15,590**	—
Payable to related parties	12	**90,394**	3,673
Term loans	7	**400,000**	223,772
Total liabilities		**506,923**	228,051
Equity			
Common shareholders' equity	8	**1,996,657**	1,075,446
		2,503,580	1,303,497

See accompanying notes.

Consolidated Statements of Earnings

for the three and nine months ended September 30, 2017 and 2016

(unaudited - US$ thousands except share and per share amounts)

		Third quarter		First nine months	
	Note	**2017**	2016	**2017**	2016
Income					
Interest	6	**6,061**	4,507	**15,060**	16,787
Dividends	6	**3,463**	746	**8,088**	5,077
Net realized gains on investments	6	**—**	690	**1,195**	2,051
Net change in unrealized gains (losses) on investments and other costs	5, 6	**(69,779)**	70,537	**478,504**	100,230
Net foreign exchange losses	6	**(6,200)**	(1,134)	**(23,214)**	(7,107)
		(66,455)	75,346	**479,633**	117,038
Expenses					
Investment and advisory fees	12	**5,059**	4,261	**19,303**	9,105
Performance fees	12	**(22,627)**	—	**84,334**	—
General and administration expenses	13	**780**	1,100	**3,518**	4,120
Interest expense	7	**7,598**	399	**10,839**	399
		(9,190)	5,760	**117,994**	13,624
Earnings (loss) before income taxes		**(57,265)**	69,586	**361,639**	103,414
Provision for (recovery of) income taxes	10	**(4,111)**	3,186	**(2,805)**	(1,987)
Net earnings (loss)		**(53,154)**	66,400	**364,444**	105,401
Net earnings (loss) per share	9	**$ (0.36)**	$ 0.62	**$ 2.50**	$ 0.99
Net earnings (loss) per diluted share	9	**$ (0.36)**	$ 0.62	**$ 2.43**	$ 0.99
Shares outstanding (weighted average)	9	**147,434,531**	106,678,879	**145,564,047**	106,678,879

See accompanying notes.

Consolidated Statements of Comprehensive Income
for the three and nine months ended September 30, 2017 and 2016
(unaudited - US$ thousands)

	Third quarter		First nine months	
	2017	2016	**2017**	2016
Net earnings (loss)	**(53,154)**	66,400	**364,444**	105,401
Other comprehensive income (loss), net of income taxes				
Item that may be subsequently reclassified to net earnings				
Unrealized foreign currency translation gains (losses), net of income taxes of nil (2016 - nil)	**(24,605)**	14,687	**63,156**	(5,592)
Other comprehensive income (loss), net of income taxes	**(24,605)**	14,687	**63,156**	(5,592)
Comprehensive income (loss)	**(77,759)**	81,087	**427,600**	99,809

See accompanying notes.

Consolidated Statements of Changes in Equity
for the nine months ended September 30, 2017 and 2016
(unaudited - US$ thousands)

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings	Accumulated other comprehensive income (loss)	Common shareholders' equity
Balance as of January 1, 2017	**713,027**	**300,000**	**(186)**	**144,604**	**(81,999)**	**1,075,446**
Net earnings for the period	—	—	—	**364,444**	—	**364,444**
Other comprehensive income:						
Unrealized foreign currency translation gains	—	—	—	—	**63,156**	**63,156**
Issuance of shares, net of issuance costs (note 8)	**493,504**	—	—	—	—	**493,504**
Amortization	—	—	**107**	—	—	**107**
Balance as of September 30, 2017	**1,206,531**	**300,000**	**(79)**	**509,048**	**(18,843)**	**1,996,657**

	Subordinate voting shares	Multiple voting shares	Share-based payments, net	Retained earnings	Accumulated other comprehensive income (loss)	Common shareholders' equity
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 share issuance costs	1,550	—	—	—	—	1,550
Balance as of September 30, 2016	729,522	300,000	(213)	146,340	(60,855)	1,114,794

See accompanying notes.

Consolidated Statements of Cash Flows
for the three and nine months ended September 30, 2017 and 2016
(unaudited - US$ thousands)

		Third quarter		First nine months	
	Notes	**2017**	2016	**2017**	2016
Operating activities					
Net earnings (loss)		**(53,154)**	66,400	**364,444**	105,401
Items not affecting cash and cash equivalents:					
Net bond premium (discount) amortization		**154**	20	**164**	(85)
Deferred income taxes	10	**(1,190)**	525	**—**	1,550
Amortization of share-based payment awards		**16**	26	**107**	106
Net realized gains on investments	6	**—**	(690)	**(1,195)**	(2,051)
Net change in unrealized (gains) losses on investments	6	**(4,423)** [1]	(70,537)	**(552,706)** [1]	(100,230)
Net foreign exchange losses	6	**6,200**	1,134	**23,214**	7,107
Net sales (purchases) of short term investments classified as FVTPL		**—**	(1,209)	**27,011**	22,590
Purchases of bonds and common stocks classified as FVTPL	14	**(296,599)** [1]	(131,804)	**(812,484)** [1]	(423,639)
Sales of bonds and common stocks classified as FVTPL	14	**—**	25,793	**78,458**	333,591
Decrease in restricted cash in support of investments		**—**	—	**—**	6,457
Changes in operating assets and liabilities:					
Interest receivable		**(6,471)**	(3,516)	**(2,099)**	20,664
Income taxes refundable		**5,650**	2,630	**4,610**	(17,301)
Payable to related parties		**(25,746)**	1,534	**86,726**	2,334
Other		**(4,235)**	2,013	**9,464**	8,389
Cash used in operating activities		**(379,798)**	(107,681)	**(774,286)**	(35,117)
Investing activities					
Purchases of premises and equipment		**—**	(128)	**—**	(128)
Cash used in investing activities		**—**	(128)	**—**	(128)
Financing activities					
Term loans:	7				
Proceeds		**400,000**	225,000	**400,000**	225,000
Issuance costs		**(3,022)**	(2,752)	**(3,022)**	(2,752)
Repayment of 2 year term loan		**—**	—	**(225,000)**	—
Net decrease (increase) in restricted cash in support of term loans		**(15,424)**	(21,219)	**3,386**	(21,219)
Subordinate voting shares:	8				
Issuances		**—**	—	**500,004**	—
Issuance costs		**—**	—	**(6,500)**	—
Cash provided by financing activities		**381,554**	201,029	**668,868**	201,029
Increase (decrease) in cash and cash equivalents		**1,756**	93,220	**(105,418)**	165,784
Cash and cash equivalents - beginning of period		**31,280**	76,736	**146,960**	12,464
Foreign currency translation		**5,741**	(956)	**(2,765)**	(9,248)
Cash and cash equivalents - end of period		**38,777**	169,000	**38,777**	169,000

(1) Excludes $74,202 cash consideration paid attributable to the costs incurred to purchase the additional 10.0% equity interest in Bangalore International Airport Limited (see note 5).

See accompanying notes.

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1. Business Operations

Fairfax India Holdings Corporation (“the company” or “Fairfax India”) is an investment holding company whose objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equity securities 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 include FIH Mauritius Investments Ltd (“FIH Mauritius”) and FIH Private Investments Ltd (“FIH Private”).

Fairfax Financial Holdings Limited ("Fairfax") had 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 is a Canadian reporting issuer with securities listed on the TSX and trading in Canadian dollars under the symbol FFH for over 30 years and in U.S. dollars under the symbol FFH.U. Fairfax, through its subsidiaries, owns 30,000,000 multiple voting shares of Fairfax India. During the first quarter of 2017, Fairfax acquired 13,717,873 subordinate voting shares from the company by way of a private placement (see note 8) and open market transactions. At September 30, 2017 Fairfax's holdings of multiple and subordinate voting shares represented 93.6% of the voting rights and 30.2% of the equity interest in Fairfax India (December 31, 2016 - 95.3% and 29.4%, 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 was federally incorporated on November 25, 2014 and is domiciled in Ontario, Canada. The principal office of the company, Fairfax and the Portfolio Advisor is located at 95 Wellington Street West, Suite 800, Toronto, Ontario M5J 2N7.

2. Basis of Presentation

These interim consolidated financial statements of the company for the three and nine months ended September 30, 2017 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 the 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, 2016, 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 2, 2017.

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, 2016, 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 2017

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

Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
In January 2016 the IASB issued amendments to IAS 12 *Income Taxes* to clarify the requirements on recognition of deferred tax assets for unrealised losses.

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

New accounting pronouncement issued but not yet effective

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments ("IFRIC 23")
In June 2017 the IASB issued IFRIC 23 to clarify how the requirements of IAS 12 *Income Taxes* should be applied when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, with modified retrospective or retrospective application. The company is currently evaluating the impact of IFRIC 23 on its consolidated financial statements and does not expect to adopt IFRIC 23 in advance of its effective date.

4. Critical Accounting Estimates and Judgments

In the preparation of the company's interim consolidated financial statements, management has made a number of critical accounting estimates and judgments that are disclosed in notes 5, 6 and 10 in a manner consistent with those as described in the company's annual consolidated financial statements for the year ended December 31, 2016.

5. Indian Investments

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments, whose shares are listed on both the Bombay Stock Exchange of India ("BSE of India") and the National Stock Exchange of India ("NSE of India"), are determined using the bid prices of those investments (without adjustments or discounts) at the balance sheet date.

Investment in IIFL Holdings Limited

On December 1, 2015 Fairfax India, through a wholly-owned subsidiary, acquired 68,788,445 common shares of IIFL Holdings Limited ("IIFL") (representing a 21.9% equity interest) for $2.93 per share (195 Indian rupees per share) for cash consideration of $201,559 (approximately 13.4 billion Indian rupees).

Prior to the establishment of Fairfax India, Fairfax, through its subsidiaries, had acquired an 8.9% equity interest and an additional 5.2% economic interest in IIFL through derivative financial instruments.

On February 8, 2017 Fairfax India, through a wholly-owned subsidiary, acquired an additional 15,853,000 common shares of IIFL (representing a 4.99% equity interest) for cash consideration of $75,175 (approximately 5.1 billion Indian rupees). In connection with the Fairfax India transaction, Fairfax, through its subsidiaries, partially disposed of the derivative financial instruments representing an economic interest of 4.99% in IIFL. In accordance with regulations of the Securities and Exchange Board of India ("SEBI") and the NSE of India, the transaction was subject to certain sale and purchase pricing guidelines and, as a result, the total consideration paid per share approximated fair market value of the equity interest acquired. At September 30, 2017 the company held an aggregate of 84,641,445 common shares of IIFL representing a 26.6% equity interest (December 31, 2016 - 21.7%).

At September 30, 2017 the fair value of the company's investment in IIFL was $787,197 (December 31, 2016 - $265,951). The changes in fair value of the company's investment in IIFL for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed later in note 5.

IIFL is a publicly traded, diversified financial services holding company located in Mumbai, India with principal lines of business in wealth management, capital markets and other activities (comprised of retail broking, institutional equities, investment banking and financial products distribution) and a non-banking finance company.

Investment in Fairchem Speciality Limited

On February 8, 2016 Fairfax India, through its wholly-owned subsidiaries, acquired a 44.7% equity interest in Fairchem Speciality Limited ("Fairchem", formerly known as Adi Finechem Limited) for $3.13 per share (212 Indian rupees per share) for cash consideration of $19,409 (approximately 1.3 billion Indian rupees).

On August 26, 2016 the company, through a wholly-owned subsidiary, acquired a 50.8% equity interest in Privi Organics Limited ("Privi") for cash consideration of $54,975 (approximately 3.7 billion Indian rupees).

On March 14, 2017 Fairchem and Privi completed their previously announced merger, which is expected to bring significant diversification and synergies to the merged entity which will continue under the Fairchem name with the original management of the underlying companies (the "Merger"). Under the terms of the Merger, Privi shareholders received 27 common shares and 27 compulsorily convertible preference shares ("CCPS") of Fairchem for every 40 Privi shares exchanged. Concurrent with the Merger, 88.5% of the CCPS received by the Privi shareholders were converted into common shares of Fairchem. At September 30, 2017 the company held 738,760 CCPS and 18,307,318 common shares representing a 48.8% equity interest in Fairchem on a fully diluted basis (or a 48.7% equity interest excluding the impact of the CCPS).

At September 30, 2017 the fair value of the company's investment in the merged entity Fairchem was $112,579, comprised of common shares ($108,213) and CCPS ($4,366) described in the preceding paragraph. The changes in fair value of the company's investment in Fairchem for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed later in note 5.

At December 31, 2016 the fair value of the company's investment in Fairchem based on the bid price was $45,488. At December 31, 2016 the fair value of the company's investment in Privi based on the initial transaction price was $54,315. Privi's initial transaction price was considered to approximate fair value at December 31, 2016 as there had been no significant changes to its business, capital structure or operating environment and there were no significant changes to any key assumptions in the company's acquisition valuation model for Privi due to the close proximity of the date the transaction closed to the balance sheet date, December 31, 2016. As the Merger still required regulatory approval at December 31, 2016 there were no unrealized gains (losses) on investments recorded in the consolidated statements of earnings for 2016. Upon completion of the Merger on March 14, 2017 the fair value of the company's investment in the merged entity Fairchem (comprised of Fairchem and Privi) was determined by applying the bid share price of Fairchem to the number of shares owned in Fairchem (inclusive of the common shares and CCPS received in the Merger).

Fairchem is a specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products.

Privi is a supplier of aroma chemicals to the fragrance industry and is located in Mumbai, India.

Private Indian Investments

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

Investment in Bangalore International Airport Limited

On March 24, 2017 the company, through a wholly-owned subsidiary, acquired a 38.0% equity interest in Bangalore International Airport Limited ("BIAL") for cash consideration of $385,498 (approximately 25.2 billion Indian rupees). Of the 38.0% equity interest acquired, 33.0% was purchased from a wholly-owned subsidiary of GVK Power and Infrastructure Limited ("GVK") and 5.0% was purchased from Flughafen Zürich AG ("Zürich"). In connection with the 33.0% equity interest purchased from GVK, Fairfax, through a wholly-owned subsidiary, issued a put option to GVK expiring April 8, 2019 (the "Put Option") that, if exercised, enabled GVK to sell up to its remaining 10.0% equity interest in BIAL.

On July 13, 2017 the company, through a wholly-owned subsidiary, acquired an additional 10.0% equity interest in BIAL from GVK for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred to (i) motivate GVK to sell its remaining 10.0% equity interest in BIAL, (ii) increase the company's holdings in BIAL to enhance the company's investment returns, and (iii) accelerate the development of a second runway and terminal, and make improvements to the existing runway. The costs incurred of $74,202 (approximately 4.8 billion Indian rupees) were recorded in net change in unrealized gains (losses) on investments and other costs in the interim consolidated financial statements for the three and nine months ended September 30, 2017. The Put Option was terminated upon the company's acquisition of the additional 10.0% equity interest in BIAL from GVK.

Upon completion of the additional 10.0% investment in BIAL on July 13, 2017, the company had invested aggregate cash consideration of $585,591 (inclusive of the $74,202 of costs incurred) for a 48.0% equity interest in BIAL.

During the second quarter of 2017 the company refined its internal valuation model used in the determination of the fair value of BIAL. At September 30, 2017 the company estimated the fair value of BIAL using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 9.9% to 12.8% and a long term growth rate of 3.0%. Free cash flow projections were based on EBITDA estimates derived from financial information for BIAL's business units prepared in the second quarter of 2017 by BIAL's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which BIAL operates. At September 30, 2017 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $592,390. The changes in fair value of the company's investment in BIAL for the three and nine months ended September 30, 2017 are presented in the tables disclosed later in note 5.

BIAL, a private company located in Bengaluru, India, owns and operates the Kempegowda International Airport Bengaluru ("KIAB"), under a concession agreement with the Government of India for a period of 30 years ending in the year 2038 (and the right to renew the agreement for an additional 30 years). KIAB is the first greenfield airport in India built by the private sector through a public-private partnership.

Investment in National Collateral Management Services Limited

In the third quarter of 2015 the company, through a wholly-owned subsidiary, acquired an 88.1% equity interest in National Collateral Management Services Limited ("NCML") for cash consideration of $148,716 (approximately 9.7 billion Indian rupees).

On February 3, 2017 NCML entered into a 30 year concession agreement with the Food Corporation of India to build 11 silo locations. The silo project, which is expected to be completed by early 2019, will be financed through debt and common equity by way of a rights issue.

On May 11, 2017 NCML's board of directors approved a rights issue of up to 21,511,628 common shares at 86.00 Indian rupees per share. The rights issue closed on August 8, 2017 and NCML issued 19,071,602 common shares to the participating shareholders. Upon closing of the rights issue, 37.5% of the rights issue became payable, with the remaining 62.5% expected to be called in early 2018. Fairfax India participated in the rights issue on a pro-rata basis where the company acquired 18,945,840 common shares of NCML at 86.00 Indian rupees per share for total consideration of $25,602 (approximately 1.63 billion Indian rupees) comprised of cash consideration of $9,601 (approximately 611 million Indian rupees) settled upon closing and 62.5% representing $16,001 at the exchange rate on the transaction date (approximately 1.02 billion Indian rupees) recorded in payable for rights issue on the balance sheet at September 30, 2017, that is expected to be called for settlement in early 2018. The rights issue will supplement NCML's funding requirements for its silo project. At September 30, 2017 the company held an aggregate of 131,941,286 common shares of NCML representing an 89.5% equity interest (December 31, 2016 - 88.1%).

At September 30, 2017 the company estimated fair value using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 10.7% to 21.3% and long term growth rates ranging from 4.0% to 6.0% (December 31, 2016 - 11.9% to 15.8%, and 6.0%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the first quarter of 2017 by NCML's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. At September 30, 2017 the company's internal valuation model indicated that the fair value of the company's investment in NCML was $183,640 (December 31, 2016 - $146,586). The changes in fair value of the company's investment in NCML for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed later in note 5.

NCML is a private agricultural commodities storage company headquartered in Gurugram, India that operates in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management. In 2016 NCML launched its wholly-owned subsidiary, NCML Finance Pvt. Ltd, which focuses on rural and agri-business finance.

Investment in Sanmar Chemicals Group

On April 28, 2016 the company, through its wholly-owned subsidiaries, invested $250,000 in Sanmar comprised of $1,000 in common shares (representing a 30.0% equity interest) and $249,000 in bonds. On September 26, 2016 Fairfax India invested an additional $50,000 in Sanmar bonds. Both tranches of Sanmar bonds mature 7 years from the date of issuance of the first tranche, maturing April 22, 2023, subject to earlier redemption by Sanmar under 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. A redemption premium may also be payable in kind to the company.

Sanmar, a private company, is one of the largest suspension polyvinyl chloride ("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.

Sanmar Common Shares

At September 30, 2017 the company's estimated fair value of its investment in Sanmar common shares was based on an internal valuation model which consisted of a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 14.8% to 21.0% and long term growth rates ranging from 2.0% to 3.6% (December 31, 2016 - 15.5% to 22.5% and 2.0% to 3.6%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for Sanmar's three main business units prepared in the first quarter of 2017 by Sanmar's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Sanmar operates. At September 30, 2017 the company's internal valuation model indicated that the fair value of the common shares was $826 (December 31, 2016 - $440). The changes in fair value of the company's investment in Sanmar common shares for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed later in note 5.

Sanmar Bonds

At September 30, 2017 the company estimated the fair value of its investment in Sanmar bonds using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's estimated credit spread of 8.1% (December 31, 2016 - 7.1%) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Sanmar. At September 30, 2017 the company's internal valuation model indicated that the fair value of the Sanmar bonds was $322,505 (December 31, 2016 - $299,093). The changes in fair value of the company's investment in Sanmar bonds for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed later in note 5.

Investment in Saurashtra Freight Private Limited

On February 14, 2017 the company, through a wholly-owned subsidiary, acquired a 51.0% equity interest in Saurashtra Freight Private Limited ("Saurashtra") for cash consideration of $30,018 (approximately 2.0 billion Indian rupees).

During the third quarter of 2017 the company refined its internal valuation model used in the determination of the fair value of Saurashtra to reflect two new business units that were formed by Saurashtra during the quarter. At September 30, 2017 the company estimated fair value using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 15.0% to 16.9% and long term growth rates ranging from 2.0% to 3.0%. Free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra’s main business unit prepared in the second quarter of 2017 and from financial information for Saurashtra's new business units prepared in the third quarter of 2017 by Saurashtra’s management. The discount rates were based on the company’s assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Saurashtra operates. At September 30, 2017 the company’s internal valuation model indicated that the fair value of the company's investment in Saurashtra was $33,905. The changes in fair value of the company's investment in Saurashtra for the three and nine months ended September 30, 2017 are presented in the tables disclosed later in note 5.

Saurashtra, a private company, runs one of the largest container freight stations at Mundra port (Gujarat), the second largest and fastest growing port in India. Services provided by Saurashtra's container freight station includes transportation of containers to and from the port, stuffing/destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. During the third quarter of 2017 Saurashtra commenced operations of two new business units which will focus on new services for container shipping, offering integrated logistic solutions to its customers. Saurashtra's new services provide niche shipping line voyages between India and select countries in the Gulf region, and provide their own containers to importers and exporters to move cargo.

Investment in National Stock Exchange of India Limited

In the third quarter of 2016 the company, through a wholly-owned subsidiary, acquired a 1.0% equity interest in the National Stock Exchange of India Limited ("NSE") for cash consideration of $26,783 (approximately 1.8 billion Indian rupees).

During the first quarter of 2017 the company refined its internal valuation model used in the determination of the fair value of NSE. At September 30, 2017 the fair value of the company's investment in NSE, based on an internal market approach valuation model by reference to the earnings multiple of a peer group of comparable companies with a median of 23.6 times, was $39,736 (December 31, 2016 - $26,504). The changes in fair value of the company's investment in NSE for the three and nine months ended September 30, 2017 and 2016 are presented in the tables that follow.

NSE, a private company, is India’s largest stock exchange located in Mumbai, India. In addition to providing a platform for 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.

Summary of Changes in Fair Value of Indian Investments

A summary of changes in the fair value of the company’s Public and Private Indian Investments for the three months ended September 30, 2017 and 2016 were as follows:

	Third quarter											
	Public Indian Investments			Private Indian Investments								
	Common stocks			Bonds	Common stocks							
	IIFL	Fairchem	Total	Sanmar	BIAL	NCML	Saurashtra	NSE	Sanmar	Privi	Total	Total Indian Investments
Balance as of June 30, 2017	**792,890**	**138,490**	**931,380**	**319,103**	**467,940**	**156,233**	**31,127**	**35,796**	**219**	**—**	**1,010,418**	**1,941,798**
Purchases	**—**	**—**	**—**	**—**	**200,093** [1]	**25,602**	**—**	**—**	**—**	**—**	**225,695**	**225,695**
Net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings	**5,682**	**(24,267)**	**(18,585)**	**6,783**	**(67,717)** [1]	**4,119**	**3,109**	**4,378**	**609**	**—**	**(48,719)**	**(67,304)**
Net unrealized foreign currency translation losses included in the consolidated statements of comprehensive income	**(11,375)**	**(1,644)**	**(13,019)**	**(3,381)**	**(7,926)**	**(2,314)**	**(331)**	**(438)**	**(2)**	**—**	**(14,392)**	**(27,411)**
Balance as of September 30, 2017	**787,197**	**112,579**	**899,776**	**322,505**	**592,390**	**183,640**	**33,905**	**39,736**	**826**	**—**	**1,173,002**	**2,072,778**
Balance as of June 30, 2016	226,560	31,727	258,287	245,773	—	143,540	—	—	985	—	390,298	648,585
Purchases	—	—	—	50,000	—	—	—	26,783	—	54,975	131,758	131,758
Net change in unrealized gains on investments included in the consolidated statements of earnings	48,901	7,421	56,322	1,889	—	1,963	—	—	—	—	3,852	60,174
Net unrealized foreign currency translation gains included in the consolidated statements of comprehensive income	3,495	481	3,976	3,581	—	1,988	—	234	14	392	6,209	10,185
Balance as of September 30, 2016	278,956	39,629	318,585	301,243	—	147,491	—	27,017	999	55,367	532,117	850,702

(1) On July 13, 2017 the company completed an additional 10.0% equity investment in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the estimated fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred and has been included in the table above in purchases and was recorded in net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the nine months ended September 30, 2017 and 2016 were as follows:

	First nine months											
	Public Indian Investments			Private Indian Investments								
	Common stocks			Bonds	Common stocks							
	IIFL	Fairchem	Total	Sanmar	BIAL	NCML	Saurashtra	NSE	Sanmar	Privi	Total	Total Indian Investments
Balance as of January 1, 2017	**265,951**	**45,488**	**311,439**	**299,093**	**—**	**146,586**	**—**	**26,504**	**440**	**54,315**	**526,938**	**838,377**
Purchases	**75,175**	**—**	**75,175**	**—**	**585,591** (1)	**25,602**	**30,018**	**—**	**—**	**—**	**641,211**	**716,386**
Transfer due to Merger (2)	**—**	**54,315**	**54,315**	**—**	**—**	**—**	**—**	**—**		**(54,315)**	**(54,315)**	**—**
Net change in unrealized gains on investments and other costs included in the consolidated statements of earnings	**434,292**	**8,896**	**443,188**	**11,756**	**8,879** (1)	**6,398**	**3,139**	**12,218**	**370**	**—**	**42,760**	**485,948**
Net unrealized foreign currency translation gains (losses) included in the consolidated statements of comprehensive income	**11,779**	**3,880**	**15,659**	**11,656**	**(2,080)**	**5,054**	**748**	**1,014**	**16**	**—**	**16,408**	**32,067**
Balance as of September 30, 2017	**787,197**	**112,579**	**899,776**	**322,505**	**592,390**	**183,640**	**33,905**	**39,736**	**826**	**—**	**1,173,002**	**2,072,778**
Balance as of January 1, 2016	220,747	—	220,747	—	—	146,445	—	—	—	—	146,445	367,192
Purchases	—	19,409	19,409	299,000	—	—	—	26,783	1,000	54,975	381,758	401,167
Net change in unrealized gains on investments included in the consolidated statements of earnings	59,139	19,737	78,876	3,297	—	1,963	—	—	—	—	5,260	84,136
Net unrealized foreign currency translation gains (losses) included in the consolidated statements of comprehensive income	(930)	483	(447)	(1,054)	—	(917)	—	234	(1)	392	(1,346)	(1,793)
Balance as of September 30, 2016	278,956	39,629	318,585	301,243	—	147,491	—	27,017	999	55,367	532,117	850,702

(1) On July 13, 2017 the company completed an additional 10.0% equity investment in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the estimated fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred and has been included in the table above in purchases and was recorded in net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings.

(2) As a result of the merger of Fairchem and Privi, the investment in Privi was transferred out of Private Indian Investments and aggregated with the Public Indian Investment in Fairchem.

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, 2017					December 31, 2016				
	Quoted prices (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total fair value of assets**	**Total fair value of assets in Indian rupees (in millions)**	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 millions)
Cash and cash equivalents	**38,777**	**—**	**—**	**38,777**	**2,533**	146,960	—	—	146,960	9,974
Restricted cash[(1)]	**15,424**	**—**	**—**	**15,424**	**1,007**	18,810	—	—	18,810	1,277
	54,201	**—**	**—**	**54,201**	**3,540**	165,770	—	—	165,770	11,251
Short term investments - U.S. treasury bills	**—**	**—**	**—**	**—**	**—**	27,428	—	—	27,428	1,861
Bonds:										
Government of India[(2)]	**—**	**261,344**	**—**	**261,344**	**17,071**	—	130,317	—	130,317	8,845
Indian corporate[(2)]	**—**	**102,226**	**—**	**102,226**	**6,677**	—	99,447	—	99,447	6,750
Sanmar	**—**	**—**	**322,505**	**322,505**	**21,066**	—	—	299,093	299,093	20,299
	—	**363,570**	**322,505**	**686,075**	**44,814**	—	229,764	299,093	528,857	35,894
Common stocks:										
IIFL	**787,197**	**—**	**—**	**787,197**	**51,420**	265,951	—	—	265,951	18,050
BIAL	**—**	**—**	**592,390**	**592,390**	**38,695**	—	—	—	—	—
NCML	**—**	**—**	**183,640**	**183,640**	**11,995**	—	—	146,586	146,586	9,949
Fairchem [(3)]	**112,579**	**—**	**—**	**112,579**	**7,354**	45,488	—	—	45,488	3,087
Saurashtra	**—**	**—**	**33,905**	**33,905**	**2,215**	—	—	—	—	—
NSE	**—**	**—**	**39,736**	**39,736**	**2,596**	—	—	26,504	26,504	1,799
Sanmar	**—**	**—**	**826**	**826**	**54**	—	—	440	440	30
Privi	**—**	**—**	**—**	**—**	**—**	—	—	54,315	54,315	3,686
	899,776	**—**	**850,497**	**1,750,273**	**114,329**	311,439	—	227,845	539,284	36,601
Total cash and investments	**953,977**	**363,570**	**1,173,002**	**2,490,549**	**162,683**	504,637	229,764	526,938	1,261,339	85,607
	38.3%	**14.6%**	**47.1%**	**100.0%**	**100.0%**	40.0%	18.2%	41.8%	100.0%	100.0%

(1) Comprised of funds set aside as restricted cash to fund term loan interest payments.

(2) Priced based on information provided by independent pricing service providers at September 30, 2017 and December 31, 2016. There were no changes in valuation techniques for these securities during the nine months ended September 30, 2017.

(3) Includes the fair value of 738,760 CCPS that were priced based on the bid of Fairchem's share price at September 30, 2017.

Transfers between fair value hierarchy levels are considered effective from the beginning of the reporting period in which the transfer is identified. During the nine months ended September 30, 2017 and 2016 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. As a result of the merger of Fairchem and Privi, described in note 5, the investment in Privi was transferred out of Level 3 and aggregated with the Level 1 investment in Fairchem.

A summary of changes in fair value of the company's Private Indian Investments (classified as Level 3) denominated in the company's functional currency of the Indian rupee for the nine months ended September 30, 2017 and 2016 was as follows:

Indian rupees (in millions)	**Bonds**	**Common stocks**						
	Sanmar	**BIAL**	**NCML**	**Saurashtra**	**NSE**	**Sanmar**	**Privi**	**Total**
Balance as of January 1, 2017	**20,299**	**—**	**9,949**	**—**	**1,799**	**30**	**3,686**	**35,763**
Purchases	**—**	**38,116** (1)	**1,629**	**2,010**	**—**	**—**	**—**	**41,755**
Transfer out of category due to Merger	**—**	**—**	**—**	**—**	**—**	**—**	**(3,686)**	**(3,686)**
Net change in unrealized gains on investments and other costs included in the consolidated statements of earnings	**767**	**579** (1)	**417**	**205**	**797**	**24**	**—**	**2,789**
Balance as of September 30, 2017	**21,066**	**38,695**	**11,995**	**2,215**	**2,596**	**54**	**—**	**76,621**
Balance as of January 1, 2016	—	—	9,688	—	—	—	—	9,688
Purchases	19,836	—	—	—	1,799	66	3,686	25,387
Net change in unrealized gains on investments included in the consolidated statements of earnings	221	—	132	—	—	—	—	353
Balance as of September 30, 2016	20,057	—	9,820	—	1,799	66	3,686	35,428

(1) On July 13, 2017 the company completed an additional 10.0% equity investment in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the estimated fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred and has been included in the table above in purchases and was recorded in net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings.

The change in fair value of the company's Private Indian Investments (classified as Level 3) in the company's presentation currency of U.S. dollars is disclosed in note 5.

The table that follows illustrates the potential impact on net earnings of various combinations of changes in unobservable inputs in the company's internal valuation models for its Private Indian Investments classified as Level 3 at September 30, 2017. The analysis assumes variations within a reasonably possible range determined by the company based on an analysis of the return on various equity indexes, management's knowledge of the Indian equity markets and the potential impact of changes in interest rates.

Investments	**Fair Value of Investment**	**Valuation Technique**	**Significant unobservable Inputs**	**Significant unobservable inputs used in the internal valuation models**	**Hypothetical $ change effect on fair value measurement** (1)	**Hypothetical $ change effect on net earnings** (1)
Bonds: Sanmar	$322,505	Discounted cash flow	Credit spread	8.1%	17,337 / (16,392)	12,743 / (12,048)
Common Stocks:						
BIAL	$592,390	Discounted cash flow	After-tax discount rate	9.9% to 12.8%	96,838 / (83,861)	84,007 / (72,749)
			Long term growth rate	3.0%	11,941 / (11,114)	10,359 / (9,641)
NCML	$183,640	Discounted cash flow	After-tax discount rate	10.7% to 21.3%	35,448 / (31,586)	30,751 / (27,401)
			Long term growth rate	4.0% to 6.0%	11,388 / (12,841)	9,879 / (11,140)
Saurashtra	$33,905	Discounted cash flow	After-tax discount rate	15.0% to 16.9%	1,795 / (1,320)	1,557 / (1,145)
			Long term growth rate	2.0% to 3.0%	695 / (333)	603 / (289)
NSE	$39,736	Market approach	Price to earnings ratio	23.6 times	5,961 / (5,960)	4,381 / (4,381)
Sanmar	$826	Discounted cash flow	After-tax discount rate	14.8% to 21.0%	14,781 / (826)	12,823 / (717)
			Long term growth rate	2.0% to 3.6%	4,897 / (826)	4,248 / (717)

(1) The impact on the internal valuation models from changes in significant unobservable inputs deemed to be subject to the most judgment and estimates disclosed in the table above shows the hypothetical increase (decrease) in net earnings. Changes in the after-tax discount rates (50 basis points), long term growth rates (25 basis points), price to earnings ratio (15.0%), and credit spreads (100 basis points), each in isolation, would hypothetically change the fair value of the company's investments as noted in the table above. Generally, an increase (decrease) in long term growth rates or price to earnings ratio, or a decrease (increase) in after-tax discount rates or credit spreads, would result in a higher (lower) fair value of the company's Indian Investments.

Fixed Income Maturity Profile

Bonds are summarized by their earliest contractual maturity date in the table that follows. Actual maturities may differ from maturities shown below due to the existence of call and put features. At September 30, 2017 and December 31, 2016, there were no bonds containing call or put features.

	September 30, 2017		December 31, 2016	
	Amortized cost	**Fair value**	Amortized cost	Fair value
Due after 5 years through 10 years	**633,552**	**658,924**	474,334	490,706
Due after 10 years	**27,870**	**27,151**	35,919	38,151
	661,422	**686,075**	510,253	528,857

Investment Income

An analysis of investment income for the three and nine months ended September 30 is summarized in the tables that follow:

Interest and dividends

	Third quarter		**First nine months**	
	2017	2016	**2017**	2016
Interest:				
Cash and cash equivalents	**122**	20	**345**	87
Short term investments	**—**	44	**74**	96
Bonds	**5,939**	4,443	**14,641**	16,604
	6,061	4,507	**15,060**	16,787
Dividends: Common stocks	**3,463**	746	**8,088**	5,077

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

	Third quarter					
	2017			2016		
	Net realized losses	**Net change in unrealized gains (losses) and other costs**	**Net gains (losses)**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	**—**	**—**	**—**	(19)	—	(19)
Bonds	**—**	**4,308**	**4,308**	(19)	10,517	10,498
Common stocks	**—**	**(74,087)** (1)	**(74,087)**	21	58,285 (1)	58,306
Common stocks - Investment funds	**—**	**—**	**—**	707	1,735	2,442
	—	**(69,779)**	**(69,779)**	690	70,537	71,227
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**(485)**	**—**	**(485)**	(1,616)	—	(1,616)
Investments	**—**	**(49)**	**(49)**	1,600	(2,658)	(1,058)
Term loans	**—**	**(4,677)**	**(4,677)**	—	1,309	1,309
Other	**(989)**	**—**	**(989)**	231	—	231
	(1,474)	**(4,726)**	**(6,200)**	215	(1,349)	(1,134)

(1) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments for the three and nine months ended September 30, 2017 and 2016.

	First nine months					
	2017			2016		
	Net realized gains (losses)	**Net change in unrealized gains (losses) and other costs**	**Net gains (losses)**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	—	—	—	(17)	—	(17)
Bonds	**1,195**	**4,312** (1)	**5,507**	(3,327)	16,616 (1)	13,289
Common stocks	—	**474,192**	**474,192**	4,688	80,839	85,527
Common stocks - Investment funds	—	—	—	707	2,775	3,482
	1,195	**478,504**	**479,699**	2,051	100,230	102,281
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**(26,684)** (2)	—	**(26,684)**	(9,063)	—	(9,063)
Investments	**(1,046)**	**(176)**	**(1,222)**	2,499	(2,083)	416
Term loans	**9,812**	**(4,677)**	**5,135**	—	1,309	1,309
Other	**(443)**	—	**(443)**	231	—	231
	(18,361)	**(4,853)**	**(23,214)**	(6,333)	(774)	(7,107)

(1) Refer to note 5 for a summary of changes in the fair value of the company's Public and Private Indian Investments for the three and nine months ended September 30, 2017 and 2016.

(2) Primarily related to the U.S. dollar net proceeds received from the Offerings (see note 8) that were held in U.S. dollar denominated cash equivalents until the funds were partially deployed to acquire the 38.0% equity interest in BIAL.

7. Term Loans

	September 30, 2017			December 31, 2016		
	Principal	**Carrying value**	**Fair value**(1)	Principal	Carrying value(2)	Fair value(1)
Secured Term Loans:						
1 Year Term Loan, floating rate due July 11, 2018	**400,000**	**400,000**	**400,000**	—	—	—
2 Year Term Loan, floating rate due September 17, 2018	—	—	—	225,000	223,772	223,772
	400,000	**400,000**	**400,000**	225,000	223,772	223,772

(1) Carrying value approximated fair value at September 30, 2017 and December 31, 2016.

(2) Principal net of unamortized issue costs.

On July 11, 2017 the company entered into an agreement with a Canadian bank for a 1 year secured term loan with a principal amount of $400,000 bearing interest at a rate of LIBOR plus 325 to 375 basis points (the "1 year term loan"). On July 13, 2017 the company used a portion of the net proceeds from the 1 year term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue (see note 5).

Under the terms of the 1 year term loan, the company is required to maintain a debt service reserve account to fund the term loan interest payments. The cash held in the debt service reserve account is classified as restricted cash on the consolidated balance sheet. The company is also required to use the term loan proceeds solely for the purposes of funding: (i) investments in Specified Portfolio Companies (comprised of the company's Indian Investments); (ii) investments in cash equivalents, inclusive of permitted investments; (iii) transaction costs, fees and expenses related to such investments; and (iv) the debt service reserve account. The 1 year term loan includes a financial covenant that requires the company to maintain common shareholders' equity of not less than $1.3 billion. At September 30, 2017 the company was in compliance with the 1 year term loan covenants.

On September 16, 2016 the company entered into an agreement with a syndicate of Canadian banks for a 2 year secured term loan with a principal amount of $225,000 bearing interest at a rate of LIBOR plus 350 to 500 basis points (the "2 year term loan"). Under the terms of the 2 year term loan, the company was required to set aside funds as restricted cash to fund the term loan interest payments. The 2 year term loan was repaid on March 31, 2017 pursuant to a mandatory prepayment clause that required the company to repay the $225,000 principal amount from the net proceeds of the Offerings (see note 8).

Interest Expense

Interest expense of $7,598 and $10,839 for the three and nine months ended September 30, 2017 (2016 - $399 in both periods) was comprised of interest expense of $4,576 and $6,589 (2016 - $251 in both periods), issue costs on the 1 year term loan of $3,022 in both periods (2016 - nil in both periods), and the release of unamortized issue costs on the 2 year term loan of nil and $1,228 (2016 - amortization of issue costs of $148 in both periods).

8. Total Equity

Common shareholders' equity

Common stock

The number of shares outstanding was as follows:

	2017	2016
Subordinate voting shares - January 1	**74,881,031**	76,678,879
Issuances of shares	**42,553,500**	—
Subordinate voting shares - September 30	**117,434,531**	76,678,879
Multiple voting shares - beginning and end of period	**30,000,000**	30,000,000
Common shares effectively outstanding - September 30	**147,434,531**	106,678,879

Capital transactions

On January 13, 2017 the company completed an underwritten public offering of 12,766,000 subordinate voting shares at a price of $11.75 per share. Concurrent with the public offering, Fairfax and Ontario Municipal Employees Retirement System ("OMERS") acquired 12,766,000 and 17,021,500 subordinate voting shares, respectively, at a price of $11.75 per subordinate voting share in a private placement (the "Concurrent Private Placement" and, together with the public offering, collectively the "Offerings"), resulting in net proceeds of $493,504, after commissions and expenses of $6,500. Net proceeds from the Offerings were used to acquire additional Indian Investments, for general corporate purposes, and to repay the 2 year term loan (see note 7).

Repurchase of Shares

There were no repurchases of subordinate voting shares for cancellation during the nine months ended September 30, 2017 and 2016.

9. Earnings per Share

Net earnings (loss) per share for the three and nine months ended September 30 are calculated in the following table based on the weighted average shares outstanding:

	Third quarter		First nine months	
	2017	2016	**2017**	2016
Net earnings (loss) – basic and diluted	**(53,154)**	66,400	**364,444**	105,401
Weighted average shares outstanding – basic	**147,434,531**	106,678,879	**145,564,047**	106,678,879
Contingently issuable subordinate voting shares	**—**	—	**4,660,459**	—
Weighted average shares outstanding – diluted	**147,434,531**	106,678,879	**150,224,506**	106,678,879
Net earnings (loss) per share – basic	**$ (0.36)**	$ 0.62	**$ 2.50**	$ 0.99
Net earnings (loss) per share – diluted	**$ (0.36)**	$ 0.62	**$ 2.43**	$ 0.99

At September 30, 2017 there were 4,660,459 contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax. The performance fee is accrued quarterly and paid for the period from January 30, 2015 to December 31, 2017. If a performance fee is payable for the period ending on December 31, 2017, it will be paid in subordinate voting shares of the company unless the market prices per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash. The number of subordinate voting shares to be issued will be calculated based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period in respect of which the performance fee is paid. Refer to note 12 for further details on the contingently issuable subordinate voting shares in the event that a performance fee is determined to be payable.

Contingently issuable subordinate voting shares of 4,660,459 were not included in the calculation of net loss per diluted share for the three months ended September 30, 2017 as inclusion of these shares would be anti-dilutive.

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	
	2017	2016	**2017**	2016
Current income tax:				
Current year expense (recovery)	**(2,907)**	2,647	**(2,159)**	(5,466)
Adjustment to prior years' income taxes	**(14)**	14	**(646)**	1,929
	(2,921)	2,661	**(2,805)**	(3,537)
Deferred income tax:				
Origination and reversal of temporary differences	**(1,190)**	525	**—**	1,549
Adjustments to prior years' deferred income taxes	**—**	—	**—**	1
	(1,190)	525	**—**	1,550
Provision for (recovery of) income taxes	**(4,111)**	3,186	**(2,805)**	(1,987)

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

During the second quarter of 2016, India and Mauritius amended their double income tax treaty. As a result, investments acquired 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 Indian domestic rate on equity investments purchased or sold through Mauritius until March 31, 2019 and at the full Indian domestic 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					
	2017			2016		
	Canada	**Mauritius**	**Total**	Canada	Mauritius	Total
Earnings (loss) before income taxes	**(12,094)**	**(45,171)**	**(57,265)**	(1,708)	71,294	69,586
Provision for (recovery of) income taxes	**(4,148)**	**37**	**(4,111)**	2,470	716	3,186
Net earnings (loss)	**(7,946)**	**(45,208)**	**(53,154)**	(4,178)	70,578	66,400

	First nine months					
	2017			2016		
	Canada	**Mauritius**	**Total**	Canada	Mauritius	Total
Earnings (loss) before income taxes	**(30,464)**	**392,103**	**361,639**	307	103,107	103,414
Provision for (recovery of) income taxes	**(2,866)**	**61**	**(2,805)**	(4,911)	2,924	(1,987)
Net earnings (loss)	**(27,598)**	**392,042**	**364,444**	5,218	100,183	105,401

The decrease in pre-tax profitability in Mauritius in the third quarter of 2017 compared to the third quarter of 2016 primarily reflected decreased net change in unrealized gains on investments and other costs, partially offset by the recovery of performance fees recorded in the third quarter of 2017. The increase in pre-tax profitability in Mauritius in the first nine months of 2017 compared to the first nine months of 2016 primarily reflected increased net change in unrealized gains on investments and other costs, partially offset by increased performance fees and investment and advisory fees. The decrease in pre-tax profitability in Canada in third quarter and first nine months of 2017 compared to third quarter and first nine months of 2016 principally related to interest expense and net unrealized foreign exchange losses on the 1 year term loan, increased investment and advisory fees, and increased performance fees. The decrease in pre-tax profitability in Canada in first nine months of 2017 compared to the first nine months of 2016 also reflected net realized foreign exchange losses (principally on cash equivalents, partially offset by net realized foreign exchange gains on the 2 year term loan).

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 interim consolidated financial statements for the three and nine months ended September 30 are summarized in the following table:

	Third quarter		First nine months	
	2017	2016	**2017**	2016
Canadian statutory income tax rate	**26.5%**	26.5%	**26.5%**	26.5%
Provision for (recovery of) income taxes at the Canadian statutory income tax rate	**(15,176)**	18,441	**95,834**	27,405
Tax rate differential on (income earned) losses incurred outside of Canada	**15,239**	(12,897)	**(123,989)**	(26,401)
Provision (recovery) relating to prior years	**(14)**	14	**(646)**	1,929
Change in unrecorded tax benefit of losses and temporary differences	**(3,915)**	(450)	**20,091**	1,971
Foreign exchange effect	**(245)**	(1,922)	**5,905**	(6,891)
Provision for (recovery of) income taxes	**(4,111)**	3,186	**(2,805)**	(1,987)

The tax rate differential on losses incurred outside of Canada of $15,239 and income earned outside of Canada of $123,989 in the third quarter and first nine months of 2017 (2016 - income earned of $12,897 and $26,401) principally reflected the impact of net investment income (losses) taxed in India and Mauritius at lower rates.

The change in unrecorded tax benefit of losses and temporary differences of $3,915 and $20,091 in the third quarter and first nine months of 2017, principally reflected changes in unrecorded deferred tax assets incurred related to foreign accrual property losses of $17,923 with respect to the company's wholly-owned subsidiaries and deferred tax assets in Canada of $4,003 that were not recorded by the company as the related pre-tax losses did not meet the recognition criteria under IFRS. 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 were primarily comprised of unrecorded deferred tax assets incurred related to foreign accrual property losses with respect to the company's wholly-owned subsidiaries. At September 30, 2017 deferred tax assets in Canada of $30,270 (December 31, 2016 - $8,420) 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 $245 and $5,905 in the third quarter and first nine months of 2017 (2016 - $1,922 and $6,891), 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.

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, 2017 compared to those identified at December 31, 2016, and disclosed in the company's annual consolidated financial statements for the year ended December 31, 2016, 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 future cash flows of a financial instrument or another asset or liability will fluctuate because of changes in exchange rates and as a result, could produce an adverse effect on net earnings and common shareholders' equity when measured in Indian rupees, the company's functional currency. The company’s net earnings and common shareholders' equity may also be significantly affected by foreign currency translation movements as the majority of its net 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 primarily comprised as follows:

	September 30, 2017				December 31, 2016					
	Cash and cash equivalents	**1 Year Term loan**	**Payable to related parties**	**Net exposure**	Cash and cash equivalents	Investments	Receivable from sale of investment funds	2 Year Term loan	Payable to related parties	Net exposure
U.S. dollars	**45,504** (1)	**(400,000)**	**(90,276)**	**(444,772)**	165,051 (1)	27,428	26,525	(223,772)	(3,659)	(8,427)
All other currencies	**8,697**	**—**	**(118)**	**8,579**	716	—	—	—	(14)	702
Total	**54,201**	**(400,000)**	**(90,394)**	**(436,193)**	165,767	27,428	26,525	(223,772)	(3,673)	(7,725)

(1) At September 30, 2017 cash and cash equivalents included restricted cash of $15,424 to fund the 1 year term loan interest payments (December 31, 2016 - restricted cash of $18,810 to fund the 2 year term loan interest payments).

The table above shows the company's net exposure to the U.S. dollar and all other currencies, other than the Indian rupee. If the Indian rupee appreciated by 5.0% against the U.S. dollar and all other currencies, the effect on pre-tax earnings and net earnings would be a hypothetical increase of $21,810 and $16,030 (December 31, 2016 - $386 and $284). Certain shortcomings are inherent in the method of analysis presented, including the assumption that the 5.0% appreciation of the Indian rupee occurred with all other variables held constant.

The company's net liability exposure to the U.S. dollar increased at September 30, 2017 compared to December 31, 2016 primarily as a result of the 1 year term loan completed on July 11, 2017 (see note 7) and the performance fee accrual, partially offset by the impact of the repayment of the 2 year term loan on March 31, 2017 (see note 7).

Interest Rate Risk

Interest rate risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate movements in India may affect the company's common shareholders' equity 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, 2017 compared to December 31, 2016.

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.

	September 30, 2017			December 31, 2016		
	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	**615,828**	**(51,632)**	**(10.2)%**	468,666	(44,238)	(11.4)%
100 basis point rise	**650,163**	**(26,396)**	**(5.2)%**	498,029	(22,656)	(5.8)%
No change	**686,075**	**—**	**—**	528,857	—	—
100 basis point decline	**726,154**	**29,458**	**5.8 %**	563,826	25,705	6.6 %
200 basis point decline	**768,224**	**60,379**	**12.0 %**	592,543	46,812	12.0 %

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, 2017 compared to December 31, 2016 are described below.

The company's exposure to market price risk increased during the first nine months of 2017 as a result of the investments in BIAL and Saurashtra (Level 3 investments), and the additional investments in IIFL (Level 1 investment) and NCML (Level 3 investment). Refer to note 6 for the potential impact on net earnings of various combinations of changes in significant unobservable inputs in the company's internal valuation models for the company's investments classified as Level 3.

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

	September 30, 2017		December 31, 2016	
Change in fair value of the company's Level 1 equity investments	**+10.0%**	**-10.0%**	+10.0%	-10.0%
Level 1 equity investments	**899,776**	**899,776**	311,439	311,439
Pre-tax impact on earnings (loss)	**89,978**	**(89,978)**	31,144	(31,144)
Impact on net earnings (loss)	**78,056**	**(78,056)**	27,017	(27,017)

Credit Risk

Credit risk is the risk of loss resulting from the failure of a counterparty to honour its financial obligations to the company and arises predominantly with respect to cash and cash equivalents, short term investments and investments in debt instruments. At September 30, 2017 the company's cash and cash equivalents of $38,777 (December 31, 2016 - $146,960) were primarily held at the holding company in major financial institutions (principally in high credit-quality Canadian financial institutions) and in U.S. treasury bills. 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, 2017 compared to December 31, 2016.

At September 30, 2017 the company had income taxes refundable of $3,010 (December 31, 2016 - $7,326).

At December 31, 2016, the company's short term investments in U.S. treasury bills of $27,428 were rated Aaa by Moody's Investors Service, Inc. ("Moody's") and AA+ by Standard & Poor's Financial Services LLC ("S&P").

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

	September 30, 2017		December 31, 2016	
	Fair value	**Rating**	Fair value	Rating
Government of India bonds[(1)]	**261,344**	**Baa3/BBB-**	130,317	Baa3/BBB-
Indian corporate bonds[(2)]	**102,226**	**AAA**	99,447	AAA
Sanmar bonds[(3)]	**322,505**	**BBB-**	299,093	BBB-
Total bonds	**686,075**		528,857	

(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, S&P, Fitch Inc. and Moody's, or subsidiaries or affiliates of a DRO.
(3) Rated BBB- by Brickwork Ratings, an Indian rating agency.

The company's exposure to credit risk from its investment in fixed income securities increased at September 30, 2017 compared to December 31, 2016 reflecting the company's net purchases of Government of India bonds rated as Baa3/BBB- from the undeployed net proceeds received from the 1 year term loan. Except as described above, there were no other significant changes to the composition of the company’s fixed income portfolio classified according to each security’s respective issuer credit rating at September 30, 2017 compared to December 31, 2016.

Liquidity Risk

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

The company believes that cash and cash equivalents at September 30, 2017 provides adequate liquidity to meet the company's remaining known significant commitments in 2017, which are principally comprised of investment and advisory fees, general and administration expenses and potentially corporate income taxes. In addition, at September 30, 2017 the company has a payable on rights issue relating to NCML that is anticipated to be called in early 2018. 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 company has adequate working capital to support its operations.

Refer to note 12 for details on the settlement of the performance fees, if any, at the end of the first calculation period, December 31, 2017.

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 investments composition by the issuer's country of domicile was as follows:

	September 30, 2017				December 31, 2016			
	India	**U.S.** [(1)]	**Other** [(2)]	**Total**	India	U.S. [(1)]	Other [(2)]	Total
Cash and cash equivalents	**—**	**45,504**	**8,697**	**54,201**	3	165,051	716	165,770
Short term investments - U.S. treasury bills	**—**	**—**	**—**	**—**	—	27,428	—	27,428
Bonds:								
Government of India	**261,344**	**—**	**—**	**261,344**	130,317	—	—	130,317
Indian corporate	**102,226**	**—**	**—**	**102,226**	99,447	—	—	99,447
Sanmar	**322,505**	**—**	**—**	**322,505**	299,093	—	—	299,093
	686,075	**—**	**—**	**686,075**	528,857	—	—	528,857
Common stocks:								
IIFL	**787,197**	**—**	**—**	**787,197**	265,951	—	—	265,951
BIAL	**592,390**	**—**	**—**	**592,390**	—	—	—	—
NCML	**183,640**	**—**	**—**	**183,640**	146,586	—	—	146,586
Fairchem	**112,579**	**—**	**—**	**112,579**	45,488	—	—	45,488
Saurashtra	**33,905**	**—**	**—**	**33,905**	—	—	—	—
NSE	**39,736**	**—**	**—**	**39,736**	26,504	—	—	26,504
Sanmar	**826**	**—**	**—**	**826**	440	—	—	440
Privi	**—**	**—**	**—**	**—**	54,315	—	—	54,315
	1,750,273	**—**	**—**	**1,750,273**	539,284	—	—	539,284
Total cash and investments	**2,436,348**	**45,504**	**8,697**	**2,490,549**	1,068,144	192,479	716	1,261,339

(1) Included restricted cash of $15,424 at September 30, 2017 (December 31, 2016 - $18,810).

(2) Included cash principally held in a Canadian financial institution.

The company's holdings of Public and Private Indian Investments (see note 5) at September 30, 2017 and December 31, 2016 are summarized by the issuer's primary sector in the table below:

	September 30, 2017	December 31, 2016
Financial services	**826,933**	292,455
Commercial and industrial	**1,245,845**	545,922
	2,072,778	838,377

During the first nine months of 2017 the company's concentration risk in the financial services sector increased primarily due to the additional investment in IIFL ($75,175), while the company's concentration risk in the commercial and industrial sector increased primarily due to the investments in BIAL ($585,591) and Saurashtra ($30,018), and the additional investment in NCML ($25,602).

The company will not make an Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% 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 25.0% of the company’s total assets (the “Investment Concentration Restriction”). The company's Investment Concentration Restriction limit increased at September 30, 2017 from December 31, 2016 principally as a result of net proceeds received from the Offerings (see note 8), net change in unrealized gains on the company's Indian Investments and other costs recorded in the consolidated statements of earnings for the nine months ended September 30, 2017, and net proceeds received from the 1 year term loan (see note 7), partially offset by the repayment of the 2 year term loan (see note 7). 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

The company’s objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for common shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital increased from $1,299,218 at December 31, 2016 (comprised of the 2 year term loan and common shareholders' equity) to $2,396,657 at September 30, 2017 (comprised of the 1 year term loan and common shareholders’ equity), principally reflecting net proceeds received from the Offerings and the 1 year term loan, net earnings and other comprehensive income in the first nine months of 2017, partially offset by the repayment of the 2 year term loan.

On July 11, 2017 the company entered into an agreement with a Canadian bank for a 1 year secured term loan with a principal amount of $400,000 bearing interest at a rate of LIBOR plus 325 to 375 basis points. On July 13, 2017 the company used a portion of the net proceeds from the 1 year term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue. The 1 year term loan includes a financial covenant that requires the company to maintain common shareholders’ equity of not less than $1.3 billion. At September 30, 2017 the company was in compliance with the 1 year term loan covenants.

On January 13, 2017 the company completed an underwritten public offering and concurrent with the public offering, Fairfax and OMERS acquired additional subordinate voting shares resulting in net proceeds of $493,504. Net proceeds from the Offerings were used to acquire additional Indian Investments, for general corporate purposes, and to repay the 2 year term loan (see note 7).

On September 16, 2016 the company entered into an agreement with a syndicate of Canadian banks for a 2 year secured term loan with a principal amount of $225,000. The 2 year term loan was repaid on March 31, 2017 (see note 7).

Common shareholders' equity at September 30, 2017 increased to $1,996,657 from $1,075,446 at December 31, 2016 primarily reflecting net proceeds received from the Offerings ($493,504), net earnings ($364,444) and unrealized foreign currency translation gains ($63,156) for the nine months ended September 30, 2017.

12. Related Party Transactions

Payable to Related Parties

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

	September 30, 2017	December 31, 2016
Performance fees	**85,114**	—
Investment and advisory fees	**5,159**	3,611
Other	**121**	62
	90,394	3,673

Investment Advisory Agreement

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

Performance Fee

The performance fee is accrued quarterly and paid for the period from January 30, 2015 to December 31, 2017 (the "first calculation period") and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20.0% of any increase in common shareholders' equity per share (including distributions) above a 5.0% per annum increase. The amount of common shareholders' equity per share at any time which must be achieved before any performance fee would be payable is sometimes referred to as the "hurdle per share". The company determined that a performance fee of $85,114 should be accrued at September 30, 2017 as the book value per share of $14.12 (before factoring in the impact of the performance fee) at September 30, 2017 was greater than the hurdle per share at that date of $11.23.

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

In the third quarter of 2017 the performance fee recorded in the consolidated statements of earnings was a recovery of $22,627 (2016 - nil) as a result of common shareholders' equity decreasing to $1,996,657 at September 30, 2017 from $2,075,590 at June 30, 2017. For the nine months ended September 30, 2017 the performance fee recorded in the consolidated statements of earnings was $84,334, representing the performance fee accrual translated at the average exchange rate for the first nine months of 2017 (2016 - nil).

Investment and Advisory Fee

The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. For the first nine months of 2017 the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. For the three and nine months ended September 30, 2017, the investment and advisory fee in the consolidated statements of earnings was $5,059 and $19,303 (2016 - $4,261 and $9,105).

Management Compensation

Pursuant to the Investment Advisory Agreement, Fairfax is required to provide a Chief Executive Officer, a Chief Financial Officer and a Corporate Secretary to the company. For so long as the Investment Advisory Agreement remains in effect, all compensation payable to the Chief Executive Officer, the Chief Financial Officer and the Corporate Secretary of the company will be borne by Fairfax.

Other

On February 8, 2017 the company acquired an additional 15,853,000 common shares of IIFL (representing a 4.99% equity interest) (see note 5).

On July 13, 2017 upon the company's acquisition of the additional 10.0% equity interest in BIAL from GVK, Fairfax's Put Option was terminated (see note 5).

13. 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	
	2017	2016	**2017**	2016
Brokerage fees	**29**	—	**33**	153
Audit, legal and tax professional fees	**261**	653	**1,695**	2,208
Salaries and employee benefit expenses	**151**	118	**680**	532
Administrative expenses	**268**	329	**803**	1,006
Other	**71**	—	**307**	221
	780	1,100	**3,518**	4,120

14. Supplementary Cash Flow Information

Cash and cash equivalents were included in the consolidated balance sheets and statements of cash flows as follows:

	September 30, 2017	December 31, 2016
Cash and balances with banks	**11,280**	20,019
U.S. treasury bills	**27,497**	126,941
	38,777	146,960

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	
	2017	2016	**2017**	2016
(a) Purchases of investments classified as FVTPL				
Bonds	**(161,107)**	(50,000)	**(186,301)**	(299,642)
Common stocks	**(135,492)**	(81,804)	**(626,183)**	(123,997)
	(296,599)	(131,804)	**(812,484)**	(423,639)
(b) Sales of investments classified as FVTPL				
Bonds	**—**	—	**51,933**	280,960
Common stocks	**—**	25,793	**26,525**	52,631
	—	25,793	**78,458**	333,591
(c) Net interest and dividends				
Interest received	**—**	10,880	**13,424**	37,499
Dividends received	**3,463**	746	**8,088**	5,077
Interest paid on term loans	**(4,576)**	(781)	**(6,046)**	(781)
	(1,113)	10,845	**15,466**	41,795
(d) Income taxes received (paid)	**8,571**	(74)	**7,415**	(13,500)

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, 2017, and the company's audited financial statements and accompanying notes for the year ended December 31, 2016.

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

(3) Unless otherwise noted, consolidated financial information of the company within this MD&A is derived from the consolidated financial statements of the company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (“IASB”), and is presented in U.S. dollars with the Indian rupee as the functional currency of the company and its consolidated subsidiaries.

Business Developments

Overview

Fairfax had 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 is a Canadian reporting issuer with securities listed on the Toronto Stock Exchange ("TSX") and trading in Canadian dollars under the symbol FFH for over 30 years and in U.S. dollars under the symbol FFH.U.

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

Capital Transactions

On January 13, 2017 the company completed an underwritten public offering of 12,766,000 subordinate voting shares at a price of $11.75 per share. Concurrent with the public offering, Fairfax and Ontario Municipal Employees Retirement System ("OMERS") acquired 12,766,000 and 17,021,500 subordinate voting shares, respectively, at a price of $11.75 per subordinate voting share in a private placement (the "Concurrent Private Placement" and, together with the public offering, collectively the "Offerings"), resulting in net proceeds of $493,504, after commissions and expenses of $6,500. Net proceeds from the Offerings were used to acquire additional Indian Investments, as defined below, for general corporate purposes, and to repay the 2 year term loan (see note 7 (Term Loans) to the interim consolidated financial statements for the three and nine months ended September 30, 2017).

On July 11, 2017 the company entered into an agreement with a Canadian bank for a 1 year secured term loan with a principal amount of $400,000 bearing interest at a rate of LIBOR plus 325 to 375 basis points (the "1 year term loan"). On July 13, 2017 the company used a portion of the net proceeds from the 1 year term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue. For further details refer to note 7 (Term Loans) to the interim consolidated financial statements for the three and nine months ended September 30, 2017.

Other

On July 1, 2017 the Government of India implemented the Goods and Services Tax ("GST") which replaced multiple taxes levied by the Central and State Governments of India. Under the GST, goods and services are taxed at rates ranging from 0% to 28%. The GST is considered to be transformational for the Indian economy in the medium to long term, helping to simplify an indirect tax structure, unifying all states into a single tax market, broadening the tax base and increasing the potential growth rate of the Indian economy. The impact on the implementation of the GST on the company's Indian Investments is discussed, if applicable, in the respective Indian Investments section of this MD&A.

Full descriptions of the additional Indian Investments acquired in the first nine months of 2017 are provided in the Indian Investments section of this MD&A.

Business Objectives

Investment Objective

Fairfax India is an investment holding company whose objective is to achieve long term capital appreciation, while preserving capital, by investing in public and private equity securities 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 likely 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 will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital.

Investment Restrictions

The company will not make an Indian Investment if, after giving effect to such investment, the total invested amount of such investment would exceed 20.0% of the company's total assets; 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 25.0% of the company's total assets (the "Investment Concentration Restriction"). The company's Investment Concentration Restriction limit increased at September 30, 2017 from December 31, 2016 principally as a result of net proceeds received from the Offerings (see note 8 (Total Equity) to the interim consolidated financial statements for the three and nine months ended September 30, 2017), net change in unrealized gains on the company's Indian Investments and other costs recorded in the consolidated statements of earnings for the nine months ended September 30, 2017, and net proceeds received from the 1 year term loan, partially offset by the repayment of the 2 year term loan (see note 7 (Term Loans) to the interim consolidated financial statements for the three and nine months ended September 30, 2017). 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. At September 30, 2017 the company determined that it was in compliance with these investment restrictions.

Indian Investments

Cautionary Statement Regarding Financial Information of Significant Indian Investments

Fairfax India has agreed to voluntarily provide within the MD&A, summarized financial information prepared in accordance with IFRS for all of its Indian Investments for which it had previously filed a business acquisition report in accordance with section 8.2 of *National Instrument 51-102 Continuous Disclosure Obligations.* National Collateral Management Services Limited, IIFL Holdings Limited, Sanmar Chemicals Group and Bangalore International Airport Limited (collectively, "Significant Indian Investments"), the company's Indian Investments for which it had previously filed business acquisition reports, prepare their financial statements in accordance with Indian Generally Accepted Accounting Principles ("Indian GAAP"). Effective April 1, 2017 the company's Significant Indian Investments will adopt Indian Accounting Standards ("Ind AS"). Ind AS are based on and substantially converged with IFRS as issued by the IASB. Fairfax India is limited in respect to the amount of independent verification it is able to perform with respect to the Significant Indian Investments' financial statements. The unaudited summarized financial information contained in this MD&A was prepared exclusively for Fairfax India. Such unaudited financial information is the responsibility of the respective managements and has been prepared by them using recognition, measurement and presentation principles consistent with IFRS as issued by the IASB, and provided to the company in Indian rupees.

The company's Significant Indian Investments' fiscal years end on March 31. Summarized financial information of the company's Significant Indian Investments has generally been provided for the periods subsequent to the company's investment and to the extent that the most recent interim financial information is available to the company's management.

Significant Indian Investments' summarized financial information should be read in conjunction with Fairfax India's historical consolidated 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 the Significant Indian Investments' summarized financial information contained herein requires material modifications. However, readers are cautioned that the Significant Indian Investments' summarized financial information contained in the MD&A may not be appropriate for their purposes.

Summary of Indian Investments

The table below provides a summary of the company's Public and Private Indian Investments completed at September 30, 2017:

	Date Acquired	Ownership %	Initial transaction price	Fair value at September 30, 2017	Net change
Public Indian Investments:					
IIFL	December 2015 and February 2017	26.6%	276,734	787,197	510,463
Fairchem[1]	February and August 2016	48.8%	74,384	112,579	38,195
			351,118	899,776	548,658
Private Indian Investments:					
BIAL [2]	March and July 2017	48.0%	585,591	592,390	6,799
NCML	August 2015 and August 2017	89.5%	174,318	183,640	9,322
Sanmar	April 2016	30.0%	1,000	826	(174)
Sanmar bonds	April and September 2016	—	299,000	322,505	23,505
Saurashtra	February 2017	51.0%	30,018	33,905	3,887
NSE	July 2016	1.0%	26,783	39,736	12,953
			1,116,710	1,173,002	56,292
Total Indian Investments completed at September 30, 2017			1,467,828	2,072,778	604,950

(1) Effective March 14, 2017 the company's original investments in Fairchem and Privi merged to form Fairchem Speciality Limited.

(2) Initial transaction price includes $74,202 (approximately 4.8 billion Indian rupees) of cash consideration paid attributable to the costs incurred to acquire the additional 10.0% in BIAL.

Summary of Changes in Fair Value of Indian Investments

A summary of changes in the fair value of the company's Public and Private Indian Investments for the three months ended September 30, 2017 and 2016 were as follows:

	Third quarter											
	Public Indian Investments			Private Indian Investments								
	Common stocks			Bonds	Common stocks							
	IIFL	Fairchem	Total	Sanmar	BIAL	NCML	Saurashtra	NSE	Sanmar	Privi	Total	Total Indian Investments
Balance as of June 30, 2017	**792,890**	**138,490**	**931,380**	**319,103**	**467,940**	**156,233**	**31,127**	**35,796**	**219**	**—**	**1,010,418**	**1,941,798**
Purchases	**—**	**—**	**—**	**—**	**200,093** [1]	**25,602**	**—**	**—**	**—**	**—**	**225,695**	**225,695**
Net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings	**5,682**	**(24,267)**	**(18,585)**	**6,783**	**(67,717)** [1]	**4,119**	**3,109**	**4,378**	**609**	**—**	**(48,719)**	**(67,304)**
Net unrealized foreign currency translation losses included in the consolidated statements of comprehensive income	**(11,375)**	**(1,644)**	**(13,019)**	**(3,381)**	**(7,926)**	**(2,314)**	**(331)**	**(438)**	**(2)**	**—**	**(14,392)**	**(27,411)**
Balance as of September 30, 2017	**787,197**	**112,579**	**899,776**	**322,505**	**592,390**	**183,640**	**33,905**	**39,736**	**826**	**—**	**1,173,002**	**2,072,778**
Balance as of June 30, 2016	226,560	31,727	258,287	245,773	—	143,540	—	—	985	—	390,298	648,585
Purchases	—	—	—	50,000	—	—	—	26,783	—	54,975	131,758	131,758
Net change in unrealized gains on investments included in the consolidated statements of earnings	48,901	7,421	56,322	1,889	—	1,963	—	—	—	—	3,852	60,174
Net unrealized foreign currency translation gains included in the consolidated statements of comprehensive income	3,495	481	3,976	3,581	—	1,988	—	234	14	392	6,209	10,185
Balance as of September 30, 2016	278,956	39,629	318,585	301,243	—	147,491	—	27,017	999	55,367	532,117	850,702

(1) On July 13, 2017 the company completed an additional 10.0% equity investment in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the estimated fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred and has been included in the table above in purchases and was recorded in net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings in the interim consolidated financial statements for the three and nine months ended September 30, 2017.

A summary of changes in the fair value of the company's Public and Private Indian Investments for the nine months ended September 30, 2017 and 2016 were as follows:

	First nine months											
	Public Indian Investments			Private Indian Investments								
	Common stocks			Bonds	Common stocks							
	IIFL	Fairchem	Total	Sanmar	BIAL	NCML	Saurashtra	NSE	Sanmar	Privi	Total	Total Indian Investments
Balance as of January 1, 2017	**265,951**	**45,488**	**311,439**	**299,093**	**—**	**146,586**	**—**	**26,504**	**440**	**54,315**	**526,938**	**838,377**
Purchases	**75,175**	**—**	**75,175**	**—**	**585,591** [(1)]	**25,602**	**30,018**	**—**	**—**	**—**	**641,211**	**716,386**
Transfer due to Merger [(2)]	**—**	**54,315**	**54,315**	**—**	**—**	**—**	**—**	**—**		**(54,315)**	**(54,315)**	**—**
Net change in unrealized gains on investments and other costs included in the consolidated statements of earnings	**434,292**	**8,896**	**443,188**	**11,756**	**8,879** [(1)]	**6,398**	**3,139**	**12,218**	**370**	**—**	**42,760**	**485,948**
Net unrealized foreign currency translation gains (losses) included in the consolidated statements of comprehensive income	**11,779**	**3,880**	**15,659**	**11,656**	**(2,080)**	**5,054**	**748**	**1,014**	**16**	**—**	**16,408**	**32,067**
Balance as of September 30, 2017	**787,197**	**112,579**	**899,776**	**322,505**	**592,390**	**183,640**	**33,905**	**39,736**	**826**	**—**	**1,173,002**	**2,072,778**
Balance as of January 1, 2016	220,747	—	220,747	—	—	146,445	—	—	—	—	146,445	367,192
Purchases	—	19,409	19,409	299,000	—	—	—	26,783	1,000	54,975	381,758	401,167
Net change in unrealized gains on investments included in the consolidated statements of earnings	59,139	19,737	78,876	3,297	—	1,963	—	—	—	—	5,260	84,136
Net unrealized foreign currency translation gains (losses) included in the consolidated statements of comprehensive income	(930)	483	(447)	(1,054)	—	(917)	—	234	(1)	392	(1,346)	(1,793)
Balance as of September 30, 2016	278,956	39,629	318,585	301,243	—	147,491	—	27,017	999	55,367	532,117	850,702

(1) On July 13, 2017 the company completed an additional 10.0% equity investment in BIAL for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the estimated fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred and has been included in the table above in purchases and was recorded in net change in unrealized gains (losses) on investments and other costs included in the consolidated statements of earnings in the interim consolidated financial statements for the three and nine months ended September 30, 2017.

(2) As a result of the merger of Fairchem and Privi, the investment in Privi was transferred out of Private Indian Investments and aggregated with the Public Indian Investment in Fairchem.

Public Indian Investments

The fair values of Fairfax India's Public Indian Investments, whose shares are listed on both the Bombay Stock Exchange of India ("BSE of India") and the National Stock Exchange of India ("NSE of India"), are determined using the bid prices of those investments (without adjustments or discounts) at the balance sheet date.

IIFL Holdings Limited

Business Overview

IIFL Holdings Limited ("IIFL") was incorporated in 1995 and is a publicly traded, diversified financial services holding company located in Mumbai, India with principal lines of business in wealth management, capital markets and other activities (comprised of non-bank retail broking, institutional equities, investment banking and financial products distribution) and a non-banking finance company ("NBFC").

Transaction Description

On December 1, 2015 Fairfax India, through a wholly-owned subsidiary, acquired 68,788,445 common shares of IIFL (representing a 21.9% equity interest) for $2.93 per share (195 Indian rupees per share) for cash consideration of $201,559 (approximately 13.4 billion Indian rupees).

Prior to the establishment of Fairfax India, Fairfax, through its subsidiaries, had acquired an 8.9% equity interest and an additional 5.2% economic interest in IIFL through derivative financial instruments.

On February 8, 2017 Fairfax India, through a wholly-owned subsidiary, acquired an additional 15,853,000 common shares of IIFL (representing a 4.99% equity interest) for cash consideration of $75,175 (approximately 5.1 billion Indian rupees). In connection with the Fairfax India transaction, Fairfax, through its subsidiaries, partially disposed of the derivative financial instruments representing an economic interest of 4.99% in IIFL. In accordance with regulations of the Securities and Exchange Board of India ("SEBI") and the NSE of India, the transaction was subject to certain sale and purchase pricing guidelines and, as a result, the total consideration paid per share approximated fair market value of the equity interest acquired. At September 30, 2017 the company held an aggregate of 84,641,445 common shares of IIFL representing a 26.6% equity interest (December 31, 2016 - 21.7%).

Key Business Drivers, Events and Risks

IIFL's key business drivers relate to its ability to grow and penetrate the financial services industry in India, particularly in the areas of lending and wealth management.

The demonetization program implemented by the Government of India in November 2016 had a negative impact on IIFL's revenues in the short term. IIFL's continued focus on investments in digitization enabled it to benefit from the impact of demonetization through its platform to accept cashless payments from customers, collections through tablets and a self-help portal for quick issue resolution. IIFL's NBFC observed a significant increase in the number of mobile banking and website users in November and December 2016. IIFL's capital markets and wealth management lines of business were not significantly impacted by demonetization. Following the announcement of demonetization, IIFL experienced an initial slowdown in the disbursement of gold loans, commercial vehicle financing, and home loans in its NBFC. Commencing in January 2017, IIFL observed an improvement across all its lines of business.

The implementation of the GST on July 1, 2017, for which taxes were previously levied at 15% on services for IIFL customers, has been replaced by the GST at 18% for financial services transactions. With the GST, the cascading tax impact is eliminated and credit for taxes paid on goods is now available, having a beneficial impact on IIFL.

On September 7, 2017 IIFL announced they had received regulatory approval to demerge 5Paisa Capital Limited ("5Paisa") from IIFL. 5Paisa is an online financial services provider with a do-it-yourself based broking model where the customer is able to conduct investment transactions for a low brokerage fee. Upon closing of the demerger, IIFL shareholders received 1 newly issued share of 5Paisa for every 25 IIFL shares owed as of the record date of October 18, 2017 and 5Paisa was de-consolidated from IIFL's financial reporting. 5Paisa will be listed on both the BSE of India and the NSE of India. Based on Fairfax India's equity interest in IIFL at September 30, 2017, the company has a 26.6% equity interest in 5Paisa upon completion of the transaction.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2017 the fair value of the company's investment in IIFL was $787,197 (December 31, 2016 - $265,951). The changes in fair value of the company's investment in IIFL for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed earlier in the Indian Investments section of this MD&A. IIFL's share price increased by 131.5% from 262.40 Indian rupees per share at December 31, 2016 to 607.50 Indian rupees per share at September 30, 2017 with the increase believed to reflect the robust performance in all three lines of business, led by its NBFC subsidiary and the wealth management lines of business.

For the three and nine months ended September 30, 2017, the consolidated statements of earnings included dividend income earned from the investment in IIFL of nil and $4,625 (2016 - nil and $4,331).

IIFL's Summarized Financial Information

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, 2017 and March 31, 2017.

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

	June 30, 2017(1)	March 31, 2017(1)
Current assets	**2,998,275**	2,824,628
Non-current assets	**2,590,139**	2,422,752
Current liabilities	**2,736,075**	2,332,577
Non-current liabilities	**1,929,287**	2,039,377
Shareholders' equity	**923,052**	875,426

(1) The net assets of IIFL were translated at June 30, 2017 at $1 U.S. dollar = 64.64 Indian rupees and at March 31, 2017 at $1 U.S. dollar = 64.94 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current and non-current assets increased as a result of the growth in IIFL's NBFC reflecting increased retail (low risk retail mortgage loans) and small and medium sized enterprise loans, and commercial vehicle financing. Current liabilities increased primarily due to an increase in short term interest bearing loans and borrowings to support the growth in the NBFC division. Non-current liabilities decreased as a result of long term interest bearing loans and borrowings.

Summarized below are IIFL's statements of earnings for the three months ended June 30, 2017 and 2016.

Statements of Earnings

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

	Three months ended June 30, 2017[(1)]	Three months ended June 30, 2016[(1)]
Revenue	**231,694**	153,528
Earnings before income taxes	**60,460**	35,157
Net earnings	**40,255**	22,714

(1) Amounts for the three months ended June 30, 2017 and 2016 were translated into US$ using the average exchange rates of $1 U.S. dollar = 64.47 Indian rupees and $1 U.S. dollar = 66.90 Indian rupees prevailing during those periods.

IIFL's revenue and net earnings increased primarily due to growth in the NBFC line of business reflecting increased interest income from retail loans (low risk retail mortgage loans), small and medium sized enterprise loans and commercial vehicle financing. IIFL's management continues to focus on reducing operating costs to achieve better economies of scale and leveraging existing infrastructure to offer complementary products across multiple lines of business.

Fairchem Speciality Limited

Business Overview

On March 14, 2017 Fairchem Speciality Limited ("Fairchem", formerly known as Adi Finechem Limited) and Privi Organics Limited ("Privi") completed their previously announced merger ("the Merger"), which is expected to bring significant diversification and synergies to the merged entity which will continue under the Fairchem name with the original management of the underlying companies.

Fairchem was incorporated in 1985 and publicly listed its shares on the BSE of India in 1995 and NSE of India in 2015. Fairchem is a specialty chemical manufacturer located in Ahmedabad, India. Fairchem manufactures oleochemicals used in the paints, inks and adhesives industries, as well as intermediate nutraceutical and health products. It has developed an in-house technology that uses machinery designed and manufactured by leading European companies to physically separate and convert waste generated during the production of soya, sunflower, corn and cotton oils into valuable nutraceutical and fatty acids.

Privi, founded in 1992, is a supplier of aroma chemicals to the fragrance industry and is located in Mumbai, India. 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 aromas as per customer specifications, scaling up products from basic research to commercial scale, and designing process improvements to drive quality and cost optimization.

Transaction Description

On February 8, 2016 Fairfax India, through its wholly-owned subsidiaries, acquired a 44.7% equity interest in Fairchem for $3.13 per share (212 Indian rupees per share) for cash consideration of $19,409 (approximately 1.3 billion Indian rupees).

On August 26, 2016 the company, through a wholly-owned subsidiary, acquired a 50.8% equity interest in Privi for cash consideration of $54,975 (approximately 3.7 billion Indian rupees).

On March 14, 2017 Fairchem and Privi completed the Merger. Under the terms of the Merger, Privi shareholders received 27 common shares and 27 compulsorily convertible preference shares ("CCPS") of Fairchem for every 40 Privi shares exchanged. Concurrent with the Merger, 88.5% of the CCPS received by the Privi shareholders were converted into common shares of Fairchem. At September 30, 2017 the company held 738,760 CCPS and 18,307,318 common shares representing a 48.8% equity interest in Fairchem on a fully diluted basis (or a 48.7% equity interest excluding the impact of the CCPS).

At September 30, 2017 the company had appointed two of the twelve members of Fairchem's board of directors.

Key Business Drivers, Events and Risks

Fairchem's key business drivers relate to the success of its oleochemicals business and vertical integration into value added products, such as fatty alcohols and natural vitamin E streams. With rising environmental concerns, the use of oleochemicals is growing in lubricants, paper printing, paints and coatings, and animals feed industries. As a result of the increasing demands for sustainable and biodegradable chemicals, oleochemicals markets have been experiencing strong growth in recent years.

India is the one of the largest consumers of soft oils, providing Fairchem with a competitive advantage of having easy access to raw materials used in their manufacturing processes. Given the close proximity to raw materials, oleochemicals production has shifted from U.S. and Europe to Asia (India, Malaysia and Indonesia). Lower cost of raw materials and efficient manufacturing processes have provided Fairchem with certain competitive advantages in comparison to its global peers. Fairchem has a strong market presence for some of its products, with little or no direct competition, and is viewed to produce a superior quality product in comparison to its competitors in China. Fairchem faces some exposure to limited availability of raw materials (primarily soya oils) which are used in its manufacturing processes which may impact its ability to meet higher demand.

Privi’s key business drivers relate to its ability to: (i) develop, manufacture and supply additional (newer) aroma chemicals to existing customers; (ii) create value added products from the by-products of manufacturing aroma chemicals; and (iii) strengthen margins by increasing vertical integration capacities.

The merger of Fairchem and Privi is expected to result in the following advantages: access to greater breadth in research and development, range of applications, scope for growth, and business networks; stability and enhancement in net earnings and cash flows; operational effectiveness and cost optimization; improved allocation of capital; and broader access to capital markets.

The implementation of the GST on July 1, 2017 has had a positive impact on Fairchem as they are able to claim the full input tax credit for GST paid on purchases. In certain cases where historical purchases of raw materials were made on a tax-exempt basis, Privi is now required to make the GST payment prior to claiming the input tax credit, potentially resulting in additional financing costs for the upfront cash flows required. The implementation of the GST has had a nominal impact to Fairchem's customers as the customers were previously levied taxes at approximately the same rate applicable under the GST (18%).

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2017 the fair value of the company's investment in the merged entity Fairchem was $112,579, comprised of common shares ($108,213) and CCPS ($4,366). The changes in fair value of the company's investment in Fairchem for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed earlier in the Indian Investments section of this MD&A. Fairchem's share price decreased by 22.5% from 498.10 Indian rupees per share at December 31, 2016 to 386.10 Indian rupees per share at September 30, 2017.

At December 31, 2016 the fair value of the company's investment in Fairchem based on the bid price was $45,488. At December 31, 2016 the fair value of the company's investment in Privi based on the initial transaction price was $54,315. Privi's initial transaction price was considered to approximate fair value at December 31, 2016 as there had been no significant changes to its business, capital structure or operating environment and there were no significant changes to any key assumptions in the company's acquisition valuation model for Privi due to the close proximity of the date the transaction closed to the balance sheet date, December 31, 2016. As the Merger still required regulatory approval at December 31, 2016 there were no unrealized gains (losses) on investments recorded in the consolidated statements of earnings for 2016. Upon completion of the Merger on March 14, 2017 the fair value of the company's investment in the merged entity Fairchem (comprised of Fairchem and Privi) was determined by applying the bid share price of Fairchem to the number of shares owned in Fairchem (inclusive of the common shares and CCPS received in the Merger).

For the three and nine months ended September 30, 2017, the consolidated statements of earnings included dividend income earned from the investment in Fairchem of $281 in both periods (2016 - $231 in both periods).

Private Indian Investments

Cautionary Statement Regarding the Valuation of Private Indian Investments

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

Bangalore International Airport Limited

Business Overview

Bangalore International Airport Limited ("BIAL"), a private company, owns and operates the Kempegowda International Airport Bengaluru (“KIAB”), under a concession agreement with the Government of India for a period of 30 years ending in the year 2038 (and the right to renew the agreement for an additional 30 years) (the "concession agreement"). KIAB is the first greenfield airport in India built to the highest level of international standards by the private sector through a public-private partnership.

BIAL's principal lines of business are as follows:

Aeronautical revenue from the airport

Aeronautical revenue is revenue earned from airlines for providing services such as landing, parking, housing, and user development fees ("aeronautical services"). Tariffs for these aeronautical services, as determined by Airports Economic Regulatory Authority of India (the "regulator"), are fixed in a manner to generate a 16.0% per annum regulated return on invested equity (the "Regulatory Asset Base") for the airport operator. Under the current regulatory approach applicable to BIAL, aviation concessions (which includes cargo, ground handling, fuel throughput, and into-plane services) are treated as aeronautical services. In addition, the regulator also attributes 30.0% of non-aeronautical revenue (described below) as a part of aeronautical revenue when computing the regulated return.

Non-aeronautical revenue from the airport

All revenue sources from the airport other than aeronautical revenue (which includes aviation concessions, as describe above) are treated as non-aeronautical revenue. This includes revenue from activities such as catering services, vehicle parking, advertising, retail and duty free shops, and food and beverages. BIAL earns its non-aeronautical revenue from concession arrangements that reflect a percentage of revenue sharing, with a minimum guaranteed revenue, each year. Non-aeronautical revenue is expected to grow substantially due to the increase in the number of passengers using the airport, the availability of additional space for development and the increasing propensity of passengers to spend money.

Other non-airport related revenue, including real estate monetization

The airport is located on 4,000 acres of land and the concession agreement provides for development of 1,000 acres of this land for commercial purposes such as hotels, retail establishments, offices and industrial or entertainment parks. This will permit BIAL to monetize approximately 460 acres after providing land to build roads, utilities, landscaping and other services. With the exception of the five-star Taj hotel next to the airport operated under management contract by Indian Hotels Company Limited, all other land remains undeveloped. Over time, there is potential for significant upside from monetization of this real estate.

Transaction Description

On March 24, 2017 the company, through a wholly-owned subsidiary, acquired a 38.0% equity interest in BIAL for cash consideration of $385,498 (approximately 25.2 billion Indian rupees). Of the 38.0% equity interest acquired, 33.0% was purchased from a wholly-owned subsidiary of GVK Power and Infrastructure Limited ("GVK") and 5.0% was purchased from Flughafen Zürich AG ("Zürich"). In connection with the 33.0% equity interest purchased from GVK, Fairfax, through a wholly-owned subsidiary, issued a put option to GVK expiring April 8, 2019 (the "Put Option") that, if exercised, enabled GVK to sell up to its remaining 10.0% equity interest in BIAL.

On July 13, 2017 the company, through a wholly-owned subsidiary, acquired an additional 10.0% equity interest in BIAL from GVK for cash consideration of $200,093 (12.9 billion Indian rupees). The cash consideration paid for the additional 10.0% equity interest in BIAL exceeded the fair value of those additional shares acquired, as a result $74,202 (approximately 4.8 billion Indian rupees) of the cash consideration paid was attributable to the costs incurred to (i) motivate GVK to sell its remaining 10.0% equity interest in BIAL, (ii) increase the company's holdings in BIAL to enhance the company's investment returns, and (iii) accelerate the development of a second runway and terminal, and make improvements to the existing runway. The costs incurred of $74,202 (approximately 4.8 billion Indian rupees) were recorded in net change in unrealized gains (losses) on investments and other costs in the interim consolidated financial statements for the three and nine months ended September 30, 2017. The Put Option was terminated upon the company's acquisition of the additional 10.0% equity interest in BIAL from GVK.

Upon completion of the additional 10.0% investment in BIAL on July 13, 2017, the company had invested aggregate cash consideration of $585,591 (inclusive of the $74,202 of costs incurred) for a 48.0% equity interest in BIAL.

At September 30, 2017 the company had appointed six of the sixteen members of BIAL's board of directors.

Key Business Drivers, Events and Risks

KIAB is the busiest airport in South India and the third largest in the country. The airport handled over 22 million passengers during the year ended December 31, 2016 representing growth in overall traffic of 22.5% compared to the year ended December 31, 2015.

Plans are in place to expand the capacity of the airport, which include constructing a second runway and an additional terminal building, and expanding the related infrastructure. Land preparation for the second runway is underway and is estimated to be completed by September 2019. The work for the additional terminal building will commence in 2017 and will be constructed in two phases; the first phase will have the capacity to handle 25 million passengers per annum, while the second phase of the project will add capacity for another 20 million passengers per annum. To support the immediate growth in passenger traffic, the existing terminal is undergoing expansion until the first phase of the new terminal is completed. The combined capacity of the existing and additional terminal will be approximately 65 million passengers per annum.

On March 14, 2017 the KIAB was awarded the SKYTRAX Award for 'Best Regional Airport in India and Central Asia' by air travelers at the World Airport Awards, held at the Passenger Terminal EXPO in Amsterdam, Netherlands. The SKYTRAX World Airport Awards is the largest passenger satisfaction assessment and the most prestigious amongst all the surveys measuring airport service excellence and quality. KIAB was previously recognized as the Best Airport in India by SKYTRAX in 2011 and Best Regional Airport in Central Asia in 2015.

On August 4, 2017 BIAL announced that KIAB will become the first airport in the country to have a helicopter taxi service. Services are expected to commence by December 2017, at which time they will initially operate services between KIAB and Electronics City, an information technology hub in Bangalore, India which is one of India's largest electronic industrial parks.

On August 16, 2017 BIAL completed the expansion of the existing terminal, which included two new Rapid Exit Taxiways ("RET") to increase runway capacity. With the addition of the two RETs, the Air Traffic Movements ("ATM") per hour capacity has immediately increased from 34 ATMs per hour to 38 ATMs per and will progressively increase to 44 ATMs per hour.

Effective October 28, 2017, as a result of continued business development with Jet Airways, daily non-stop flights between Bangalore, India and Amsterdam, The Netherlands are now available.

Valuation and Interim Consolidated Financial Statement Impact

During the second quarter of 2017 the company refined its internal valuation model used in the determination of the fair value of BIAL. At September 30, 2017 the company estimated the fair value of BIAL using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 9.9% to 12.8% and a long term growth rate of 3.0%. Free cash flow projections were based on EBITDA estimates derived from financial information for BIAL's business units prepared in the second quarter of 2017 by BIAL's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which BIAL operates. At September 30, 2017 the company's internal valuation model indicated that the fair value of the company's investment in BIAL was $592,390. The changes in fair value of the company's investment in BIAL for the three and nine months ended September 30, 2017 are presented in the tables disclosed earlier in the Indian Investments section of this MD&A. The increase in the fair value of BIAL for the nine months ended September 30, 2017 was primarily driven by revised free cash flow projections, principally relating to a scope increase for the first phase of Terminal 2, which had a favourable impact on future projected aeronautical revenue (higher projected passenger capacities), partially offset by higher related capital expenditure, and an acceleration of the second phase of Terminal 2.

For the three and nine months ended September 30, 2017, the consolidated statements of earnings included dividend income earned from the investment in BIAL of $2,241 in both periods (2016 - nil in both periods).

BIAL's Summarized Financial Information

The company's fiscal year ends on December 31 and BIAL's fiscal year ends on March 31. Summarized below are BIAL's balance sheets at June 30, 2017 and March 31, 2017.

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

	June 30, 2017[(1)]	March 31, 2017[(1)]
Current assets	**111,281**	113,252
Non-current assets	**677,238**	643,520
Current liabilities	**70,129**	59,752
Non-current liabilities	**433,045**	435,743
Shareholders' equity	**285,345**	261,277

(1) The net assets of BIAL were translated at June 30, 2017 at $1 U.S. dollar = 64.64 Indian rupees and at March 31, 2017 at $1 U.S. dollar = 64.94 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

Current assets modestly decreased primarily due to payments for capital expenditures. Non-current assets increased as a result of ongoing capital expenditures required to expand the capacity of the airport as described in the Key Business Drivers, Events and Risks section above. Current liabilities increased primarily due to increases in payables to creditors for the capital expenditures. Non-current liabilities decreased as a result of scheduled repayments on loans and borrowings.

Summarized below are BIAL's statements of earnings for the three months ended June 30, 2017 and 2016.

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

	Three months ended June 30, 2017[(1)]	Three months ended June 30, 2016[(1)]
Revenue	**56,724**	48,041
Earnings before income taxes	**22,801**	19,267
Net earnings	**22,925**	18,370

(1) Amounts for the three months ended June 30, 2017 and 2016 were translated into US$ using the average exchange rates of $1 U.S. dollar = 64.47 Indian rupees and $1 U.S. dollar = 66.90 Indian rupees prevailing during those periods.

BIAL's revenues, primarily comprised of aeronautical and non-aeronautical revenue from the airport, increased principally as a result of increased domestic passenger traffic. Revenues also increased as a result of non-airport revenue related to the commencement of the Taj hotel operations on September 30, 2016. Earnings before income taxes and net earnings increased primarily due to increased revenues as noted above, partially offset by increased employee costs, increased depreciation on capital asset additions, and expenses related to the operations of the Taj hotel.

National Collateral Management Services Limited

Business Overview

National Collateral Management Services Limited ("NCML"), a private company, is a leading private agricultural commodities company located in Gurugram, India that has operated for over 12 years in the agriculture value chain by offering end-to-end solutions in grain procurement, testing, storage and collateral management. NCML was promoted by a consortium of banks, cooperatives and the National Commodity and Derivatives Exchange Limited (“NCDEX”) in 2004 as a warehousing and collateral management company to support commodity trading on NCDEX and has since evolved into a significant player in India. NCML's principal lines of business are warehousing and collateral management, supply chain management and a non-banking finance company ("NBFC").

Transaction Description

In the third quarter of 2015 the company, through a wholly-owned subsidiary, acquired an 88.1% equity interest in NCML for cash consideration of $148,716 (approximately 9.7 billion Indian rupees).

On May 11, 2017 NCML's board of directors approved a rights issue of up to 21,511,628 common shares at 86.00 Indian rupees per share. The rights issue closed on August 8, 2017 and NCML issued 19,071,602 common shares to the participating shareholders. Upon closing of the rights issue, 37.5% of the rights issue became payable, with the remaining 62.5% expected to be called in early 2018. Fairfax India participated in the rights issue on a pro-rata basis where the company acquired 18,945,840 common shares of NCML at 86.00 Indian rupees per share for total consideration of $25,602 (approximately 1.63 billion Indian rupees) comprised of cash consideration of $9,601 (approximately 611 million Indian rupees) settled upon closing and 62.5% representing $16,001 at the exchange rate on the transaction date (approximately 1.02 billion Indian rupees) recorded in payable for rights issue on the balance sheet at September 30, 2017, that is expected to be called for settlement in early 2018. The rights issue will supplement NCML's funding requirements for its silo project, as described below.

At September 30, 2017 the company held an aggregate of 131,941,286 common shares of NCML representing an 89.5% equity interest (December 31, 2016 - 88.1%).

Key Business Drivers, Events and Risks

NCML's key business drivers relate to its ability to achieve long term modernization of its grain storage facilities, the development of its NBFC, and the expansion of its supply chain management line of business.

During the first nine months of 2017 the Indian agriculture business environment showed positive signs of recovery from the temporary disruption in the wake of the demonetization decision taken by the Government of India on November 8, 2016. Storage demand increased as the summer crop harvest which was held back by large farmers and intermediaries has made its way back into the market, improving NCML's performance during the first nine months of 2017.

On February 3, 2017 NCML entered into a 30 year concession agreement with the Food Corporation of India to build 11 silo locations with 550,000 metric tons capacity and an estimated capital expenditure of $107 million at current exchange rates (approximately 7.0 billion Indian rupees). The silo project, which is expected to be completed by early 2019, will be financed through debt and common equity by way of the rights issue. In September 2017 NCML launched its subsidiary NCML KB Pvt. Ltd. that will be used for the construction of silos on a Build, Operate and Transfer ("BOT") basis for the exclusive use of the Food Corporation of India at two locations in Bihar, India.

In February 2017 NCML launched its subsidiary MktYard Private Ltd. which will deal with procurement, trading and disposal of commodities for banks, government organizations and other market participants, enhancing NCML's supply chain management line of business.

Valuation and Interim Consolidated Financial Statement Impact

At September 30, 2017 the company estimated fair value using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 10.7% to 21.3% and long term growth rates ranging from 4.0% to 6.0% (December 31, 2016 - 11.9% to 15.8%, and 6.0%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for NCML's business units prepared in the first quarter of 2017 by NCML's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which NCML operates. At September 30, 2017 the company's internal valuation model indicated that the fair value of the company's investment in NCML was $183,640 (December 31, 2016 - $146,586). The changes in fair value of the company's investment in NCML for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed earlier in the Indian Investments section of this MD&A. The increase in fair value of NCML for the nine months ended September 30, 2017 was primarily driven by the growth in NCML's supply chain line of business and the success of its NBFC.

NCML's Summarized Financial Information

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 September 30, 2017 and March 31, 2017.

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

	September 30, 2017[(1)]	March 31, 2017[(1)]
Current assets	**149,017**	132,680
Non-current assets	**73,638**	67,628
Current liabilities	**80,374**	88,835
Non-current liabilities	**31,731**	29,276
Shareholders' equity	**110,550**	82,197

(1) The net assets of NCML were translated at September 30, 2017 at $1 U.S. dollar = 65.32 Indian rupees and at March 31, 2017 at $1 U.S. dollar = 64.94 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

The increase in current assets primarily reflected an increase in other current assets as a result of larger advances from NCML's NBFC and receivables relating to the rights issue that is expected to be called in early 2018 as previously discussed, partially offset by a decrease in inventory due to decreased working capital levels in the supply chain management line of business. The increase in non-current assets primarily related to increases in property, plant and equipment from the addition of warehouses and acquisition of land for the silo project, as well as increases in deferred and current income tax assets. The decrease in current liabilities primarily reflected decreases in short term loans and borrowings by NCML's NBFC and decreased working capital levels in the supply chain management line of business. Non-current liabilities comprised long term loans and borrowings relating to the financing obtained for the ongoing warehouse project.

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

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

	Six months ended September 30, 2017[(1)]	Six months ended September 30, 2016[(1)]
Revenue	**91,286**	73,153
Earnings before income taxes	**1,284**	2,916
Net earnings	**3,051**	2,420

(1) Amounts for the six months ended September 30, 2017 and 2016 were translated into US$ using the average exchange rates of $1 U.S. dollar = 64.38 Indian rupees and $1 U.S. dollar = 66.93 Indian rupees prevailing during those periods.

NCML's revenue for the six months ended September 30, 2017 and 2016 primarily reflected contributions from the supply chain management, storage and preservation services and collateral management lines of business. The increase in revenue was principally as a result of growth in the supply chain management and warehousing lines of business as well as NCML's NBFC. Earnings before income taxes decreased primarily relating to a one-time charge for impairment of certain receivables. The increase in NCML's net earnings primarily reflected increased profitability in the supply chain management line of business and the benefit of deferred income tax recovery.

Sanmar Chemicals Group

Business Overview

Sanmar Chemicals Group ("Sanmar"), a private company, is one of the largest suspension polyvinyl chloride ("PVC") manufacturers in India, headquartered in Chennai, India with operational presence in India and Egypt.

Sanmar's principal lines of business consist of: Chemplast, the second largest suspension PVC manufacturer and the largest specialty PVC manufacturer in India; Sanmar Egypt, the largest Indian investor in Egypt's chemical business and the largest caustic soda and PVC manufacturer in Egypt; and Specialty Chemicals, a business engaged in the manufacturing and marketing of phytochemicals and organic chemicals.

Transaction Description

On April 28, 2016 the company, through its wholly-owned subsidiaries, invested $250,000 in Sanmar comprised of $1,000 in common shares (representing a 30.0% equity interest) and $249,000 in bonds. On September 26, 2016 Fairfax India invested an additional $50,000 in Sanmar bonds. Both tranches of Sanmar bonds mature 7 years from the date of issuance of the first tranche, maturing April 22, 2023, subject to earlier redemption by Sanmar under 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. A redemption premium may also be payable in kind to the company. The Sanmar bonds are currently rated BBB- with a stable outlook by Brickwork Ratings, an Indian rating agency.

Key Business Drivers, Events and Risks

India continues to be a PVC deficit market with approximately 50% of the demand being met through imports. Egypt and Turkey, which are manufacturing hubs for exports to Europe, currently have a demand gap for PVC of approximately 1,000 kilotons per annum which is being met by imports from U.S. and Asia.

Sanmar's key business drivers relate to its ability to execute its plan to increase PVC manufacturing capacity in Egypt and India that should align with the growing demand for PVC in North Africa, Middle East and India and to improve the overall capacity utilization at all of its PVC production facilities. It is very likely that Sanmar will incur losses until it can complete its manufacturing capacity expansion project in Egypt and sales of PVC grow to match the increase in capacity.

Chemplast and Kem One (the second largest producer of PVC in Europe) have entered into an agreement to establish Kem One Chemplast, an equal joint venture that will manufacture chlorinated polyvinyl chloride ("CPVC"). The joint venture and new facility will be established at a coastal location in Karaikal, Puducherry, India. The project, estimated to cost approximately $50,000 (approximately 3.3 billion Indian rupees), will utilize that technology of Kem One and have a capacity to manufacture 20,000 tonnes per annum of CPVC resins and will also manufacture CPVC compounds. On May 2, 2017 approval from the Government of India's Ministry of Environment, Forest and Climate Change was received, allowing the joint venture to commence construction of the new facility.

CPVC is used as a raw material to produce pipes and fittings for supplying water that are required to have a high resistance to heat, pressure and chemicals. More recently in India, there has been a switch from metal pipes to CPVC pipes in building construction combined with an overall increase in construction demand. The Kem One Chemplast joint venture is well positioned to benefit from the rapidly growing demand for CPVC in India that is currently being met through imports.

Valuation and Interim Consolidated Financial Statement Impact

Sanmar Common Shares

At September 30, 2017 the company's estimated fair value of its investment in Sanmar common shares was based on an internal valuation model which consisted of a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 14.8% to 21.0% and long term growth rates ranging from 2.0% to 3.6% (December 31, 2016 - 15.5% to 22.5% and 2.0% to 3.6%, respectively). Free cash flow projections were based on EBITDA estimates derived from financial information for Sanmar's three main business units prepared in the first quarter of 2017 by Sanmar's management. Discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Sanmar operates. At September 30, 2017 the company's internal valuation model indicated that the fair value of the common shares was $826 (December 31, 2016 - $440). The changes in fair value of the company's investment in Sanmar common shares for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed earlier in the Indian Investments section of this MD&A.

Sanmar Bonds

At September 30, 2017 the company estimated the fair value of its investment in Sanmar bonds using an industry accepted discounted cash flow and option pricing model that incorporated Sanmar's estimated credit spread of 8.1% (December 31, 2016 - 7.1%) and assumptions related to certain redemption options embedded in the bonds. The estimated credit spread was based on the credit spreads of a peer group of comparable companies adjusted for credit risk specific to Sanmar. At September 30, 2017 the company's internal valuation model indicated that the fair value of the Sanmar bonds was $322,505 (December 31, 2016 - $299,093). The changes in fair value of the company's investment in Sanmar bonds for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed earlier in the Indian Investments section of this MD&A. The increase in the fair value of Sanmar bonds for the nine months ended September 30, 2017 primarily reflected the impact of the accretion of the cost of Sanmar bonds to their redemption value after giving consideration to the issuer's credit risk and the redemption option held by the issuer prior to maturity.

Sanmar's Summarized Financial Information

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, 2017 and March 31, 2017.

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

	June 30, 2017[(1)]	March 31, 2017[(1)]
Current assets	**246,900**	188,559
Non-current assets	**1,282,197**	1,277,153
Current liabilities	**413,692**	385,253
Non-current liabilities	**1,357,664**	1,296,795
Shareholders' equity	**(242,259)**	(216,336)

(1) The net assets of Sanmar were translated at June 30, 2017 at $1 U.S. dollar = 64.64 Indian rupees and at March 31, 2017 at $1 U.S. dollar = 64.94 Indian rupees. The exchange rates used were the spot rates prevailing on those respective dates.

The increase in current assets primarily reflected increases in cash and cash equivalents related to proceeds received from a $50,000 bank loan drawn by Sanmar Egypt to finance the second phase of its expansion project in Egypt that has not yet been utilized, as well as positive cash flow generated by Chemplast. Non-current assets increased modestly at June 30, 2017 with the increase primarily attributable to the favourable impact of foreign exchange. The increase in current liabilities primarily reflected increased funding from working capital loans. The increase in non-current liabilities primarily reflected an increase in long term loans and borrowings related to the $50,000 bank loan drawn by Sanmar Egypt as previously discussed.

Summarized below are Sanmar's statements of earnings for the three months ended June 30, 2017 and 2016.

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

	Three months ended June 30, 2017[(1)]	Three months ended June 30, 2016[(1)]
Revenue	**164,525**	153,076
Loss before income taxes	**(18,908)**	(18,370)
Net loss	**(23,840)**	(28,759)

(1) Amounts for the three months ended June 30, 2017 and 2016 were translated into US$ using the average exchange rates of $1 U.S. dollar = 64.47 Indian rupees and $1 U.S. dollar = 66.90 Indian rupees prevailing during those periods.

The increase in Sanmar's revenue primarily reflected increased revenue at Chemplast where sales of PVC exceeded expectations. The loss before income taxes was negatively impacted by temporary pressures on margins as a result of higher production costs at Chemplast, increased depreciation as a result of increased property, plant and equipment, as well as pre-tax losses at Sanmar Egypt, partially offset by lower interest expense as a result of the refinancing of higher interest bearing short term loans with new long term loans and borrowings at lower interest rates. Sanmar's decrease in net loss primarily reflects decreased provision for current income taxes as a result of lower earnings before income taxes at Chemplast as previously discussed.

Saurashtra Freight Private Limited

Business Overview

Saurashtra Freight Private Limited ("Saurashtra"), a private company, runs one of the largest container freight stations at Mundra port (Gujarat), the second largest and fastest growing port in India. Services provided by Saurashtra's container freight station includes transportation of containers to and from the port, stuffing/destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers. During the third quarter of 2017 Saurashtra commenced operations of two new business units which will focus on new services for container shipping, offering integrated logistic solutions to its customers. Saurashtra's new services provide niche shipping line voyages between India and select countries in the Gulf region, and provide their own containers to importers and exporters to move cargo.

Saurashtra's principal lines of business are as follows:

Container Freight Station

Saurashtra's container freight station services include transportation of containers to and from the port, stuffing/destuffing of containers, cargo storage, transportation of cargo to the end customer, and the storage, maintenance and repair of empty containers.

Fairwind Shipping

During the third quarter of 2017, through strategic partnerships with established shipping companies, Saurashtra launched their first shipping services at Kandla port in India. Saurashtra has a 90.0% equity interest in the Fairwind Shipping business and will provide niche shipping services to select countries in the Gulf region. Fairwind Shipping will lease shipping vessels and sell slots on those shipping vessels to customers, anticipating that they will operate within two routes to service the Gulf region. Fairwind Shipping will be able to utilize the services of Fairfreight Lines, providing a strategic benefit to Saurashtra.

Fairfreight Lines

During the third quarter of 2017 Saurashtra commenced operations of its newly formed wholly-owned subsidiary Fairfreight Lines. Fairfreight Lines owns its own branded shipping containers which will enable importers and exporters to move cargo globally, offering an integrated logistic solution to its customers. Fairfreight Lines will purchase shipping containers to meet their clients' needs and will be able to utilize the shipping services of Fairwind Shipping.

Transaction Description

On February 14, 2017 the company, through a wholly-owned subsidiary, acquired a 51.0% equity interest in Saurashtra for cash consideration of $30,018 (approximately 2.0 billion Indian rupees).

At September 30, 2017 the company had appointed two of the six Saurashtra board members.

Key Business Drivers, Events and Risks

Saurashtra has the annual capacity to handle 180,000 standard twenty-foot (shipping container) equivalent units ("TEUs") and in 2016 handled 88,000 TEUs, implying capacity utilization of approximately 50.0%. Saurashtra has approximately a 20.0% market share at Mundra port in India which is the highest amongst all container freight stations ("CFS") at that port. Mundra port is in the process of expanding its capacity from 3.2 million to 6.6 million TEUs.

The CFS industry is correlated with growth in container traffic, which during the last 15 years has increased at a rate of 1.3 to 1.4 times the growth rate of India's GDP due to increasing containerization of cargo. The CFS industry is highly fragmented with 12 CFS at Mundra port. Many of these CFS are inefficient and operating below capacity providing Saurashtra with the opportunity to serve as a platform for consolidation.

India has witnessed considerable growth in exports in the second quarter of 2017, primarily due to increased global demand for agricultural products which has directly benefited Mundra port and Saurashtra. During the second quarter of 2017 two new CFS launched their services which has led to increased competition in the container import market, a market that is experiencing short term declines primarily as a result of the effects of demonetization and uncertainty around implications of GST which has led to conservative buying patterns in India.

Saurashtra's new business initiatives in Fairwind Shipping and Fairfreight Lines enable Saurashtra to offer integrated logistic solutions to its customers. Saurashtra has also completed a project during the third quarter of 2017 which has been instrumental in enhancing warehouse capacity and increasing the safety of cargo in custody.

The implementation of the GST on July 1, 2017 has resulted in an overall benefit to various sectors of the logistics industry including transportation, freight forwarding, warehousing, container services and express cargo delivery. Saurashtra has been able to generate higher revenues from value added activities such as special purpose warehousing and inventory management. The GST has had a significant impact on the port related logistics industry resulting in an overall 12% growth in volumes, a 30% growth in export income and a 2.5% increase in prices during the quarter ended September 30, 2017.

Valuation and Interim Consolidated Financial Statement Impact

During the third quarter of 2017 the company refined its internal valuation model used in the determination of the fair value of Saurashtra to reflect two new business units that were formed by Saurashtra during the quarter. At September 30, 2017 the company estimated fair value using a discounted cash flow analysis based on multi-year free cash flow projections with assumed after-tax discount rates ranging from 15.0% to 16.9% and long term growth rates ranging from 2.0% to 3.0%. Free cash flow projections were based on EBITDA estimates derived from financial information for Saurashtra's main business unit prepared in the second quarter of 2017 and from financial information for Saurashtra's new business units prepared in the third quarter of 2017 by Saurashtra's management. The discount rates were based on the company's assessment of risk premiums to the appropriate risk-free rate of the economic environment in which Saurashtra operates. At September 30, 2017 the company's internal valuation model indicated that the fair value of the company's investment in Saurashtra was $33,905. The changes in fair value of the company's investment in Saurashtra for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed earlier in the Indian Investments section of this MD&A. The increase in fair value of Saurashtra for the nine months ended September 30, 2017 was primarily driven by Saurashtra's new business initiatives and growth in the operating environment.

National Stock Exchange of India Limited

Business Overview

National Stock Exchange of India Limited ("NSE"), a private company, is India's largest stock exchange located in Mumbai, India. In addition to providing a platform for 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.

Transaction Description

In the third quarter of 2016 the company, through a wholly-owned subsidiary, acquired a 1.0% equity interest in NSE for cash consideration of $26,783 (approximately 1.8 billion Indian rupees).

Key Business Drivers, Events and Risks

India has two main stock exchanges where the majority of its trading takes place, the BSE of India and the NSE of India. Although most significant firms in India are listed on both the BSE of India and the NSE of India, the NSE enjoys a dominant market share position including an 85% market share in the equity trading segment, a 99% market share in the equity derivatives trading segment and a 56% market share in the foreign exchange derivatives market.

On December 28, 2016 the NSE filed a draft prospectus with SEBI in connection with its proposed initial public offering ("IPO"). The IPO was anticipated to be completed in 2017, and subsequent to June 30, 2017 shareholders were informed that the IPO would be delayed until 2018. NSE will also seek to file for an overseas listing subsequent to closing of the IPO. NSE has appointed Citibank, JM Financial, Kotak Mahindra and Morgan Stanley as lead investment banks to manage the IPO.

On February 3, 2017 the NSE appointed Vikram Limaye (formerly the CEO of infrastructure lender IDFC Limited "IDFC") as its CEO. Mr. Limaye will be the first head of the NSE to come from outside the ranks of the NSE's founding team since it was set up in 1992. Mr. Limaye had been with IDFC since 2005 and has served more than 25 years with financial institutions, global investment banks, international commercial banks, and global accounting firms.

Valuation and Interim Consolidated Financial Statement Impact

During the first quarter of 2017 the company refined its internal valuation model used in the determination of the fair value of NSE. At September 30, 2017 the fair value of the company's investment in NSE, based on an internal market approach valuation model by reference to the earnings multiple of a peer group of comparable companies with a median of 23.6 times, was $39,736 (December 31, 2016 - $26,504). The changes in fair value of the company's investment in NSE for the three and nine months ended September 30, 2017 and 2016 are presented in the tables disclosed earlier in the Indian Investments section of this MD&A. The increase in the fair value of NSE for the nine months ended September 30, 2017 reflected increased net earnings at NSE, and strong growth in the equity markets and other products such as commodities, bonds, currencies and interest rate futures, which are traded extensively on global exchanges but are only in their infancy in India and are therefore providing strong growth opportunities.

For the three and nine months ended September 30, 2017, the consolidated statements of earnings included dividend income earned from the investment in NSE of $941 in both periods (2016 - $490 in both periods).

Results of Operations

Fairfax India's consolidated statements of earnings for the three and nine months ended September 30 are shown in the following table:

	Third quarter		First nine months	
	2017	2016	**2017**	2016
Income				
Interest	**6,061**	4,507	**15,060**	16,787
Dividends	**3,463**	746	**8,088**	5,077
Net realized gains on investments	**—**	690	**1,195**	2,051
Net change in unrealized gains (losses) on investments and other costs	**(69,779)**	70,537	**478,504**	100,230
Net foreign exchange losses	**(6,200)**	(1,134)	**(23,214)**	(7,107)
	(66,455)	75,346	**479,633**	117,038
Expenses				
Investment and advisory fees	**5,059**	4,261	**19,303**	9,105
Performance fees	**(22,627)**	—	**84,334**	—
General and administration expenses	**780**	1,100	**3,518**	4,120
Interest expense	**7,598**	399	**10,839**	399
	(9,190)	5,760	**117,994**	13,624
Earnings (loss) before income taxes	**(57,265)**	69,586	**361,639**	103,414
Provision for (recovery of) income taxes	**(4,111)**	3,186	**(2,805)**	(1,987)
Net earnings (loss)	**(53,154)**	66,400	**364,444**	105,401
Net earnings (loss) per share	**$ (0.36)**	$ 0.62	**$ 2.50**	$ 0.99
Net earnings (loss) per diluted share	**$ (0.36)**	$ 0.62	**$ 2.43**	$ 0.99

In the third quarter of 2017 total income was an expense of $66,455 which decreased from total income of $75,346 in the third quarter of 2016 principally as a result of decreased net change in unrealized gains on investments and other costs, and increased net foreign exchange losses (primarily as a result of the weakening of the Indian rupee relative to the U.S. dollar during the third quarter of 2017, impacting the translation of the 1 year term loan). The net change in unrealized losses on investments and other costs of $69,779 in the third quarter of 2017 was principally comprised of depreciation in the company's common stock investments BIAL ($67,717 inclusive of the $74,202 costs incurred to acquire the additional 10.0% equity interest) and Fairchem ($24,267), partially offset by appreciation in Sanmar bonds ($6,783), IIFL ($5,682), NSE ($4,378) and NCML ($4,119). The net change in unrealized gains on investments of $70,537 in the third quarter of 2016 principally related to the appreciation in the company's common stock investments IIFL ($48,901) and standalone Fairchem ($7,421), and the company's Indian corporate, Government of India and Sanmar bond investments ($10,517). Interest income of $6,061 in the third quarter of 2017 increased from $4,507 in the third quarter of 2016 principally as a result of the purchases of additional Government of India bonds in the third quarter of 2017 from the net proceeds of the undeployed 1 year term loan. Dividend income of $3,463 in the third quarter of 2017 primarily related to dividends received from the company's investment in BIAL compared to dividend income in the third quarter of 2016 of $746 where dividends were principally received from NSE.

Total income of $479,633 in the first nine months of 2017 increased from $117,038 in the first nine months of 2016 principally as a result of increased net change in unrealized gains on investments and other costs, partially offset by increased net foreign exchange losses (primarily as a result of the strengthening of the Indian rupee relative to the U.S. dollar during the first nine months of 2017, impacting the translation of cash and cash equivalents). The net change in unrealized gains on investments and other costs of $478,504 in the first nine months of 2017 was principally comprised of appreciation in the company's common stock investments IIFL ($434,292), NSE ($12,218), Sanmar bonds ($11,756), Fairchem ($8,896) and BIAL ($8,879, net of the $74,202 costs incurred to acquire the additional 10.0% equity interest). Interest income of $15,060 in the first nine months of 2017 decreased from $16,787 in the first nine months of 2016 principally as a result of the partial sale of Government of India bonds in the first quarter of 2017 where the net proceeds were used to supplement the funding of the 38.0% investment in BIAL on March 24, 2017, partially offset by the purchases of additional Government of India bonds in the third quarter of 2017 from the net proceeds of the undeployed 1 year term loan. Dividend income of $8,088 in the first nine months of 2017 primarily related to dividends received from the company's investments in IIFL and BIAL compared to dividend income in the first nine months of 2016 of $5,077 where dividends were principally received from IIFL.

Net gains (losses) on investments and net foreign exchange gains (losses) for the three and nine months ended September 30 were comprised as follows:

	Third quarter					
	2017			2016		
	Net realized losses	**Net change in unrealized gains (losses) and other costs**	**Net gains (losses)**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	—	—	—	(19)	—	(19)
Bonds	—	**4,308**	**4,308**	(19)	10,517	10,498
Common stocks	—	**(74,087)** (1)	**(74,087)**	21	58,285 (1)	58,306
Common stocks - Investment funds	—	—	—	707	1,735	2,442
	—	**(69,779)**	**(69,779)**	690	70,537	71,227
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**(485)**	—	**(485)**	(1,616)	—	(1,616)
Investments	—	**(49)**	**(49)**	1,600	(2,658)	(1,058)
Term loans	—	**(4,677)**	**(4,677)**	—	1,309	1,309
Other	**(989)**	—	**(989)**	231	—	231
	(1,474)	**(4,726)**	**(6,200)**	215	(1,349)	(1,134)

	First nine months					
	2017			2016		
	Net realized gains (losses)	**Net change in unrealized gains (losses) and other costs**	**Net gains (losses)**	Net realized gains (losses)	Net change in unrealized gains (losses)	Net gains (losses)
Net gains (losses) on investments:						
Short term investments	—	—	—	(17)	—	(17)
Bonds	**1,195**	**4,312**	**5,507**	(3,327)	16,616	13,289
Common stocks	—	**474,192** (1)	**474,192**	4,688	80,839 (1)	85,527
Common stocks - Investment funds	—	—	—	707	2,775	3,482
	1,195	**478,504**	**479,699**	2,051	100,230	102,281
Net foreign exchange gains (losses) on:						
Cash and cash equivalents	**(26,684)** (2)	—	**(26,684)**	(9,063)	—	(9,063)
Investments	**(1,046)**	**(176)**	**(1,222)**	2,499	(2,083)	416
Term loans	**9,812**	**(4,677)**	**5,135**	—	1,309	1,309
Other	**(443)**	—	**(443)**	231	—	231
	(18,361)	**(4,853)**	**(23,214)**	(6,333)	(774)	(7,107)

(1) Refer to the Indian Investments section of this MD&A for a summary of changes in the fair value of the company's Public and Private Indian Investments for the three and nine months ended September 30, 2017 and 2016.

(2) Primarily related to the U.S. dollar net proceeds received from the Offerings (see note 8 (Total Equity) to the interim consolidated financial statements for the three and nine months ended September 30, 2017) that were held in U.S. dollar denominated cash equivalents until the funds were partially deployed to acquire the 38.0% equity interest in BIAL.

Total expenses decreased from $5,760 in the third quarter of 2016 to a recovery of expenses of $9,190 in the third quarter of 2017 primarily as a result of the recovery of performance fees as a result of common shareholders' equity decreasing to $1,996,657 at September 30, 2017 from $2,075,590 at June 30, 2017 (there was no performance fee accrued in the third quarter of 2016), partially offset by higher interest expense and issuance costs incurred on the 1 year term loan and investment and advisory fees (principally as a result of increased holdings of Indian Investments). Total expenses increased to $117,994 in the first nine months of 2017 from $13,624 in the first nine months of 2016 primarily as a result of increased performance fees (there were no performance fees accrued in the first nine months of 2016), the impact of increased interest expense and issuance costs incurred on the term loans and increased investment and advisory fees.

The performance fee is accrued quarterly and 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 20.0% of any increase in common shareholders' equity per share (including distributions) above a 5.0% per annum increase. The amount of common shareholders' equity per share at any time which must be achieved before any performance fee would be payable is sometimes referred to as the "hurdle per share". The company determined that a performance fee of $85,114 should be accrued at September 30, 2017 as the book value per share of $14.12 (before factoring in the impact of the performance fee) at September 30, 2017 was greater than the hurdle per share at that date of $11.23.

The investment and advisory fee is calculated and payable quarterly as 0.5% of the value of undeployed capital and 1.5% of the company's common shareholders' equity less the value of undeployed capital. For the third quarter and first nine months of 2017 the company determined that the majority of its assets were invested in Indian Investments, which are considered deployed capital. In the third quarter and first nine months of 2017, the investment and advisory fees in the consolidated statements of earnings were $5,059 and $19,303 (2016 - $4,261 and $9,105).

The recovery of income taxes of $4,111 and $2,805 in the third quarter and first nine months of 2017 differed from the provision for income taxes that would be determined by applying the company's Canadian statutory income tax rate of 26.5% to the company's earnings (loss) before income taxes primarily as a result of the tax rate differential on income earned and losses incurred outside of Canada and unrecorded benefit of losses in Canada. The recovery of income taxes of $2,805 in the first nine months of 2017 also included the unfavourable impact of foreign exchange fluctuations.

The provision for income taxes of $3,186 in the third quarter of 2016 and the recovery of income taxes of $1,987 in first nine months 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 favourable impact of foreign exchange fluctuations, partially offset by unrecorded deferred taxes in Canada.

The company reported a net loss of $53,154 (a net loss of $0.36 per basic and diluted share) in the third quarter of 2017 compared to net earnings of $66,400 (net earnings of $0.62 per basic and diluted share) in the third quarter of 2016. The company reported net earnings of $364,444 (net earnings of $2.50 per basic and $2.43 per diluted share) in the first nine months of 2017 compared to net earnings of $105,401 (net earnings of $0.99 per basic and diluted share) in the first nine months of 2016. The year-over-year increase in profitability in the first nine months of 2017 primarily reflected the net change in unrealized gains on investments and other costs, partially offset by increased performance fees, investment and advisory fees (principally as a result of increased holdings of Indian Investments) and interest expense.

Consolidated Balance Sheet Summary

The assets and liabilities reflected on the company's consolidated balance sheet at September 30, 2017 were impacted by the acquisitions of the Indian Investments (BIAL and Saurashtra), additional investments in IIFL and NCML, net proceeds from the Offerings and the 1 year term loan, net purchases of Government of India bonds, repayment of the 2 year term loan and the accrual of performance fees.

Total Assets

Total assets at September 30, 2017 of $2,503,580 (December 31, 2016 - $1,303,497) were principally comprised as follows:

Total cash and investments increased to $2,490,549 at September 30, 2017 from $1,261,339 at December 31, 2016. The company's cash and investments composition by the issuer's country of domicile was as follows:

	September 30, 2017				December 31, 2016			
	India	**U.S.**	**Other**	**Total**	India	U.S.	Other	Total
Cash and cash equivalents	—	**45,504** (1)	**8,697** (2)	**54,201**	3	165,051 (1)	716 (2)	165,770
Short term investments - U.S. treasury bills	—	—	—	—	—	27,428	—	27,428
Bonds:								
Government of India	**261,344**	—	—	**261,344**	130,317	—	—	130,317
Indian corporate	**102,226**	—	—	**102,226**	99,447	—	—	99,447
Sanmar	**322,505**	—	—	**322,505**	299,093	—	—	299,093
	686,075	—	—	**686,075**	528,857	—	—	528,857
Common stocks:								
IIFL	**787,197**	—	—	**787,197**	265,951	—	—	265,951
BIAL	**592,390**	—	—	**592,390**	—	—	—	—
NCML	**183,640**	—	—	**183,640**	146,586	—	—	146,586
Fairchem	**112,579**	—	—	**112,579**	45,488	—	—	45,488
Saurashtra	**33,905**	—	—	**33,905**	—	—	—	—
NSE	**39,736**	—	—	**39,736**	26,504	—	—	26,504
Sanmar	**826**	—	—	**826**	440	—	—	440
Privi	—	—	—	—	54,315	—	—	54,315
	1,750,273	—	—	**1,750,273**	539,284	—	—	539,284
Total cash and investments	**2,436,348**	**45,504**	**8,697**	**2,490,549**	1,068,144	192,479	716	1,261,339

(1) Included restricted cash of $15,424 at September 30, 2017 (December 31, 2016 - $18,810).

(2) Included cash principally held in a Canadian financial institution.

Cash and cash equivalents decreased to $54,201 at September 30, 2017 from $165,770 at December 31, 2016 principally reflecting the acquisitions of Indian Investments. Restricted cash of $15,424 and $18,810 at September 30, 2017 and December 31, 2016 related to requirements under the term loans for the company to set aside cash to fund term loan interest payments. The 2 year term loan was repaid on March 31, 2017 and the restricted cash was used to partially fund the repayment.

Bonds and Common stocks - The company is actively seeking investment opportunities in India and will continue to redirect 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 Indian Investments, see the Indian Investments section of this MD&A. For more information on the company's total cash and investment holdings of $2,490,549 at September 30, 2017 (December 31, 2016 - $1,261,339) see note 6 (Cash and Investments) to the interim consolidated financial statements for the three and nine months ended September 30, 2017.

Interest receivable increased by $2,388 to $9,881 at September 30, 2017 from $7,493 at December 31, 2016 primarily reflecting increased interest receivable from Government of India bonds as a result of net purchases in the first nine months of 2017, partially offset by decreased interest receivable from Indian corporate bonds as a result of sales in 2016 where the net proceeds were used to partially finance the acquisitions of Indian Investments.

Income taxes refundable decreased by $4,316 to $3,010 at September 30, 2017 from $7,326 at December 31, 2016 primarily reflecting an income tax refund received in the third quarter of 2017 relating to company's 2016 Canadian corporate tax return filing.

Other assets decreased to $140 at September 30, 2017 from $27,339 at December 31, 2016 primarily reflecting the receipt of proceeds in January 2017 of $26,525 on the sale of the company's investment in investment funds recorded as a receivable at December 31, 2016.

Total Liabilities

Total liabilities at September 30, 2017 of $506,923 (December 31, 2016 - $228,051) were principally comprised as follows:

Payable to related parties increased to $90,394 at September 30, 2017 from $3,673 at December 31, 2016 principally relating to performance fees accrued in the first nine months of 2017 of $85,114 (December 31, 2016 - nil) as a result of increased common shareholders' equity (primarily as a result of net earnings ($364,444) and net unrealized foreign currency translation gains ($63,156) in the first nine months of 2017) and higher investment and advisory fees payable to Fairfax.

Payable for rights issue of $15,590 at September 30, 2017 (December 31, 2016 - nil) related to the remaining 62.5% of the NCML rights issue that is expected to be called for settlement in early 2018.

Term loans increased to $400,000 at September 30, 2017 from $223,772 at December 31, 2016 related to the 1 year secured term loan completed on July 11, 2017, partially offset by the repayment of the 2 year secured term loan repaid on March 31, 2017 (pursuant to a mandatory prepayment clause that required the company to repay the principal amount from the net proceeds of the Offerings (see note 7 (Term Loans) to the interim consolidated financial statements for the three and nine months ended September 30, 2017)).

Financial Risk Management

The primary goals of the company's financial risk management program are to ensure that the outcomes of activities involving elements of risk are consistent with the company's objectives and risk tolerance, while maintaining an appropriate balance between risk and reward and protecting the company's consolidated balance sheets from events that have the potential to materially impair its financial strength. There were no significant changes in the types of the company’s risk exposures or the processes used by the company for managing those risk exposures at September 30, 2017 compared to those identified at December 31, 2016 and disclosed in the company’s 2016 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, 2017.

Capital Resources and Management

The company’s objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for common shareholders and to maintain an optimal capital structure to reduce the cost of capital. The company will seek attractive risk-adjusted returns, but will at all times seek downside protection and attempt to minimize the loss of capital. Total capital increased from $1,299,218 at December 31, 2016 (comprised of the 2 year term loan and common shareholders' equity) to $2,396,657 at September 30, 2017 (comprised of the 1 year term loan and common shareholders’ equity), principally reflecting net proceeds received from the Offerings and the 1 year term loan, net earnings and other comprehensive income in the first nine months of 2017, partially offset by the repayment of the 2 year term loan.

On July 11, 2017 the company entered into an agreement with a Canadian bank for a 1 year secured term loan with a principal amount of $400,000 bearing interest at a rate of LIBOR plus 325 to 375 basis points. On July 13, 2017 the company used a portion of the net proceeds from the 1 year term loan to complete the additional 10.0% investment in BIAL of $200,093 and participate in the NCML rights issue. The 1 year term loan includes a financial covenant that requires the company to maintain common shareholders’ equity of not less than $1.3 billion. At September 30, 2017 the company was in compliance with the 1 year term loan covenants.

On January 13, 2017 the company completed an underwritten public offering and concurrent with the public offering, Fairfax and OMERS acquired additional subordinate voting shares resulting in net proceeds of $493,504. Net proceeds from the Offerings were used to acquire additional Indian Investments, for general corporate purposes, and to repay the 2 year term loan.

On September 16, 2016 the company entered into an agreement with a syndicate of Canadian banks for a 2 year secured term loan with a principal amount of $225,000. The 2 year term loan was repaid on March 31, 2017.

Common shareholders’ equity at September 30, 2017 increased to $1,996,657 from $1,075,446 at December 31, 2016 primarily reflecting the net proceeds from the Offerings ($493,504), and net earnings ($364,444) and unrealized foreign currency translation gains ($63,156) in the nine months ended September 30, 2017.

Book Value per Share

Common shareholders’ equity at September 30, 2017 was $1,996,657 (December 31, 2016 - $1,075,446). The book value per share at September 30, 2017 was $13.54 compared to $10.25 at December 31, 2016 representing an increase in the first nine months of 2017 of 32.1%, primarily reflecting net earnings of $364,444 and unrealized foreign currency translation gains of $63,156.

	September 30, 2017	December 31, 2016
Common shareholders' equity	**1,996,657**	1,075,446
Number of common shares effectively outstanding [(1)]	**147,434,531**	104,881,031
Book value per share	**$13.54**	$10.25

(1) On January 13, 2017 the company issued 42,553,500 subordinate voting shares at a price of $11.75 per share pursuant to the Offerings.

On October 4, 2017 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, 2018, to acquire up to 3,500,000 subordinate voting shares representing approximately 4.3% 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.

Liquidity

The company believes that cash and cash equivalents at September 30, 2017 provides adequate liquidity to meet the company's remaining known significant commitments in 2017, which are principally comprised of investment and advisory fees, general and administration expenses and potentially corporate income taxes. In addition, at September 30, 2017 the company has a payable on rights issue relating to NCML that is anticipated to be called in early 2018. 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 company has adequate working capital to support its operations.

Refer to the Contractual Obligations section of this MD&A for details on the settlement of the performance fees, if any, at the end of the first calculation period, December 31, 2017.

Highlights in the first nine months of 2017 (with comparisons to the first nine months of 2016 except as otherwise noted) of major components of the statements of cash flows are presented in the following table:

	First nine months	
	2017	2016
Operating activities		
Cash provided by (used in) operating activities before the undernoted	**(67,271)**	25,884
Net sales of short term investments classified as FVTPL	**27,011** [(1)]	22,590
Purchases of bonds and common stocks classified as FVTPL	**(812,484)**	(423,639)
Sales of bonds and common stocks classified as FVTPL	**78,458**	333,591
Decrease in restricted cash in support of investments	**—**	6,457
Investing activities		
Purchases of premises and equipment	**—**	(128)
Financing activities		
Net proceeds from 1 year term loan	**396,978**	—
Net proceeds from 2 year term loan	**—**	222,248
Repayment of 2 year term loan	**(225,000)**	—
Net decrease (increase) in restricted cash in support of term loans	**3,386**	(21,219)
Issuance of subordinate voting shares, net of issuance costs	**493,504**	—
Increase (decrease) in cash and cash equivalents during the period	**(105,418)**	165,784

(1) Excludes $74,202 cash consideration paid attributable to the costs incurred to purchase the additional 10.0% equity interest in Bangalore International Airport Limited (see note 5 to the interim consolidated financial statements for the three and nine months ended September 30, 2017).

Cash provided by (used in) operating activities before the undernoted is comprised of net earnings (loss) adjusted for items not affecting cash and cash equivalents and changes in operating assets and liabilities. Cash used in operating activities before the undernoted of $67,271 in the first nine months of 2017 decreased from cash provided by operating activities before the undernoted of $25,884 in the first nine months of 2016, principally reflecting lower interest income received on Government of India and Indian Corporate bonds, higher investment and advisory fees paid to Fairfax, and higher interest paid on the term loans, partially offset by lower income taxes paid.

Net sales of short term investments classified as FVTPL of $27,011 and $22,590 in first nine months of 2017 and 2016 primarily related to net sales of U.S. treasury bills. Purchases of bonds and common stocks classified as FVTPL of $812,484 in the first nine months of 2017 primarily related to investments in BIAL and Saurashtra, additional investments in IIFL and NCML, and purchases of Government of India bonds. Purchases of bonds and common stocks classified as FVTPL of $423,639 in the first nine months of 2016 primarily related to the investments in Sanmar, Privi, NSE and Fairchem. Sales of bonds and common stocks classified as FVTPL of $78,458 and $333,591 in the first nine months of 2017 and 2016 were principally related to the sale of Government of India bonds in the first nine months of 2017 and sale of Indian corporate bonds and investment funds in the first nine months of 2016 to partially finance the acquisitions of the Indian Investments noted above. Decrease in restricted cash in support of investments of $6,457 in the first nine months of 2016 reflected the release of cash in escrow related to the investments in IIFL ($3,600) and Fairchem ($2,857). Refer to note 14 (Supplementary Cash Flow Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2017 for details of purchases and sales of investments classified as FVTPL.

Net proceeds from 1 year term loan of $396,978 in the first nine months of 2017 related to the term loan gross proceeds of $400,000 net of $3,022 in issue costs, where the company used a portion of the net proceeds from the term loan to complete the additional 10.0% investment in BIAL and participate in the NCML rights issue. Net proceeds from 2 year term loan of $222,248 in the first nine months of 2016 related to the term loan gross proceeds of $225,000 net of $2,752 in issue costs, where the company used a portion of the net proceeds from the term loan to complete the investment in the second tranche of Sanmar bonds ($50,000). Repayment of 2 year term loan of $225,000 in the first nine months of 2017 related to the early settlement of the term loan on March 31, 2017 upon completion of the Offerings. Net decrease in restricted cash in support of term loans of $3,386 in the first nine months of 2017 and the net increase in restricted cash in support of term loans of $21,219 in the first nine months 2016 related to the changes in the restricted cash accounts required to be maintained to fund the term loans interest payments. Refer to note 7 (Term Loans) to the interim consolidated financial statements for the three and nine months ended September 30, 2017 for further details. Issuance of subordinate voting shares, net of issuance costs of $493,504 in the first nine months of 2017 reflected net proceeds received from the Offerings. Issuance costs were primarily comprised of fees paid to underwriters of the subordinate voting shares. Refer to note 8 (Total Equity) to the interim consolidated financial statements for the three and nine months ended September 30, 2017 for details.

Contractual Obligations

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

The investment and advisory fee in the consolidated statements of earnings for the three and nine months ended September 30, 2017 was $5,059 and $19,303 (2016 - $4,261 and $9,105).

The performance fee is accrued quarterly and paid for the period from January 30, 2015 to December 31, 2017 (the "first calculation period") and for each consecutive three-year period thereafter, and is calculated, on a cumulative basis, as 20.0% of any increase in common shareholders' equity per share (including distributions) above a 5.0% per annum increase. The amount of common shareholders' equity per share at any time which must be achieved before any performance fee would be payable is sometimes referred to as the "hurdle per share". The company determined that a performance fee of $85,114 should be accrued at September 30, 2017 as the book value per share of $14.12 (before factoring in the impact of the performance fee) at September 30, 2017 was greater than the hurdle per share at that date of $11.23.

If a performance fee is payable for the first calculation period, it will be paid within 30 days after the company issues its annual audited consolidated financial statements, in subordinate voting shares of the company unless the market prices per share of those shares is more than two times the then book value per share, in which event Fairfax may elect to receive that fee in cash.

At September 30, 2017 there were 4,660,459 contingently issuable subordinate voting shares relating to the performance fee payable to Fairfax. The number of subordinate voting shares to be issued will be calculated based on the volume-weighted average trading price of the company's subordinate voting shares for the 10 trading days prior to and including the last day of the calculation period in respect of which the performance fee is paid.

Related Party Transactions

For details on the company's related party transactions, see note 12 (Related Party Transactions) to the interim consolidated financial statements for the three and nine months ended September 30, 2017.

Other

Quarterly Data (unaudited)

	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Income	**(66,455)**	337,980	208,108	11,566	75,346	33,917	7,775	29,668
Expenses	**(9,190)**	73,067	54,117	8,036	5,760	3,967	3,897	2,559
Provision for (recovery of) income taxes	**(4,111)**	(3,682)	4,988	1,106	3,186	(8,309)	3,136	6,318
Net earnings (loss)	**(53,154)**	268,595	149,003	2,424	66,400	38,259	742	20,791
Net earnings (loss) per share	**$ (0.36)**	$ 1.82	$ 1.05	$ 0.02	$ 0.62	$ 0.36	$ 0.01	$ 0.19
Net earnings (loss) per diluted share	**$ (0.36)**	$ 1.74	$ 1.03	$ 0.02	$ 0.62	$ 0.36	$ 0.01	$ 0.19

(in Indian rupees and in millions)	**September 30, 2017**	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
Income	**(4,599)**	21,937	13,929	784	5,041	2,276	525	1,902
Expenses	**(661)**	4,731	3,622	541	384	265	263	164
Provision for (recovery of) income taxes	**(269)**	(248)	334	74	216	(559)	212	405
Net earnings (loss)	**(3,669)**	17,454	9,973	169	4,441	2,570	50	1,333
Net earnings (loss) per share	**(24.89)**	118.38	70.35	1.60	41.63	24.10	0.47	12.50
Net earnings (loss) per diluted share	**(24.89)**	113.21	68.64	1.60	41.63	24.10	0.47	12.50

Income continues to be primarily comprised of net change in unrealized gains (losses) on investments and other costs, and interest and dividend income. Income was significantly impacted in the first nine months of 2017 by the net change in unrealized gains (losses) on the company's Indian Investments and other costs (principally IIFL, BIAL, Fairchem, NSE and Sanmar bonds), the timing of which are not predictable. Individual quarterly results have been (and may in the future be) affected by increased expenses impacted by the change in fair value of the company's Indian Investments which result in higher performance fees and investment and advisory fees.

Forward-Looking Statements

This interim report may contain forward-looking information within the meaning of applicable securities legislation. Forward-looking statements may relate to the company's or an Indian Investment's future outlook and anticipated events or results and may include statements regarding the financial position, business strategy, growth strategy, budgets, operations, financial results, taxes, dividends, plans and objectives of the company. Particularly, statements regarding future results, performance, achievements, prospects or opportunities of the company, an Indian Investment, 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; enforcement of rights; smaller company risk; due diligence and conduct of potential investment entities; Asian economic risk; reliance on trading partners risk; natural disaster risks; government debt risk; and economic risk. Additional risks and uncertainties are described in the company's annual information form dated March 30, 2017 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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