Fairfax Financial Holdings Ltd. (TSE: FFH.CN / OTC: FRFHF.US)

The GE of Canada

February 8, 2024

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More GE Than Berkshire Hathaway

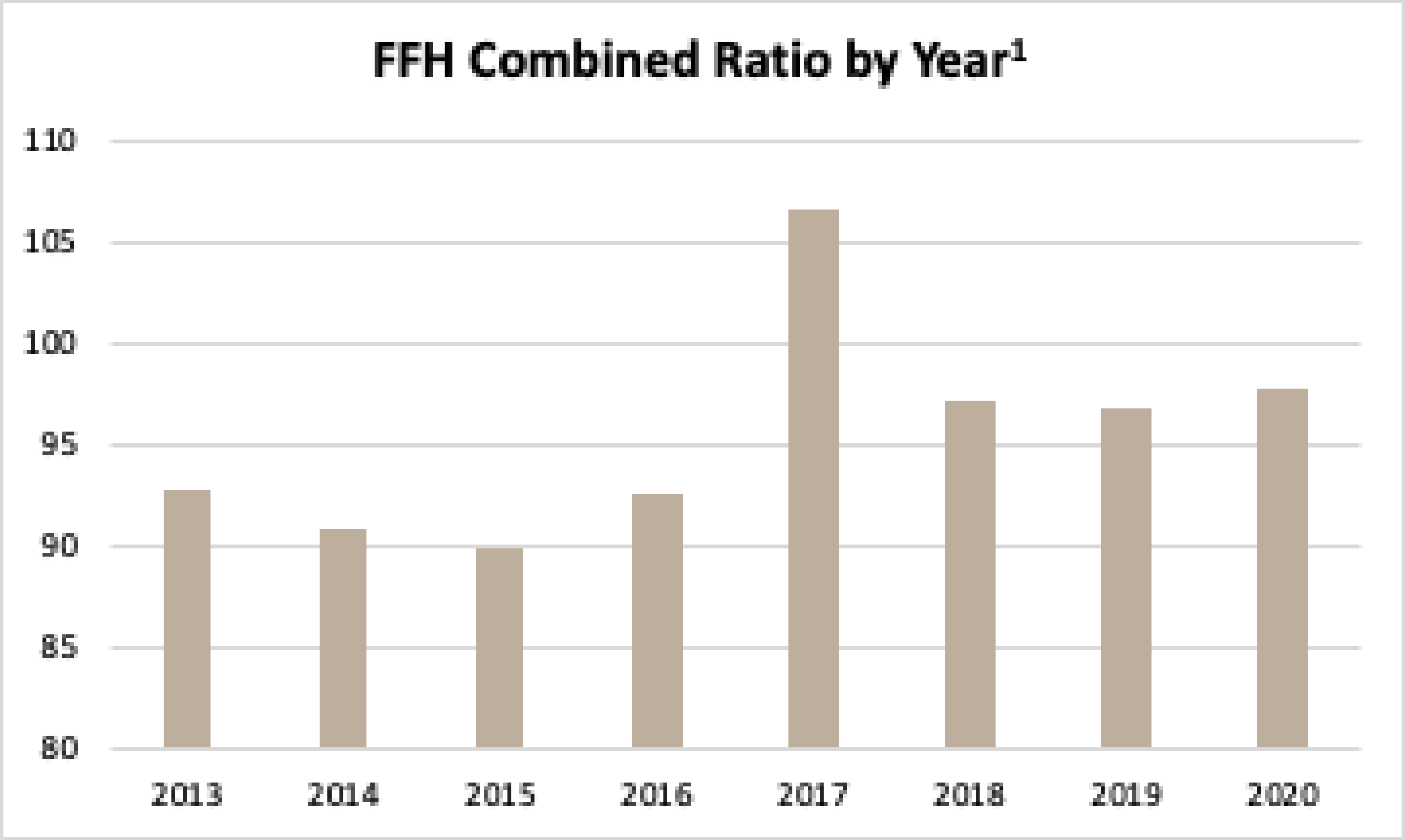
Muddy Waters is short Fairfax Financial Holdings Limited (FFH:CN) because we find that Fairfax has consistently manipulated asset values and income by engaging in often value destructive transactions to produce accounting gains. We believe a conservative adjustment to book value should be ~-$4.5 billion or ~-18% lower than reported. We see Fairfax as far more akin to GE than to Berkshire Hathaway.

Likely in response to significant insurance losses in 2017, including at its just-completed "transformational" acquisition of Allied World, Fairfax began pulling levers in 2018 to produce paper profits. We see Fairfax continuing to pull levers in 2019, and then greatly amping it up in 2020 in what seems to have been a near-panic at Fairfax. By 2021, Fairfax seems addicted to this behavior, and its financial engineering goes "gonzo" throughout 2021 and 2022. We expect that 2023 will ultimately prove to have been similarly egregious.

Another Fairfax reality is that for years, it has been badly missing its long-term target of compounding Book Value at 15%. Before adjusting for accounting abuses, from the GFC (December 2008) through 2022, Fairfax's own numbers have it compounding Book Value at only ~9%.

Acquiring Allied World in 2017 Seemingly Put Financial Pressure on Fairfax's Insurance Operations

- Allied World grew FFH assets and liabilities by over 40%.
- Even after the catastrophes of 2017, insurance business profitability has lagged since the acquisition. The Combined Ratio averaged 97.3 from 2018-2020, versus 91.5 from 2013-2016.[1]
- We believe this underperformance pressured Fairfax into becoming aggressive in pulling accounting levers starting in 2018.



[1] Combined Ratio source: S&P CapitalIQ.

~60% of Fairfax's Book Value Increase Since 2017 Is the Product of Abusive Accounting Often From Value Destructive, Non-Substantive Transactions

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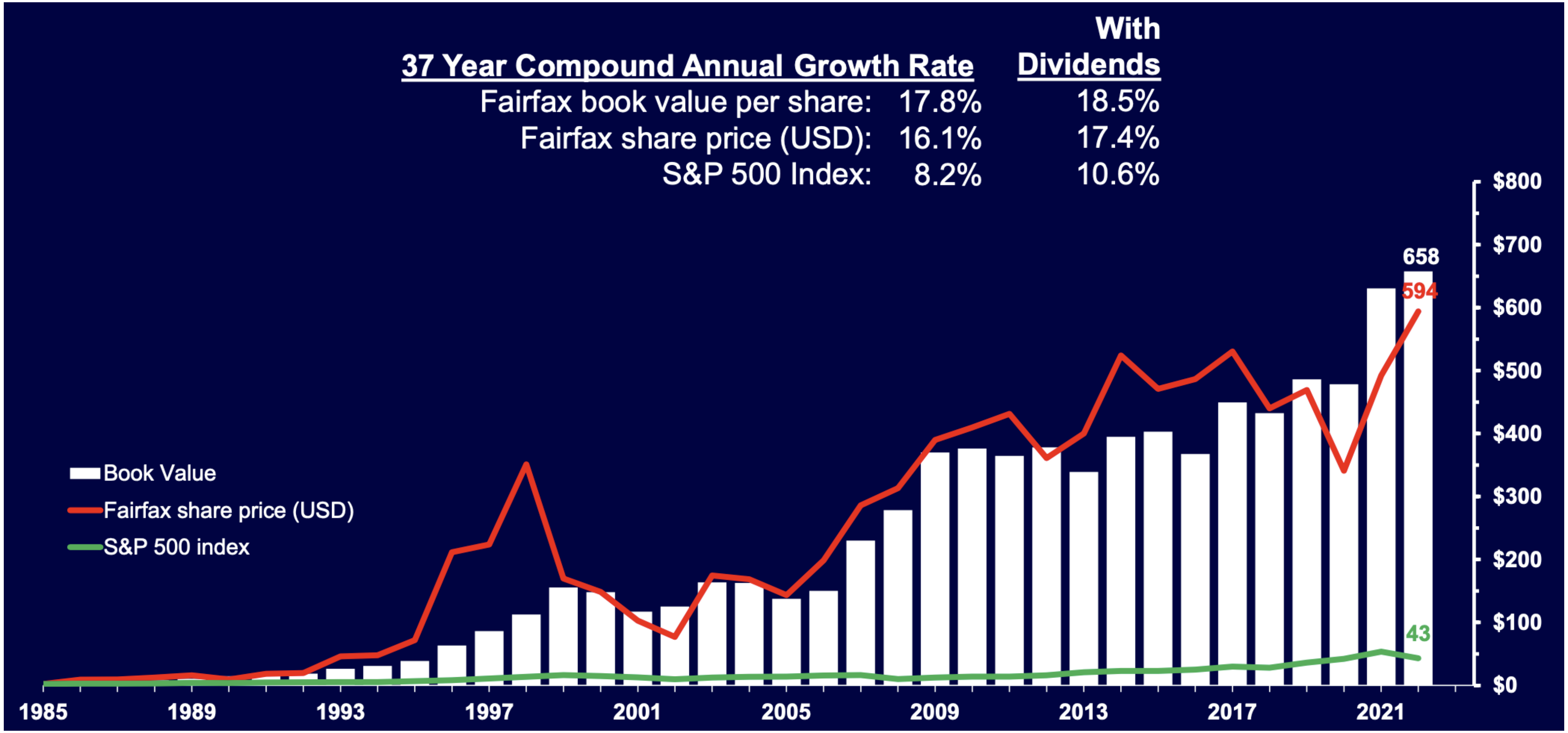
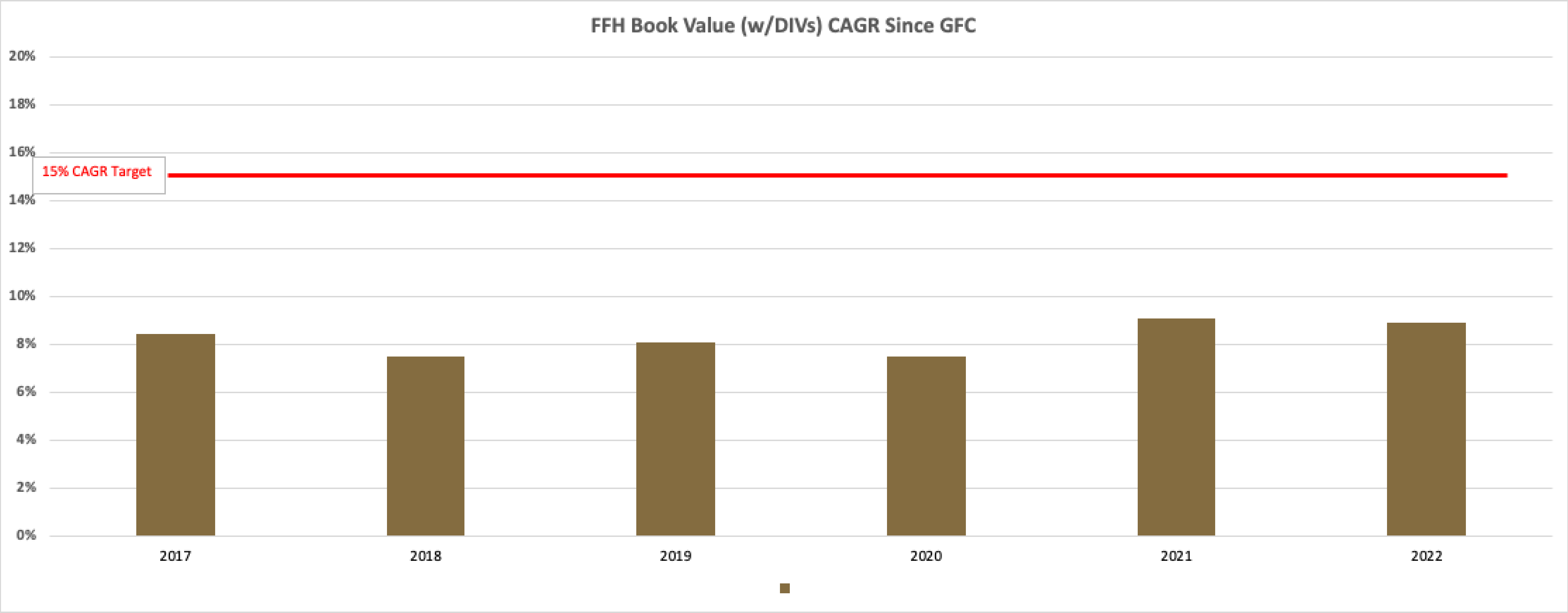
Year	Transaction	BV Adjustment (mm$) as of Q3 2023	Pg.	Rationale
2018	Recipe	-$251	8	Significantly mis-marking Recipe beginning in 2018, then buying it in 2022 at a 53% premium likely to avoid taking impairment
	Quess	-$225	13	Non-substantive de-consolidation to avoid ~$200 mm MTM losses, and take a highly dubious fair value gain of $890 mm
2019	EXCO Resources	-$245	21	Throwing good money after bad since 2013 (total ~$550 mm), Fairfax blatently mis-marks FV and CV to avoid impairment loss
	Grivalia Property	-$171	27	Trading Grivalia shares back and forth with Eurobank to inflate Grivalia's value, and Eurobank / Fairfax's book values
2020	RiverStone	-$117	29	A convoluted structure with OMERS to a) disguise high interest debt, b) avoid / disguise losses on investments, and c) produce a manipulated disposal gain
	Fairfax Africa	-$106	36	Throwing good (and disguised) money after bad to de-consolidate and avoid taking further losses
	APR Energy	-$109	39	Paying a friend to buy APR Energy so Fairfax wouldn't have to recognize a sizable loss
2021	Eurolife	-$262	45	A convoluted structure with OMERS to a) disguise high interest debt, and b) generate abusive and arbitrary at best FV gains
	Odyssey	-$429	48	In December, in a likely financing transaction, Fairfax sells ~10% of Odyssey to OMERS and CPPIB, immediately recording a highly dubious $429.1 mm gain
	Brit	-$115	48	In a likely financing transaction almost identical to Odyssey, Fairfax sells ~13% of Brit to OMERS, immediately recording a highly dubious $115.4 gain
2022	GoDigit	-$1,100	53	After effectively running a stock promotion of GoDigit in 2021, its valuation has incontrovertibly collapsed
2023	IFRS 17	-$1,242	62	Fairfax is a significant outlier among P&C insurers in the financial impacts of adopting IFRS 17 - we say "too good to be true"
	Farmers Edge	-$124	66	Fairfax Under-Impairs a Consolidated Subsidiary by ~$66 Million When the Market Cap Has Already Crashed to ~C$10 Million. Fairfax Then Makes Undisclosed Additional Loans of C$75 Million that Seemingly Throw Good Money After C$376 Million that Already Went Bad.
	Gulf Insurance	-$300 (as of Dec 23)	71	In December, Fairfax Continues its Gonzo Mode by Buying out the Portion of Gulf Insurance it Did Not Already Own at a Very Rich Multiple of ~2.4x Book Value, Taking a ~$300 Million Gain on Existing Shares

Fairfax Touts its 15% Book Value CAGR and Tells Investors it Blows Through It



Since the GFC, Fairfax's CAGR (Including Dividends) Has Fallen Well Short of 15%



2018-Present: Recipe

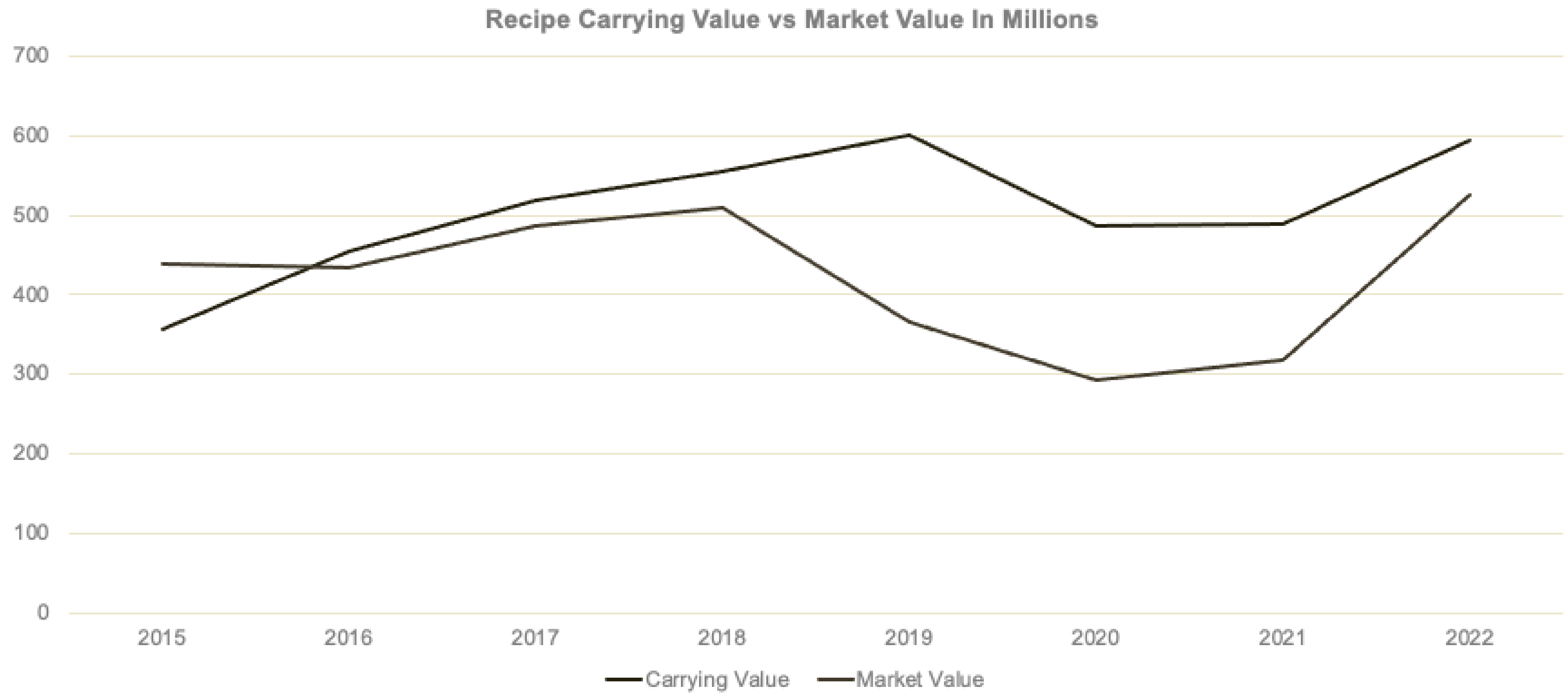
Historically Mis-Marking Recipe and then Acquiring it to Avoid Taking Losses, We Adjust Book Value Downward by $251 Million

Recipe — Introduction

Since Recipe (a chain of restaurants) went public in 2015, Fairfax has consistently overvalued its Recipe equity, carrying it at a premium to the observable market price. From 2015 – 2021, the delta between the public price and Fairfax's carrying value increased. Despite the deteriorating macro conditions for restaurants, Fairfax took the business private at a 53% premium, paying C$20.74 per share (slightly below where Fairfax carried it). We believe this allowed Fairfax to avoid taking $251 million in losses in 2022. Fairfax has continued to carry Recipe above its estimate of fair value, while the business' operating income has continued to shrink. Nevertheless, Fairfax has taken no impairment.

Fairfax's 2021 financials, which are audited by its long-standing auditor PwC Toronto, showed Recipe's goodwill and intangibles at a level 1.9x that of Recipe's own financials, which KPMG audited. We suspect this to be an example of Fairfax exercising an aggressive approach to valuation / impairment at the parent level.

Recipe Carrying Value vs. Market Value – Diverge Until It's Taken Private



Recipe Remains Overvalued on Fairfax's Book

Recipe uses the $15.30 for the take-private as the "market price" in FY 2022. This is an artificial price, however, set by the take-private transaction completed on 11/2/2022. The business has underperformed during the last 9 months. We adjust the book value down by the difference between the take-private price and the ~$10 price it traded at prior to the take-out, reducing book value by $251 million.

	First nine months									
	2023					2022				
	Restaurants and retail	Fairfax India	Thomas Cook India	Other[1]	Total[2]	Restaurants and retail	Fairfax India	Thomas Cook India	Other[1]	Total[2]
Revenue	1,299.4	200.2	685.4	2,677.5	4,862.5	1,270.6	160.4	378.1	2,104.0	3,913.1
Expenses	(1,221.7)	(195.0)	(661.2)	(2,713.1)	(4,791.0)	(1,175.4)	(152.6)	(376.4)	(2,194.0)	(3,898.4)
Pre-tax income (loss) before interest expense and other	77.7	5.2	24.2	(35.6)	71.5	95.2	7.8	1.7	(90.0)	14.7
Interest and dividends	7.3	(51.4)	—	1.1	(43.0)	7.2	34.1	—	(5.0)	36.3
Share of profit (loss) of associates	—	133.1	(0.4)	1.0	133.7	—	107.2	0.3	1.7	109.2
Operating income (loss)	85.0	86.9	23.8	(33.5)	162.2	102.4	149.1	2.0	(93.3)	160.2

(1) Comprised primarily of AGT, Dexterra Group, Boat Rocker, Farmers Edge and Grivalia Hospitality (consolidated on July 5, 2022).

(2) Amounts as presented in note 16 (Segmented Information) to the interim consolidated financial statements for the three and nine months ended September 30, 2023.

Restaurants and retail

The increase in revenue and expenses of Restaurants and retail in the first nine months of 2023 primarily reflected higher business volumes at Recipe principally due to the absence of COVID-19 related restrictions in the first nine months of 2023 compared to the first nine months of 2022. The increase in revenue in the first nine months of 2023 also reflected higher menu prices due to inflationary pressures. The increase in expenses in the first nine months of 2023 also reflected higher costs of sales relating to food inflation and compensation expense at Recipe which negatively impacted pre-tax income before interest expense and other year-over-year.

Fairfax Isn't the Most Conservative in its Valuations...

	KPMG audited Recipe reported** 12/26/21		PWC audited Fairfax reported 12/31/21	Diff	
	C$m	US$m*	US$m	US$m	%
Goodwill	236.5	187.1	321.2	134.1	72%
Intangibles	586.7	464.1	980.5	516.4	111%
Total	823.2	651.3	1,301.7	650.4	100%

* FX as of 12/31/2021 0.791

** Intangibles consist of indefinite and definite life intangibles

2018-Present: Quess

In 2018, Fairfax Boosted its Profit and Book Value with Accounting Gimmicks in Indian Outsourcing Provider Quess by $889 Million. Even After Impairments in 2019 and 2020, Fairfax's Carrying Value for Quess Overstates Book Value by $225 Million.

Quess — Overview

In Q1 2018, Fairfax used Quess as an accounting lever to create $889.9 million of profit and Book Value. Absent this lever, Fairfax seemingly would have reported a loss in Q1 2018 of ~$205 million (rather than its $684.3 million reported profit). Fairfax's gimmick was to de-consolidate Quess, using a rationale that strains credulity. Through Q3 2023, Fairfax has, in our view, insufficiently impaired Quess, for which we adjust Book Value down by -$225 million.

Quess IPOed in India in 2016. Fairfax, which owns its stake through Thomas Cook India, owned 49% of Quess when it de-consolidated it.[1] Fairfax justified the de-consolidation by claiming it entered an agreement to transfer sufficient control of the company to a 12% shareholder. Since then, Fairfax has changed the accounting policy it applies to its Quess stake two times. These repeated policy changes seem to have been designed to avoid testing the Quess investment for impairment. As of September 30, 2023, Fairfax carries Quess at a $225 million (87%) premium to Quess' market value.

[1] Fairfax Financial Holdings Annual Report 2018, Pg. 61.

Initial Accounting Impact of the Deconsolidation

As of Q1 2018, Fairfax was the largest shareholder of Quess, which it had been consolidating as a subsidiary. When Fairfax de-consolidated Quess, it accounted for it through "Fair Value Through Profits and Losses" ("FVTPL") - this is important to keep in mind when looking at the remainder of 2018.

Under IFRS, Fairfax was allowed to re-measure the carrying value of Quess. Fairfax proceeded to "fair value" its Quess stake, which is a process that, in our view, is easily manipulated. Accordingly, Fairfax determined that the Fair Value of its Quess stake as of March 31, 2018 was $1.1 billion, which resulted in a non-cash gain (and boost to Book Value) of $889.9 million.[1] This accounting gain enabled Fairfax to report an overall profit in Q1 2018.

[1] Fairfax Financial Holdings Annual Report 2018, p. 61.

Highly Questionable Rationale for De-Consolidation

- Fairfax's basis for de-consolidating Quess and producing the outsized paper gains was that it had "entered into a strategic agreement with the founder of Quess".[1] We infer that the strategic agreement purported to transfer control of Quess to the founder. We suspect that there was little "strategic" about this agreement, other than the desire to produce a large accounting gain.

- We assume that "founder" refers to Ajit Isaac, who owned only 12.1% of Quess.[2]

[1] Fairfax Q1 2018 Interim Report, p. 49.
[2] Source: S&P CapitalIQ.

Q2–Q4 2018: Changing Accounting Method to Deny Market Reality

When Fairfax de-consolidated Quess, it accounted for its stake at FVTPL. FVTPL required Fairfax to adjust the carrying value to Quess' market price.

However, after de-consolidation, Quess' shares lost ~39% (below). Rather than booking losses, during Q4 2018,[1] Fairfax changed the accounting method to the Equity Method. Under Equity Method accounting, Fairfax kept the initial fair value as its basis, and was required to add proportional shares of profits (or subtract losses).[2] This change to the Equity Method enabled Fairfax to avoid booking a $372 million loss during Q2 – Q4 2018.

However, the Equity Method also requires Fairfax to test for impairments if there are indicia the investment is impaired (e.g., a significantly diminished market value).

[1] Fairfax Financial Holdings Annual Report 2018, Pg. 61.
[2] Fairfax Financial Holdings Annual Report 2018, Pg. 59.

2019: Avoiding Impairment by Lowering Discount Rate

In 2019, Fairfax took a $190.6 million impairment on its Quess investment, but the resulting carrying value was still well in excess of the market value. The market seemingly had proven yet again that Fairfax's carrying value for an investment was unrealistic. At September 30, 2019, according to Fairfax's financials, the market value of its shares in Quess was $477.2 million while Fairfax continued to carry it at ~$1 billion.[1]

Seemingly to maintain this carrying value, Fairfax altered its valuation assumptions by changing from an after-tax discount rate of 13.1% in Q3 2019 to a discount rate of 12.8% in Q4 2019.[2] We suspect that there were additional, undisclosed, modeling changes.

Had Fairfax had employed FVTPL throughout 2019 as it initially had in 2018, Fairfax seemingly should have written down the value of its stake in Quess by more than half.[3] Fairfax's carrying value could only have been decreased under the Equity Method through proportional losses or impairments. Fairfax seems to have taken pains to avoid full impairments.

[1] Fairfax Financial Holdings Interim Financial Statements Q3 2019, Pg. 16.
[2] Fairfax Annual Report 2019, Pg. 71; and Fairfax Interim Report Q3 2019, Pg. 16.
[3] Fairfax Financial Holdings Financial Statements 2019 Q3, Pg. 16.

2021: The First Rule of Impairment Testing is "You Don't Talk About Impairment Testing"

In 2021, seemingly to continue inflating Quess and other associates' valuations, Fairfax ceased disclosing its impairment assessments of Associates carried above market values.[1] As shown at right, Fairfax disclosed impairment assessments in prior years.

This disappeared disclosure does not necessarily mean that Fairfax ceased testing for impairments, but the removal of this language is at least, in our view, unusual.

Below: Impairment assessments disclosure in Fairfax's 2020 and 2019 Annual Reports, Note 6 to the Consolidated Financial Statements. No corresponding section appears in 2021 or 2022.

Impairment assessments

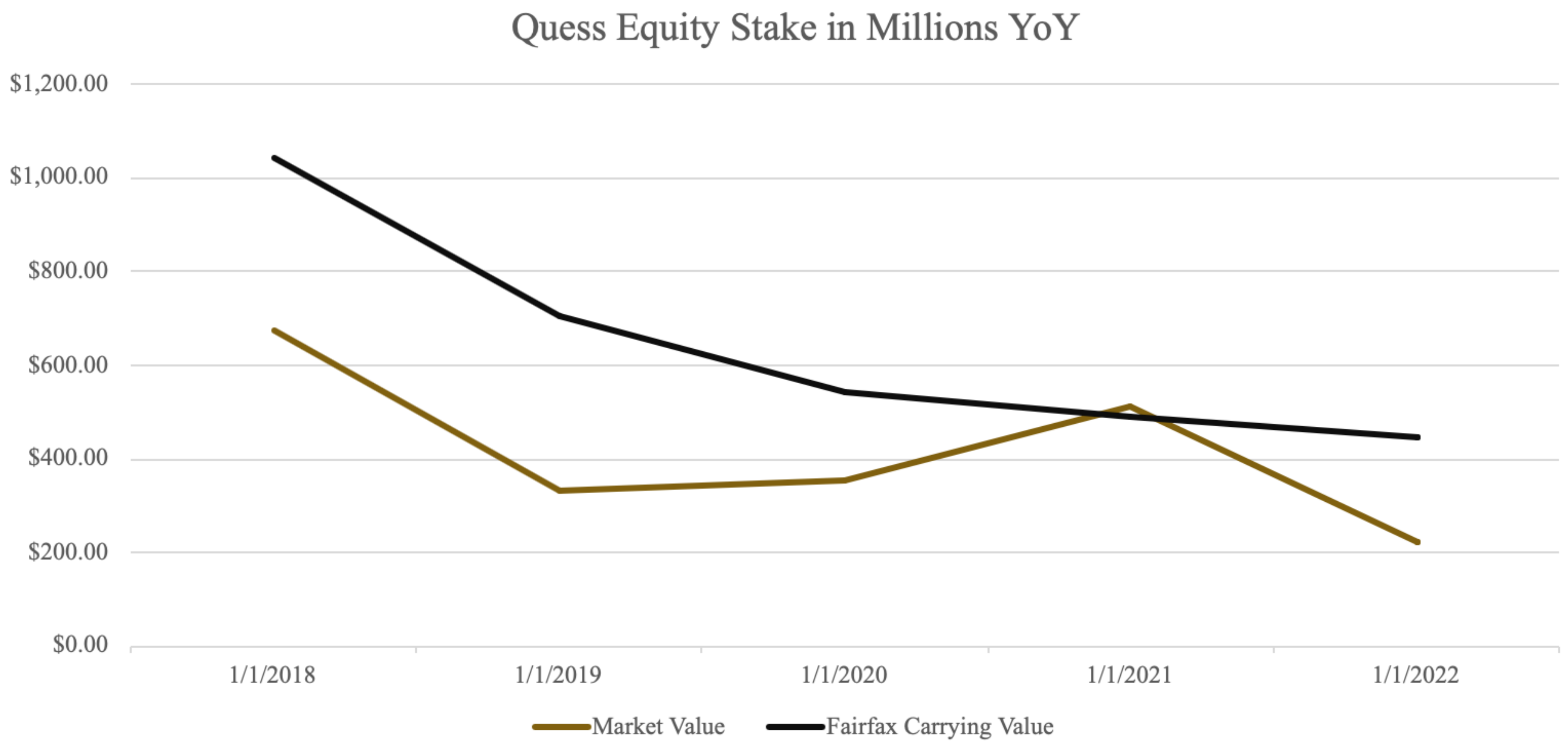
At December 31, 2020 the company conducted impairment assessments of its non-insurance associates and joint ventures that had carrying values in excess of their fair values as determined by current market conditions affected by the COVID-19 pandemic. From those assessments the company concluded there were no impairments except as described below.

For certain non-insurance associates and joint ventures where the market prices of their shares were lower than carrying value, the company performed a value-in-use analysis with multi-year free cash flow projections. A non-cash impairment charge was recorded where the recoverable amount (higher of fair value and value-in use) was determined to be lower than carrying value. Assumptions for each value-in-use analysis are set out in the table below:

	December 31, 2020				Discount rate[(2)]			
Non-insurance associate or joint venture	Fair value	Carrying value	Impairment recorded in 2020[(1)]	Source of free cash flow projections	December 31, 2020	December 31, 2019	Long term growth rate[(3)]	Summary of cash flow and other assumptions

[1] Fairfax Financial Holdings Annual Report 2021, Pp. 70-73.

Quess Carrying Value vs. Market Value – Seldom Do They Meet



2019-Present:
EXCO Resources

In 2019, It Became Clear that Fairfax Had Been Avoiding Booking Losses in Associate EXCO Resources, as Fairfax Consistently Carried Its Investment Well Above Market Value. Even More Misleadingly, Fairfax Marked Its Fair Value for EXCO at an Even Larger Overstatement Relative to Market. This Mis-Marking Has Enabled Fairfax to Avoid Losses (and Overstate Book Value) by More Than $245 Million.

EXCO Resources: Fair Value 3x Market Value, Leading to Overstating Book Value by ~$245 Million

- By carrying EXCO Resources well above its market value, Fairfax overstates its own book value by ~$245 million as of Q3 2023.
- EXCO is 44.4% owned by Fairfax,[1] which began investing in EXCO in 2013, five years before its bankruptcy filing.
- EXCO is traded OTC (EXCE US), which Fairfax seemingly ignores when it values its EXCO stake, which as of Q3 2023, it carried at $18.26 / share vs. $8 market value.[2]
- Fairfax further misleads investors by giving EXCO a higher fair value than carrying value. Fairfax's fair value of EXCO as of Q3 2023 was ~3x market value ($27 / share fair value vs. $8 / share market value).[3]
- The discrepancy between EXCO's fair value and *actual* market value makes it appear as though Fairfax's aggregate investment carrying values are below its aggregate investment fair values, giving a false impression of conservatism in carrying values.
- Fairfax has a long history with EXCO, throwing ~$450 million of good money after bad starting in 2013, calling into question the rigor of Fairfax's investment decision making process.

[1] Fairfax Financial Holdings Limited Interim Report Q3 2023, Pg. 22.
[2] Fairfax Financial Holdings Limited Interim Report Q3 2023, Pg. 22.
[3] Fairfax Financial Holdings Limited Interim Report Q3 2023, Pg. 22.

Fairfax Has Consistently Overvalued EXCO and Misled With Inflated Fair Values

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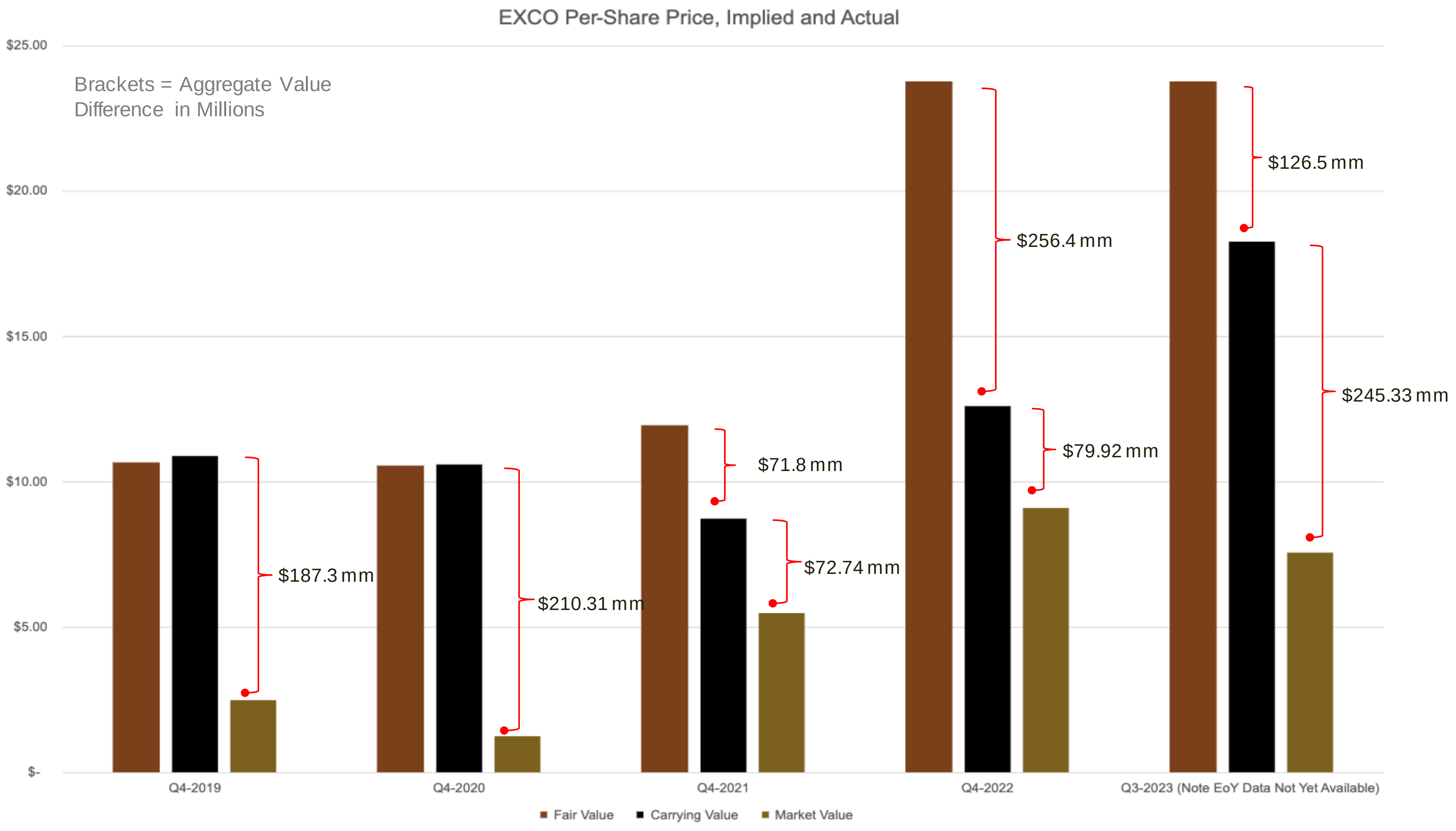
As shown at right, Fairfax's reported fair and carrying values for EXCO have consistently been divorced from its market values.



Sources: Bloomberg, Fairfax Financial Holdings Annual Reports 2019-2022, Fairfax Financial Holdings Interim Report Q3 2023, EXCO Form-8937 (SEC).

As of Q3 2023 a Broker's Market in EXCO was $7.00 - $8.00

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- Brokers active in distressed equity make markets in EXCO shares.
- The adjacent quote shows that there is a real market for EXCO shares, which should be the benchmark for carrying and fair values.

[redacted]* ENERGY - E&P

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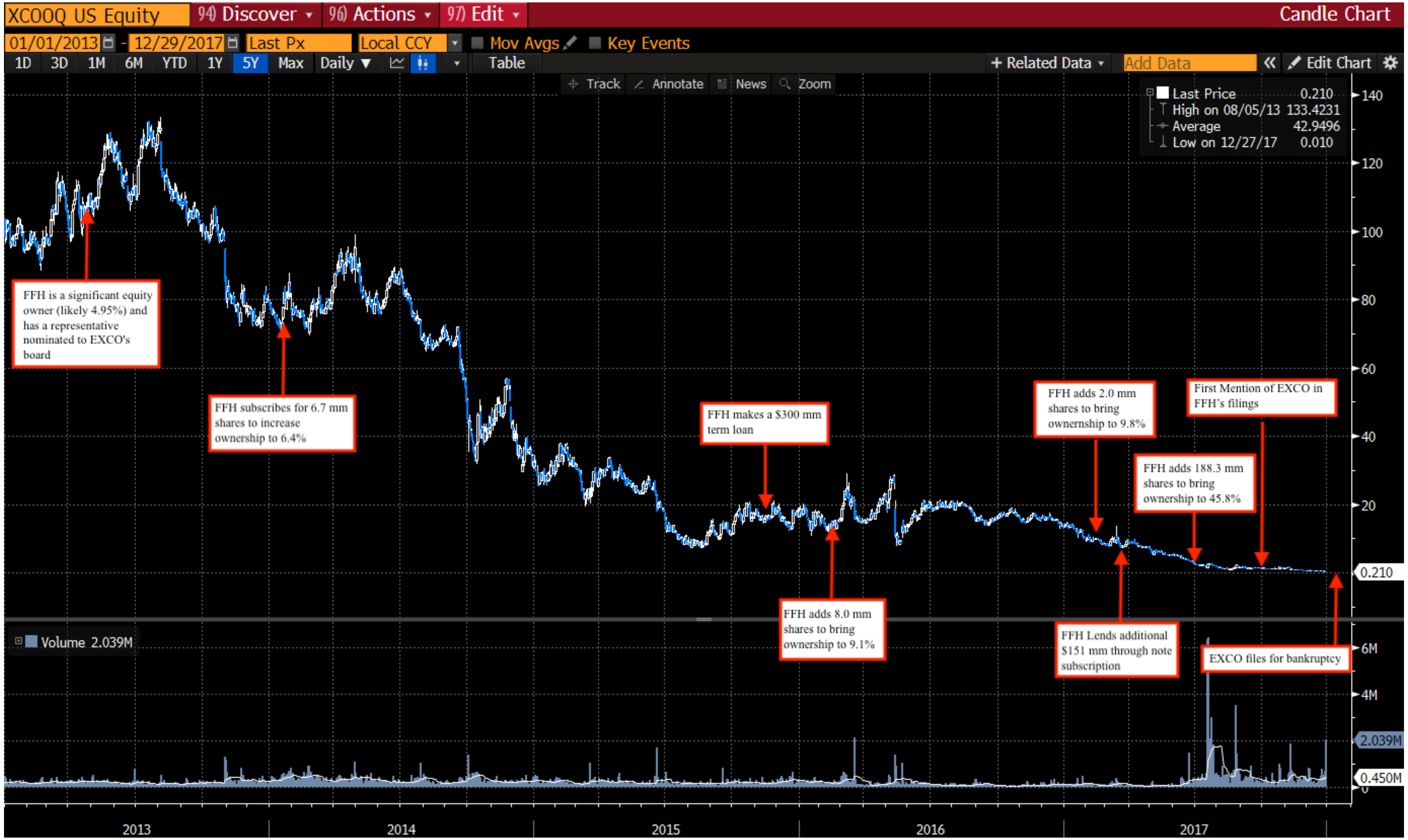
Borrower	Ticker	Bid Price	Offer Price	B YTM	A YTM	Notes	Amt Out	SPREAD	FLOOR	Maturity	CUSIP	Tkr	BBG ID
Admiral Permian	APROPE TL 2L USD	2.000	-5.000	1556.518	/ 994.840		250MM	700.000	0.000	05/25/24		APROPE	BL2704981
Birch Permian Equity	1611412D	12.000	-14.000				10MMM				N.A.	1611412D	AS2383873
BlackBrush Oil & Gas	BBOGBO TL 1L USD	95.000	-97.000	13.396	/ 12.189		75MM	500.000	100.000	09/01/25	09227YAK9	BBOGBO	BL3439843
BlackBrush Oil & Gas Pfd	.BBOGBO	637.500	-762.500				10MMM				5359974.	.BBOGBO	5359974.
BlackBrush Oil & Gas Equity	0448302D					Call Desk	10MMM				N.A.	0448302D	BA3562754
Callon Petroleum Private Warrants	.CPEWRNT					Call Desk	10MMM				5317766.	.CPEWRNT	5317766.
Chaparral Energy Equity	0133313D					Call Desk	10MMM				N.A.	0133313D	BA0426300
Chesapeake Energy	CHK RBL-REVA-EXIT 1L USD	97.000	-100.000	12.464	/ 3.305		10MMM	350.000	100.000	02/09/24		CHK	BL3558733
Connacher Oil & Gas	.CLCC TLB 1L USD	100.000	-110.000	15.151	/ 12.389		10MMM	950.000	200.000	07/31/28	N.A.	.CLCC	BLA0AJOX1
Connacher Reorganized Equity	CLLZF	12.000	-13.000				10MMM				20588Y400	CLLZF	20588Y400
Diamond Offshore RC	DO REVEXIT 1L USD	90.000	-92.250	13.574	/ 12.483		192.5MM	425.000	100.000	04/22/26		DO	BL3547975
EXCO Equity / XCOO	EXCE	7.000	-8.000				10MMM				269279600	EXCE	269279600
EP Energy Equity	EPEC					Call Desk	10MMM				268785201	EPEC	268785201
Grizzly Natural Gas	VNR TLB-EXIT 1L USD	3.250	-4.250	1050591.382	/ 798856.607		10MMM	750.000	0.000	01/16/23		VNR	BL3109099
Gulf Finance	GULFIN TLB 1L USD	100.000	-100.750	12.070	/ 11.747		669.624MM	675.000	100.000	08/25/26	40227UAC0	GULFIN	BL3737279
Lonestar Resources $225mm FIFO RBL							10MMM	450.000	100.000	11/30/23		LONE	BL3489129

How Does Fairfax Justify its Overvaluation of EXCO?

- Because Fairfax treats EXCO as an associate, it uses the equity method of accounting.
- The equity method provides that investments should be carried at cost, with proportionate shares of gains (or losses) added to (or subtracted from) the cost bases.
- However, equity method investments should be tested for impairments when events or changes in circumstances indicate that the investment may not be recoverable.[1]
- By consistently manipulating EXCO's Fair Value to an unreasonably high level, Fairfax appears to be attempting to avoid impairment testing of EXCO.
- Fairfax might argue that because its orientation is that of a long-term investor, Fairfax is justified in not impairment testing EXCO. However, Fairfax has already been a significant shareholder in EXCO for ~11 years, which in our view, would make a mockery of such a justification.

[1] https://kpmg.com/us/en/articles/2023/ias-28-impairment.html#:~:text=Like%20IFRS%2C%20an%20equity%2Dmethod,and%20US%20GAAP%20are%20similar

Fairfax Repeatedly Threw Good Money After Bad with EXCO



2019: Grivalia Properties

Fairfax and Eurobank Swapped Grivalia Property Shares Around to Create Paper Gains for Each Other, Including $171 Million for Fairfax.

Grivalia Properties Transactions

Ironically, Fairfax management has referred to Grivalia Properties CEO and Eurobank vice chairman George Chryssikos as Fairfax's second "billion-dollar man" for his purported generation of at least $1 billion of profits for Fairfax.[1] It seems a billion dollars ain't what it used to be. We adjust Fairfax's Book Value down by $171 million due to the Grivalia Properties ("GP") transactions with Eurobank that, in a manner reminiscent of the pre-GFC trading among Icelandic banks, inflated profits, asset values, and book value at both Eurobank and Fairfax.

As of July 2017, Fairfax was the largest shareholder of GP at 42.3%. Eurobank, of which Fairfax then owned ~18%, in turn owned 20% of GP. In July 2017, Fairfax acquired 10.3% more of GP for cash from Eurobank at an implied value of €890 million. As a result, Fairfax booked a $51.3 million fair value gain on its 42.3% existing GP shares.

In May 2019, Eurobank issued new shares to exchange for GP, with GP merging into Eurobank. Fairfax received Eurobank shares that took its ownership of Eurobank up to 33%. The parties valued the share exchange at €1.1 billion,[2] which enabled Fairfax to book a $171 million fair value gain.[3] Eurobank booked €222 million of goodwill on the non-cash acquisition, which increased its capital ratio at a time it seemingly needed to. However, in the same year, Eurobank impaired the goodwill by €62 million, making it obvious that GP was overvalued.

[1] Fairfax Financial Holdings Annual Report 2022, Pg. 26.
[2] Fairfax Financial Holdings Annual Report 2021, Pg. 21.
[3] Fairfax Financial Holdings Annual Report 2021, Pg. 185.

2020: RiverStone

Fairfax Used Off-Balance Sheet Debt and a New JV to Create an Illusory $117.1 Million Gain While Avoiding Recognizing Losses on Associates it Stuffed into the JV.

RiverStone — Overview

In December 2019, Fairfax appeared to be girding for a difficult year. It signed an agreement with OMERS to form a joint venture called "RiverStone" to hold Fairfax's European runoff business. Soon thereafter, Covid-19 hit. 2020 would turn out to be awful for Fairfax. The financial engineering of the RiverStone JV enabled Fairfax to book net $117.1 million paper gains,[1] without which Fairfax would have reported a loss in 2020. RiverStone also served as a receptacle for seven associates or subsidiaries that would have caused Fairfax to book losses in 2020 likely in the multiple hundreds of millions of dollars.

Producing the paper profits and averting losses required Fairfax to incur off-balance sheet debt. First, OMERS purchased 40% of RiverStone common shares. As in earlier transactions, we suspect that OMERS only made this investment because it expected Fairfax to ensure its preferred would be sold for at least breakeven – whether back to Fairfax or another buyer.

That other buyer, a private equity fund managed by CVC Capital Partners, took OMERS out of its investment at a slight premium. However, Fairfax had to provide a three-year (later extended to four-year) guarantee on the associates through a convoluted security called an "AVLN" ("Asset Value Loan Note"). The AVLN was effectively a repo agreement that gave the European runoff business away for free.

[1] Fairfax Financial Holdings Annual Report 2020, Pg. 100.

December 2019: Planning Ahead for a Rough Year

On December 20, 2019, seemingly anticipating a difficult year, Fairfax signed the RiverStone joint venture agreement with OMERS.[1] The new entity, RiverStone (Barbados) Ltd., would be Fairfax's means of disposal for European run-off assets.

On March 31, 2020, Fairfax contributed its European run-off business for 60% of the JV; and, OMERS paid $599.5 million to Fairfax for its 40%. OMERS' subscription set the valuation of RiverStone at $1.25 billion. Fairfax then booked net accounting gains of $117.1 million ($243.4 disposal gain, $35.6 remeasurement gain, minus $161.9 FX losses).

OMERS seems to have overpaid for its 40%. Fairfax's own 60% interest was valued at only $605 million.[2] By that measure, OMERS' overpayment was $196.2 million, which accounted for 83.7% of Fairfax's gross disposal gain. Despite this apparent overpayment, per Fairfax and OMERS' customary dealings, OMERS would soon be made whole.

[1] Fairfax Financial Holdings Annual Report 2019, Pg. 157.
[2] Fairfax Financial Holdings Annual Report 2020, Pg. 170.

Squaring the Circle by Making OMERS Whole While Issuing Off-Balance Sheet Debt

In August 2021, OMERS appears to have received $633.3 million for its RiverStone shares from CVC, which was a 5.6% profit. (It is unclear to us whether OMERS received dividends from RiverStone in the interim.) OMERS' sale proceeds were not expressly disclosed, so we calculate it by referencing the 2021 financials for the entity through which CVC purchased RiverStone, Gatland Holdings Ltd. (Jersey). Gatland shows total consideration paid for RiverStone of $1.329 billion.[1] (We explain infra how Fairfax's AVLN financed this overpayment for Riverstone.)

Fairfax disclosed that it received consideration of $695.7 million for its 60%, which consisted of $462 million cash, shares that convert into a $200 million vendor note, and a pension asset constituting the balance.[2] Subtracting the $695 million from $1.329 billion equals $633.3 million to OMERS.

[1] Gatland Holdings Ltd. 2021 Annual Report, Pg. 50.
[2] Fairfax Financial Holdings Annual Report 2021, Pg. 97.

Fairfax Subsidized CVC's Overpayment Through Off-Balance Sheet Debt

Concurrent with the March 2020 closing of the joint venture with OMERS, Fairfax stuffed seven associates and subsidiaries into RiverStone. (We discuss infra how stuffing them into RiverStone enabled Fairfax to avoid booking losses on them in 2020.) When CVC bought RiverStone, Fairfax issued a guarantee of the minimum value of these associates in RiverStone in the form of AVLNs. The AVLNs provide that Fairfax will (quoting):

> guarantee the then approximately $1.3 billion value of the securities to CVC and certain affiliates thereof until such time the securities are purchased by or sold at the direction of Hamblin Watsa, prior to the end of 2022. The company, through Hamblin Watsa, continues to manage and have direction over these securities, including their voting rights.[1]

Fairfax effectively repo'ed these seven investments to remove the losses from its income statement, effectively giving the European runoff business away for free.

[1] Fairfax Annual Report, 2021, Pp. 97-98.

Fairfax Extended the AVLN Guarantee Period

- The guarantee period was extended through 2023.[1]
- Extending the guarantee period presumably continued to keep losses on these associates from being realized on Fairfax's income statement and / or avoids Fairfax having to lay out the cash.
- It is presently unclear whether Fairfax bought the associates back in 2023 or was able to negotiate another extension.

[1] Fairfax Financial Holdings Interim Financial Report Q3 2023, Pg. 23.

How Fairfax Avoided Losses by Stuffing Investments Into RiverStone

Fairfax valued the various shares of associates it stuffed into Riverstone as of 2019, but due to Covid-19, the values had fallen substantially at the time Fairfax and OMERS formed the JV (below).

It is impossible to know the amounts of losses on its associates Fairfax avoided by stuffing them into RiverStone, and presumably, much of these losses would have been recouped eventually as the market recovered. However, it is clear that Fairfax was going to significant lengths to avoid showing losses in 2020. More importantly though, these investments cost Fairfax real cash, and it presumably is costing it more money to engage in this convoluted form of a repo of these securities.

	12/31/19	3/31/20	Changes%
Atlas	14.2	7.7	-45.9%
Resolute	4.2	1.3	-70.0%
Gulf Insurance	2.2	2.0	-7.8%
Eurobank	1.0	0.4	-58.8%
Recipe	15.0	6.1	-59.4%
Fairfax India	12.8	6.6	-48.8%
Helios FF Partners	5.9	3.2	-45.5%
Average			-48.5%
Note: US$			

2020-2022: Fairfax Africa

Fairfax Spent Cash for Accounting Gimmicks on Disposal of a Loss-Making Subsidiary that Misleadingly Preserved Book Value of $105.5 Million.

Fairfax Africa — Overview

In 2017, Fairfax IPOed a consolidated subsidiary called Fairfax Africa Holdings Corp. Fairfax Africa reported significant losses in 2018 and 2019, largely from two investments: Atlas Mara ("Mara", no relationship to Atlas supra) and Consolidated Infrastructure Group ("CIG"). In December 2020, presumably to avoid reporting further losses from Fairfax Africa in 2020, Fairfax orchestrated a process to de-consolidate it while engaging in accounting alchemy to understate losses. De-consolidating Fairfax Africa in this manner required Fairfax to throw good money after bad, but in the apparent desperation of 2020, Fairfax evidently prioritized accounting gains over cash losses.

To de-consolidate, Fairfax established a new entity to manage Fairfax Africa, called "Helios". Fairfax papered the agreements with Helios such that Fairfax apparently doesn't exercise control over Helios, and thus may de-consolidate Fairfax Africa. (After the de-consolidation, Fairfax Africa was renamed Helios Fairfax Partners Corp.) One day before the close of the de-consolidation, Fairfax bought Mara from Fairfax Africa for $40 million cash, guaranteed $59.7 million related to Mara. In March 2021, Fairfax loaned $100 million for three years to Fairfax Africa at 3% plus a five-year warrant to purchase Fairfax Africa shares. The loan principal, however, would be reduced by reductions in the fair value of investments still held by Fairfax Africa – Fairfax Africa's accounts call this the "Redemption Derivative". We view financing package this as a $160 million backstop for Fairfax Africa plus $40 million in cash. That's not how Fairfax accounted for it though.

The first accounting issue is that upon de-consolidation on December 8, 2020, Fairfax carried Fairfax Africa (now an associate, using equity method) at $186 million, which equaled the value of Fairfax Africa already on Fairfax's balance sheet. Hower, this was a $43.4 million premium to market value, meaning that had Fairfax marked according to market, it would have booked a $43.4 million loss on the de-consolidation.

The second accounting issue is that Fairfax split the accounting for the March 2021 loan as $78 million fair value and $22 million as an equity investment. We wholly disagree with booking the $22 million as an asset, rather than expensing it.

The third accounting issue is that in 2022, Fairfax Africa's accounts showed that the $100 million loan had been reduced due to fair value declines in the guaranteed investments. The Redemption Derivative showed a balance as of December 31, 2022 of $62.1 million, meaning Fairfax only stood to receive back $37.9 million of the loan. Had Fairfax correctly accounted for the $22 million "equity investment" as an expense in 2021, then it should have booked an additional loss of $40.1 million in 2022. But because Fairfax didn't properly book the $22 million loss in 2021, it should have booked the entire $62.1 million loss in 2022. However, it appears Fairfax did not book any such loss because there is no Related Party Transaction disclosure discussing any loss on this loan.

Mis-Marking Upon De-Consolidation

After it de-consolidated Fairfax Africa in December 2020, Fairfax booked its remaining investment in Fairfax Africa at an initial value of $186 million based on a share price of $5.25. This was $43.4 million more than the market value at December 8, 2020 (the date of de-consolidation).

Below: From Fairfax Financial Holdings Annual Report 2020, P. 10.

Common Stocks – Equity Accounted (Associates)						
Eurobank Ergasias	1,129.9	31%	1.03	0.71	1,166	800
Atlas[2]	90.4	37%	9.96	10.83	900	979
Quess	47.6	32%	11.40	7.48	543	356
EXCO Resources	–	44%	–	–	238	238
Helios Fairfax Partners	35.3	32%	5.25	5.25	186	186
Peak Achievement	–	43%	–	–	140	172
Resolute Forest Products	24.8	31%	5.42	6.54	134	162
Kennedy Wilson Partnerships	–	–	–	–	124	124
Astarta	7.1	28%	9.20	7.03	65	50
IIFL Finance	28.4	7%	2.03	1.56	58	44
Other					207	192

Helios Fairfax Partners Corp

Range	12/07/2020 - 12/15/2020	Period	Daily	High	4.85 on 12/14/20
Market	Last Price / Volume	Currency	USD	Low	3.93 on 12/07/20
View	Price with % Chg			Average	4.3786 / 25,057
				Net Chg	0.76 / 19.34%

	Date	Last Price	Net Change	% Change	Volume	Net Change	% Change
Tu	12/15/20	4.69	-0.16	-3.30%	14,813	-9,835	-39.90%
Mo	12/14/20	4.85	+0.29	+6.36%	24,648	+7,377	+42.71%
Fr	12/11/20	4.56	+0.07	+1.56%	17,271	-37,506	-68.47%
Th	12/10/20	4.49	+0.40	+9.78%	54,777	+22,597	+70.22%
We	12/09/20	4.09	+0.05	+1.24%	32,180	+19,008	+144.31%
Tu	12/08/20	4.04	+0.11	+2.80%	13,172	-5,365	-28.94%
Mo	12/07/20	3.93	-0.13	-3.20%	18,537	-18,200	-49.54%

2020: APR Energy

Fairfax Paid a Friend to Buy APR Energy so Fairfax Could Avoid Booking a $109 Million Loss.

Merging APR Energy Into Seaspan Allowed Fairfax to Avoid $109 Million of Losses in 2020

- APR Energy was an energy solutions business Fairfax took private in 2016, Fairfax owned 67.8% with a consortium owning the remainder. From 2016 – 2020 APR Energy was consolidated in Fairfax's results, which posed a significant problem for Fairfax in 2020 as APR Energy was hemorrhaging cash due to COVID. We believe Fairfax arranged and provided financing for Seaspan (which Fairfax had invested more than $1 billion into) to acquire APR Energy in February 2020, allowing Fairfax to remove APR Energy and avoid booking $109 million of losses.

- Fairfax appeared to finance Seaspan's purchase, as concurrent with the transaction on February 28, 2020, Fairfax subscribed to $100 million of new Seaspan debentures. There could have been a handshake agreement in place at the time, as in February 2021, Seaspan and Fairfax agreed that Fairfax would compensate Seaspan for losses on APR Energy, with compensation seemingly capped at $164 million.

- Ultimately the clearest sign of Seaspan's overpayment for APR Energy is that immediately after the acquisition (i.e., in 2020), Fairfax wrote down $117.9 million of goodwill, equivalent to 29.1% of the (non-cash) acquisition consideration.

Fairfax Sold APR Energy to Seaspan at the Same Time Fairfax Puts $100m More Into Seaspan

We can see from the Fairfax Q2 2020 Interim report that Fairfax back to backed Atlas's all stock acquisition of APR Energy with Fairfax's $100m investment in unsecured debentures. At the time of the investment Fairfax had already invested close to $1.5 billion into Seaspan.

(5) On February 27, 2020 Seaspan Corporation ("Seaspan") completed a reorganization pursuant to which Atlas Corp. ("Atlas"), a newly created holding company, became its parent. Shareholders of Seaspan, including the company, exchanged their Seaspan shares for Atlas shares with no change in ownership percentage. On February 28, 2020 Atlas acquired all issued and outstanding shares of APR Energy plc ("APR Energy") from the company and other APR Energy shareholders in an all-stock transaction at a deemed value of $405.8 (including certain Atlas shares reserved for holdback). Accordingly, the company derecognized its investment in APR Energy, recorded a pre-tax gain of $2.4, increased its equity accounted carrying value of Atlas by the fair value of the newly issued Atlas common shares received of $188.1 (which excludes the Atlas shares received by European Run-off of $48.6), and will continue to apply the equity method of accounting to its investment in Atlas.

On February 28, 2020 the company invested $100.0 in Atlas 5.50% unsecured debentures due March 1, 2027 (the "Tranche 3 debentures").

[1] Apple Bidco Limited Financial Statements 2020, Pg. 11.

APR Energy Was a Poor Acquisition for Seaspan, Resulting in Losses and Impairments in 2020

Only 9 months after the acquisition, Atlas wrote down $117.9 million in goodwill associated with the APR Energy acquisition.[1] This implies a $117.9 million overpayment for an asset which, as we have already shown, could reasonably have been expected to result in 2020 losses. By the end of FY 2020 APR Energy had recorded losses of $458.9 million. Were it not for the acquisition, these would have been recorded on Fairfax's book.

From: Atlas Corporation 20-F 2020, Pg. F-29.

10. Goodwill:

	Containership leasing	Mobile power generation
Balance, December 31, 2019	$ 75.3	$ —
Goodwill arising from acquisition of APR Energy (note 3)	—	117.9
Impairment loss recognized during the period	—	(117.9)
Balance, December 31, 2020	$ 75.3	$ —

Upon the acquisition of APR Energy, the Company recognized $117,900,000 of goodwill. As part of the Company's annual goodwill impairment test, it was determined that the carrying value of the mobile power generation reporting unit exceeded its fair value, as a result of potential strategic repositioning contemplated subsequent to acquisition. Fair value was determined using a discounted cash flow approach. As a result, an impairment loss of $117,900,000 equal to the balance of goodwill related to the mobile power generation reporting unit, was recognized.

[1] Atlas Corporation 20-F 2020, Pg. 64.

Fairfax Appears to Make Seaspan Whole for Taking APR Off its Book

Fairfax appeared to compensate Seaspan at a later date for the hastily arranged transaction that helped it avoid booking losses.

APR Energy's consideration included contingencies for payouts from Fairfax to Atlas, the acquirer. These contingent payouts seem easily to cover the $117.9 million impairment taken by Atlas.[1] Eleven months after APR Energy was sold to Atlas, Fairfax signed two compensation agreements covering future losses in addition to the original contingency consideration; altogether the contingent payouts may amount to >$200 million.[2]

From: Atlas Corporation 20-F 2022, Pg. F-29.

(d) Contingent consideration asset:

As a part of the acquisition of APR Energy on February 28, 2020, the Company is compensated by the Sellers for certain losses that may be incurred on future cash repatriation from a foreign jurisdiction until the earlier of (1) reaching the maximum cash flows subject to compensation, (2) termination of specified contracts, (3) sustaining the ability to repatriate cash without losses and (4) April 30, 2022. The amount of compensation depends on the Company's ability to generate cash flows on specific contracts in the foreign jurisdiction and the magnitude of losses incurred on repatriation. The maximum amount of cash flows subject to compensation is $110,000,000.

In February 2021, Fairfax additionally agreed to compensate the Company for future losses realized on sale or disposal of certain property, plant and equipment and inventory items calculated as the difference between the proceeds on sale or disposal and the book value of the respective assets at February 28, 2020, prior to acquisition. The maximum amount of losses subject to compensation under the February 2021 agreement is $64,000,000.

Contingent consideration asset, December 31, 2020	$	90.9
Change in fair value		(5.1)
Compensation received		(30.5)
Contingent consideration asset, December 31, 2021		55.3
Change in fair value		0.9
Compensation received		(12.5)
Contingent consideration asset		43.7
Current portion included in prepaid expenses and other		(4.2)
Contingent consideration asset, December 31, 2022	$	39.5

[1] Atlas Corporation 20-F 2022, Pg. F-29.
[2] Atlas Corporation 20-F 2022, Pg. F-29.

Conflicts of Interest – Prem Watsa Cashes Out Before Fairfax in Atlas Take Private

An additional area of concern in the Atlas transaction involves the Fairfax's CEO's trading. In February 2018—at approximately the same time, and plausibly before, Fairfax made a $1 billion investment in Atlas (then called Seaspan)—Prem Watsa purchased a 0.51% stake, or 678,021 shares of Atlas.[1,2]

When Seaspan (now Atlas) was taken private by a consortium (including Fairfax) on March 28th, 2023, Prem Watsa originally decided to roll the shares he owned personally into the acquisition. For reasons unknown to us (although we note that freight rates collapsed from Q1 to Q2 2023), Prem Watsa changed his mind and decided to sell his shares to Fairfax. The company stated that this was to "avoid potential future conflicts of interest". How providing liquidity ahead of minorities removes a conflict of interest—or why the Board allowed the CEO to invest alongside Fairfax in the first place if this had potential to be a conflict—is unclear to us.

Below: From Fairfax Financial Holdings Financial Statements Q2 2023, Pg. 22.

Subsequent to the closing of the transaction, during the second quarter of 2023 Mr. Watsa, to avoid potential future conflicts of interest, sold all of his 678,021 shares of Poseidon to Fairfax. Mr. Watsa owned 678,021 shares of Atlas representing less than 0.3% ownership as an investment that were replaced with shares of Poseidon on a one-for-one basis as a result of the tender offer as part of the consortium described above. Mr. Watsa sold the Poseidon shares to Fairfax at $15.50 per share, the same price he could have obtained under the tender offer and the price at which Fairfax's shares of Atlas were valued by the consortium which made the tender offer.

[1] Fairfax Financial Holdings Annual Report 2019, Pg. 71.
[2] Seaspan Corporation Schedule 13D Filed 2-14-2018.
[3] Fairfax Financial Holdings Financial Statements Q2 2023, Pg. 22.

2021: Eurolife

Fairfax Again Disguises Debt from OMERS as an Equity Investment in a JV to Buy Eurolife. In the Process of Repaying OMERS (by Purchasing its JV Shares), Fairfax Creates Unjustified Fair Value Gains on its Purported Call Option, Misleadingly Creating Paper Gains and Book Value of $261.8 Million.

Eurolife / OMERS – Disguised Debt

In December 2015, Fairfax agreed to acquire 80% of Eurolife from Fairfax investee Eurobank. In August 2016, Fairfax formed a 50/50 joint venture with OMERS. Fairfax and OMERS each contributed €162.5 million to the JV entity, Costa Luxembourg Holdings S.à.r.l. ("Costa"), for 40 million shares (€4.06 / share).[1] OMERS owned "A Shares" and Fairfax owned "B Shares". The A Shares were entitled to receive 9% p.a. dividends.[2] On the same day, Costa closed on the purchase of the 80% Eurolife stake for €321 million.[3]

In September 2017, Fairfax and OMERS entered into a redemption agreement.[4] Under that agreement, Costa bought 6.1 million of OMERS' shares (15.25%) for €24.8 million (€4.06 / share). In April 2018, Costa bought 1.9 million of OMERS' shares (4.75%) for €7.73 million (€4.06 / share). In June 2018, Costa bought 8.0 million of OMERS' shares (20%) for €32.5 million (€4.06 / share). In July 2021, Fairfax bought the remaining 24.0 million OMERS shares for €97.5 million (€4.06 / share).[5] In our view, OMERS' investment was actually debt with a 9% coupon.

Fairfax's first accounting benefit from this transaction was to avoid booking interest expense, which would have totaled approximately ~€44 million (~$50 million), although presumably on balance sheet debt would have carried a much lower cost.

[1] Fairfax owned 12,500 more shares for €25,000 more share capital than OMERS out of 80.0 million total shares.
[2] Costa Luxembourg Financial Statements 2019, Pg. 102.
[3] Costa Luxembourg Financial Statements 2019, Pg. 100.
[4] Costa Luxembourg Financial Statements 2018, Pg. 85.
[5] Fairfax disclosed in its 2021 AR it paid consideration for these shares of €120.7 million. However, per financials for Costa and Colonnade Financial, €9.752 mm was an investment performance payment, plus €13.52 million of dividends accrued over 18.5 months.

Eurolife – Egregious Accounting Gains

- In addition to avoiding interest expense, Fairfax used the Eurolife transaction structure to produce accounting gains that were, in our view, largely without basis.
- Fairfax first recognized a $127.3 million fair value gain on its call option for the A Shares in the years preceding its exercise in 2021. We see no basis for this gain.
- Then Fairfax took a fair value gain on its B Shares when it bought out OMERS' last shares. The amount of the gain was $130.5 million, and we view the methodology for calculating it as highly abusive. Fairfax added the $127.3 million fair value of the call option it exercised to the total payment it made to OMERS on the exercise of $142.7 million. (Note that on the previous slide in FN 5, we explain that the total consideration paid at the time included €9.8 million for "investment performance" and €13.5 million of accrued dividends, for a total of €120.7 million.)
- Fairfax then added a $4.0 million bargain purchase gain on the option exercise to book a total profit in 2021 on the transaction of $261.8 million ($127.3 million option FV gain + $130.5 million shares FV gain +4.0 million bargain purchase gain) for a total of $261.8 million.

We see the $261.8 million accounting gain as abusive in nature, and arbitrarily determined at best.

2021: Odyssey & Brit

Two Likely Disguised Financing Transactions that Result in Highly Dubious Accounting Gains of $544.5 Million.

Odyssey and Brit Transactions Are, In Substance, Financing Transactions That Allow Fairfax to Boost Book Value by $429.1 Million and $115.4 Million in 2021

- Fairfax issued shares equivalent to 9.99% of Odyssey to CPPIB and OMERS in December 2021, this transaction enabled Fairfax to boost book value by $429.1 million. Alongside the share issuance Fairfax receives a call option to buy the stake back.
- Fairfax issued shares equivalent to 13.9% of Brit to OMERS in August 2021, this transaction enabled Fairfax to boost book value by $115.4 million. Alongside the share issuance Fairfax receives a call option to buy the stake back.
- Odyssey is a provider of Reinsurance and Specialty Insurance, prior to this transaction it was 100% owned by Fairfax. Brit is also a provider of Reinsurance and Specialty insurance, prior to this transaction it was 100% owned by Fairfax.
- CPPIB and OMERS are Canadian Pension plans, as discussed supra, we frequently see OMERS on the other side of similar transactions with Fairfax.

Boosting Book Value by $429 Million Two Weeks Before 2021 Year End by "Selling" 9.99% of Odyssey to OMERS and CPPIB

MUDDY WATERS RESEARCH

- Fairfax was able to book a gain to book value of $429 million by issuing stock equivalent to 9.99% of Odyssey to CPPIB and OMERS for $900 million. As part of the transaction, Fairfax included an option to purchase the interests of CPPIB and OMERS. We believe that, in substance, this is a financing transaction. While the value of the option premium isn't separately broken out, we believe the fair value of the call option is, in substance, cash that ultimately will be repaid to OMERS and CPPIB when the option is exercised.
- Booking a fair value gain immediately upon the transaction is more aggressive than in previous transactions with OMERS, which generally resulted in gains subsequently.

On December 15, 2021 Odyssey Group issued shares representing an aggregate 9.99% equity interest to a subsidiary of Canada Pension Plan Investment Board ("CPPIB") and OMERS, the pension plan for Ontario's municipal employees, for cash consideration of $900.0 which was subsequently paid by Odyssey Group as a dividend to Fairfax. The company recorded an aggregate equity gain of $429.1, principally comprised of a dilution gain and the fair value of a call option received, which was presented as net changes in capitalization in the consolidated statement of changes in equity. The company has the option to purchase the interests of CPPIB and OMERS in Odyssey Group at certain dates commencing in January 2025.

Rinse and Repeat: Fairfax Took a $115.4 Million Gain to Book Value in August 2021 with Brit

- Fairfax had performed an almost identical transaction to Odyssey in August of 2021. Farifax issued stock equivalent to 13.9% of Brit to a subsidiary of OMERS for $375 million. This allowed Fairfax to book a gain to book value of $115.4 million. As part of the transaction Fairfax includes an option to purchase the interests of OMERS in October 2023.
- We believe that in substance this is a financing transaction. While the value of the option premium isn't separately broken out we believe the fair value of the call option is in substance cash that ultimately will be repaid to OMERS when the option is exercised. Based on current disclosures it's unclear if the October 2023 option has been exercised.

On August 27, 2021 Brit issued shares representing a 13.9% equity interest to OMERS for cash consideration of $375.0 which was subsequently paid by Brit as a dividend to Fairfax. The company recorded an aggregate equity gain of $115.4, principally comprised of a dilution gain and the fair value of a call option received, which was presented as net changes in capitalization in the consolidated statement of changes in equity. The company has the option to purchase OMERS' interest in Brit at certain dates commencing in October 2023.

Brit and Odyssey Immediately Boosted Book Value

MUDDY WATERS RESEARCH

	2022		2021	
	Common shareholders' equity	Non-controlling interests	Common shareholders' equity	Non-controlling interests
Privatization of Recipe	(66.1)	(276.2)	–	–
Acquisition of non-controlling interests in Allied World	(228.1)	(466.9)	–	–
Purchase of certain securities held through AVLNs entered with RiverStone Barbados (note 7)	14.1	(356.2)	0.3	(113.6)
Third party's investment in Brit's subsidiary Ki Insurance	–	152.0	–	124.0
Fairfax India share repurchases	(9.9)	(90.7)	(12.5)	(114.3)
Sale of non-controlling interests in Odyssey Group	–	–	429.1	550.0
Sale of non-controlling interests in Brit	–	–	115.4	296.7
Initial public offerings and related capital transactions at Farmers Edge and Boat Rocker	–	–	(3.1)	242.6
Fairfax India's sale of an equity interest in Anchorage (note 6)	–	–	21.8	107.4
Other	116.4	(32.9)	1.9	134.1
As presented in net changes in capitalization in the consolidated statement of changes in equity	(173.6)	(1,070.9)	552.9	1,226.9

2022: TRSes & GoDigit

Fairfax Uses TRSes to Turbocharge its Use of Deceptive Accounting Practices to Promote the (Unlisted) Stock of an Indian Insurance Play. We Adjust Fairfax's Book Value down for GoDigit by -$1.1 Billion, which we believe is conservative.

TRSes & Digit — Overview

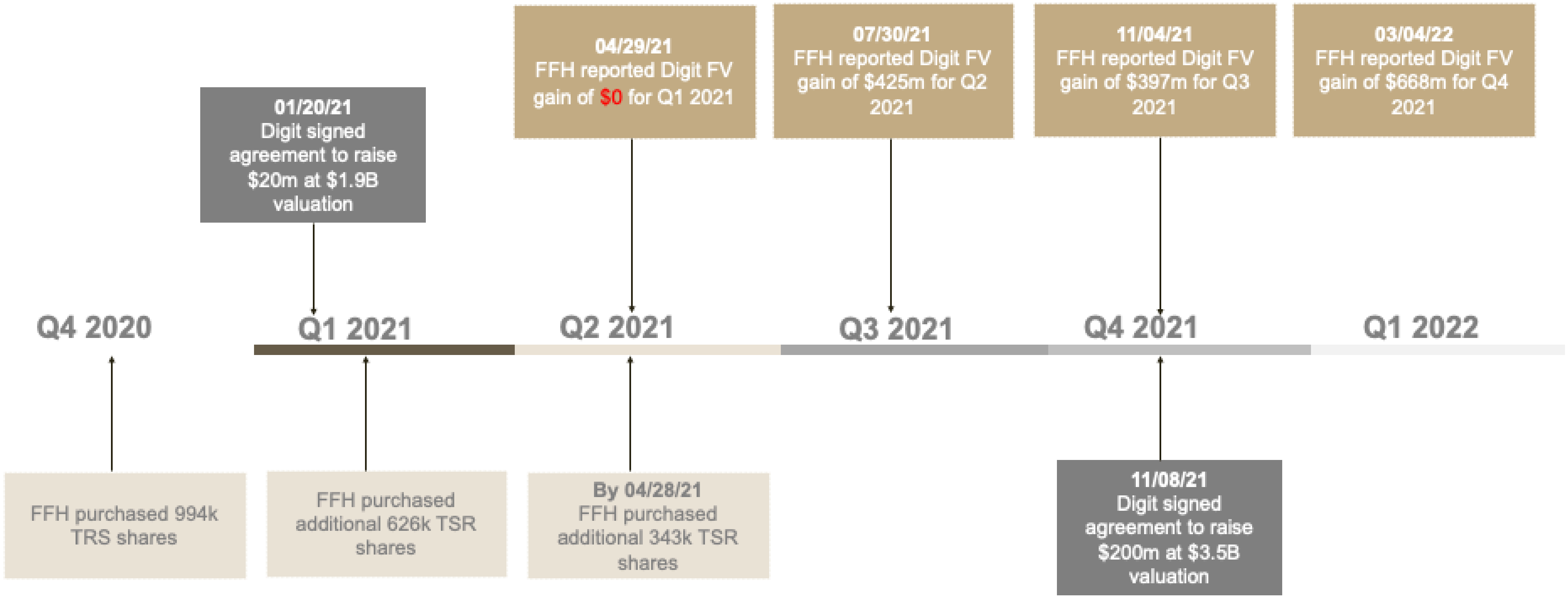
By late 2020, Fairfax seems to have been panicking. We believe that Fairfax had hatched a plan to take highly aggressive fair value gains throughout 2021 on its investment in Indian insurer Go Digit General Insurance Ltd. ("Digit"). In Q4 2020 – Q1 2021, rather than buying back shares, Fairfax put in place Total Return Swaps (TRSes) on its own stock. On the surface, TRSes seem like a risky way of returning capital to investors, because if the stock declined, Fairfax would take both P&L and Book Value hits. Plus, it has no anti-dilutive feature such as would be guaranteed to increase shareholder value permanently. To us, these TRSes only make sense if you have an ace up your sleeve. Digit seems to have been that ace.

We feel it is incontrovertible that Digit is worth far less today than where Fairfax ultimately marked it in 2021, which is why we adjust Fairfax's book value down by $1.1 billion, as of December 2022, for Digit. While the ultimate valuation at which Fairfax marked Digit in 2021 may have been justified at the time (discussed infra), Fairfax, in our view improperly, recognized these gains in a manner inconsistent with valuation changes in Digit by first ignoring a gain that should have been taken before the TRSes were in place, and then spreading a one-time gain out over three quarters.. We believe the inconsistent recognition, rather, was designed to provide more fuel for Fairfax's share price, which as a result of the TRSes, was now feeding directly into Fairfax's net income. Through the TRSes, this fuel had a recursive effect on Fairfax's financials by inflating income as the stock went up, leading to more share price gains and more income. Further, Fairfax management described Digit as "profitable" in 2021, which appears to have been a false statement. We view Fairfax's behavior during this time as that of a stock promoter running a "pump and dump" with respect to Digit. The "dump" portion has already occurred as Digit's valuation almost certainly has collapsed, but Fairfax has yet to let that show on its books.

The first improper, in our opinion, manipulation of Digit's carrying value occurred in Q1 2021. Digit agreed to raise money at a valuation of $1.9 billion, which implies that Fairfax should have booked a $605 million fair value gain in either Q4 2020 or Q1 2021. But Fairfax, which had not yet completed putting its TRSes in place, did not recognize any such gain until the following quarter, which was also when Digit agreed to another financing round at a $3.5 billion valuation. Rather than recognizing the valuation gain in one fell swoop in Q2 2021, Fairfax instead took gains gradually over three quarters in 2021: $425 million in Q2, $397 million in Q3, $668.3 million in Q4. Assuming that the market valued each dollar of Digit profit at $1 dollar incremental share value, the gains on the TRSes added earnings juice of ~$160 million - $170 million in 2021. **Note that we have made no adjustments to Fairfax's book value for the TRS gains**.

Since 2021, the valuations for "InsureTech" stocks and Indian unicorns have collapsed. Digit's prospects for an IPO in the near future seem minimal. Fairfax has not mentioned Digit on an earnings call since Q3 2022. Further, our research indicates that Digit has little proprietary technology, and is effectively a fairly conventional, albeit small, insurer in the Indian market. From S&P Capital IQ's comp valuations, we see Digit as generously being valued at ~$1.5 billion presently. We therefore adjust Fairfax's book value downward by -$1.1 billion to align Digit's carrying value with a more reasonable value.

Timeline of Fairfax TRSes, Digit Financings, and Gains



Fairfax's Mental Gymnastics Underlying its Promotion of Digit

- Fairfax's Q2 2021 Interim Report discloses that in June 2021, Digit entered into an agreement to raise $200 million at a valuation of $3.5 billion. The expected close was Q3 2021. Fairfax states it is taking a valuation gain of $425.0 million that quarter, 60% based on an internal DCF model of Digit and **40% on "the risk-adjusted transaction fair value"**.[1]
- In the Q3 Interim Report, Fairfax states that closing is now expected in Q4 and takes an additional $397.0 million gain based on a weighting of 35% DCF and **65% "risk-adjusted transaction fair value"**.[2]
- In the Annual Report, Fairfax discloses that the financing has only partly closed ($122 million of the anticipated $200 million), and Fairfax takes an additional fair value gain in Q4 gain of $668.3 million based on "the transaction fair value, which was supported by [the DCF]".[3]

[1] Fairfax Q2 2021 Interim Report, p. 64.
[2] Fairfax Q3 2021 Interim Report, p. 13.
[3] Fairfax 2021 Annual Report, p. 66.

Did Fairfax Lie About Digit's Profitability?

In its 2021 Annual Report, Fairfax claimed that Digit is "already profitable" in 2021.[1] However, Digit's financials record net losses in its fiscal years ended March 31st, 2021 and 2022.

Below is Fairfax's claim (emphasis added):

> Digit, under Kamesh Goyal, continued its exceptional performance in 2021 as a start-up (five years ago), with gross premiums expected to be up 50% to $700 million for the year ending March 2022. Recently, Kamesh raised $200 million, valuing Digit at $3.5 billion – the first unicorn in India in 2021. Unlike many unicorns, Digit is already profitable. As you will see later, this capital raise, including Sequoia (awaiting regulatory approval) and Wellington among its investors, contributed $1.5 billion to our net gains in 2021. More to come we think!

discrepancy, given that Digit reported a net loss for the year ended March 2022, while Fairfax's statement above was made for the year ending December 2021.

[1] Fairfax Financial Holdings Annual Report 2021, Pg. 8.
[2] Fairfax Financial Holdings Annual Report 2021, Pg. 12.
[3] Digit Prospectus Dated March 30, 2023, Pg. 26.

Digit Lost INR -1.2B in FY 2021, -3.0B in FY 2022, -3.2B in CY 2021

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Income Statement								
	Press Release	Press Release	Press Release	Reclassified	Press Release	Press Release		Restated
	3 months	3 months	3 months	3 months	3 months	3 months	3 months	3 months
For the Fiscal Period Ending	FQ1/CQ2	FQ2/CQ3	FQ3/CQ4	FQ4/CQ1	FQ1/CQ2	FQ2/CQ3	FQ3/CQ4	FQ4/CQ1
	Jun-30-2020	Sep-30-2020	Dec-31-2020	Mar-31-2021	Jun-30-2021	Sep-30-2021	Dec-31-2021	Mar-31-2022
Currency	*INR*	*INR*	*INR*	*INR*	*INR*	*INR*	*INR*	*INR*
Premiums and Annuity Rev.	3,882.6	4,418.8	5,401.9	5,733.0	6,863.5	8,030.5	9,030.1	10,118.8
Total Interest And Dividend Income	121.0	1,223.8	131.7	798.5	898.6	954.8	1,119.1	1,267.2
Asset Management Fee	-	-	-	-	-	-	-	-
Gain (Loss) on Sale of Invest., Total (Rev)	527.4	(482.4)	639.6	123.6	27.8	90.2	9.2	0.5
Non-Insurance Activities Revenue	-	-	-	-	-	-	-	-
Other Revenue	17.8	(17.8)	-	-	-	11.2	(0.1)	(11.0)
Total Revenue	**4,548.8**	**5,142.4**	**6,173.2**	**6,655.1**	**7,789.8**	**9,086.7**	**10,158.3**	**11,375.4**
Policy Benefits	2,661.3	3,181.8	4,078.3	4,468.2	5,229.3	6,246.6	6,803.0	6,917.9
Policy Acq. and Underwriting Costs	71.5	240.5	215.9	149.8	223.1	445.9	690.6	234.6
Depreciation & Amort.	-	-	-	-	-	-	-	-
Amort. of Goodwill and Intangibles	-	-	-	-	-	-	-	-
Selling General & Admin Exp., Total	1,416.8	1,624.0	2,264.7	3,337.2	2,054.8	3,156.1	4,258.6	4,934.9
Other Operating Exp.	6.3	5.0	5.4	27.5	6.3	6.8	(220.3)	233.1
Total Operating Exp.	**4,156.0**	**5,051.3**	**6,564.2**	**7,982.7**	**7,513.5**	**9,855.4**	**11,532.0**	**12,320.5**
Operating Income	**392.7**	**91.1**	**(391.0)**	**(1,327.6)**	**276.3**	**(768.7)**	**(1,373.7)**	**(945.1)**
EBT Incl. Unusual Items	**392.7**	**72.4**	**(413.7)**	**(1,279.0)**	**254.9**	**(768.8)**	**(1,448.1)**	**(996.6)**
Income Tax Expense	-	-	-	-	-	-	-	-
Net Income	**392.7**	**72.4**	**(413.7)**	**(1,279.0)**	**254.9**	**(768.8)**	**(1,448.1)**	**(996.6)**

Go Digit General Insurance Ltd. quarterly financial data from S&P Capital IQ

Is Digit Really "Digital"?

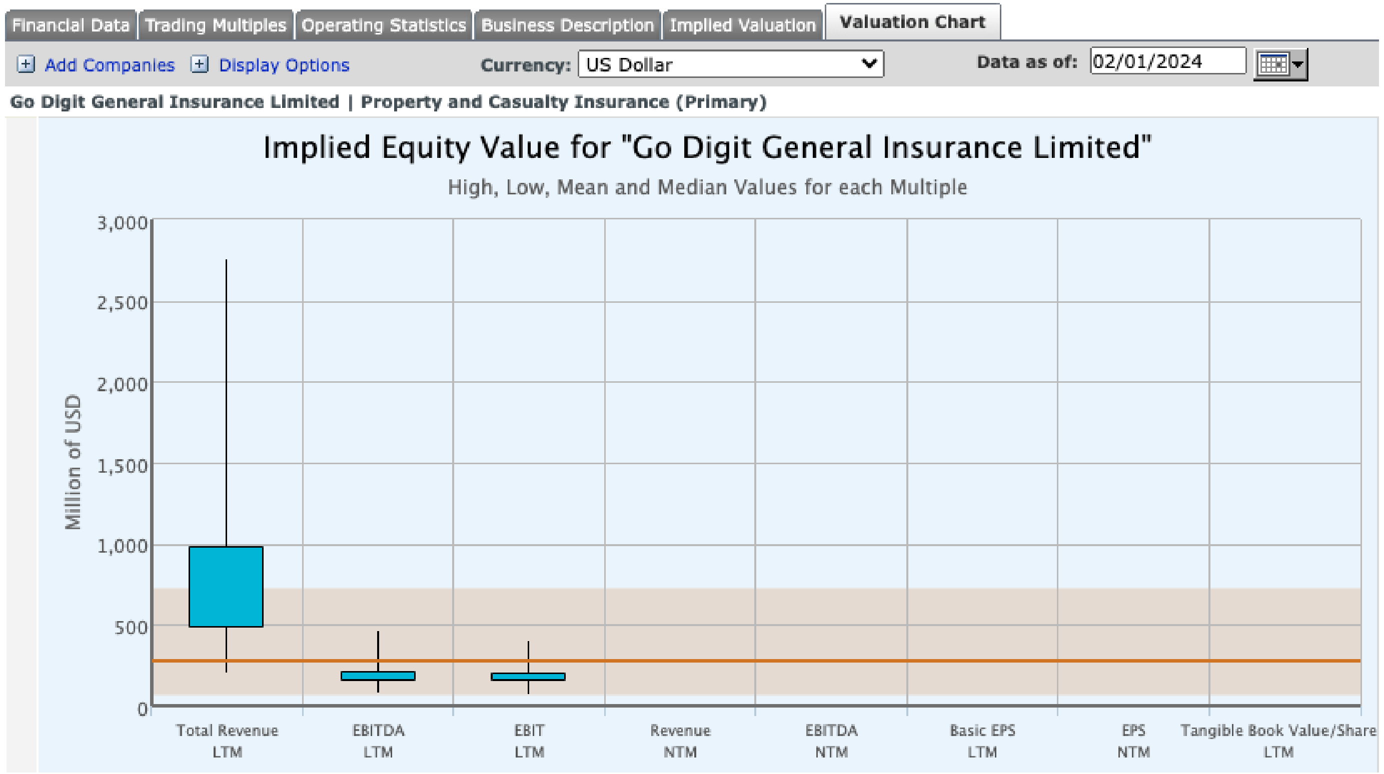
Go Digit ("Digit"), an insurance company in India, presents itself in its public messaging as an innovative, tech-driven insurance play, "The first Indian Insuretech startup".

However, as a former employee of Digit disclosed on a call with our researchers, the company has no "better mousetrap": Digit has built little of its own software, and what it has developed runs on Allianz's open-source platform, Allianz Business Services. On another call, we learned that much of Digit's business is still processed through agents.

Even if we were to give Digit the benefit of the doubt and say it's truly "Insuretech", many similar businesses haven't performed well since Digit's last fundraising round in June 2021. We believe that, like its peers, Digit was able to take advantage of Silicon Valley's lack of discipline in 2021 (Sequoia invested at a $3.5 billion valuation). Unfortunately for Digit, due to the Indian regulatory process, it was unable to list while the market was still hot. This will likely lead to a down round IPO.

[1] Phone interview with former Digit employee. August 9, 2023.
[2] https://in.linkedin.com/in/vpvpvp

We Value Digit at $1.5 Billion, Which is Company Favorable



$1.5 Billion appears to be a decent premium to S&P Capital IQ's valuation based on comps.

InsureTech Stocks Tanked After Sequoia Invested in Digit, Remaining Depressed in 2023

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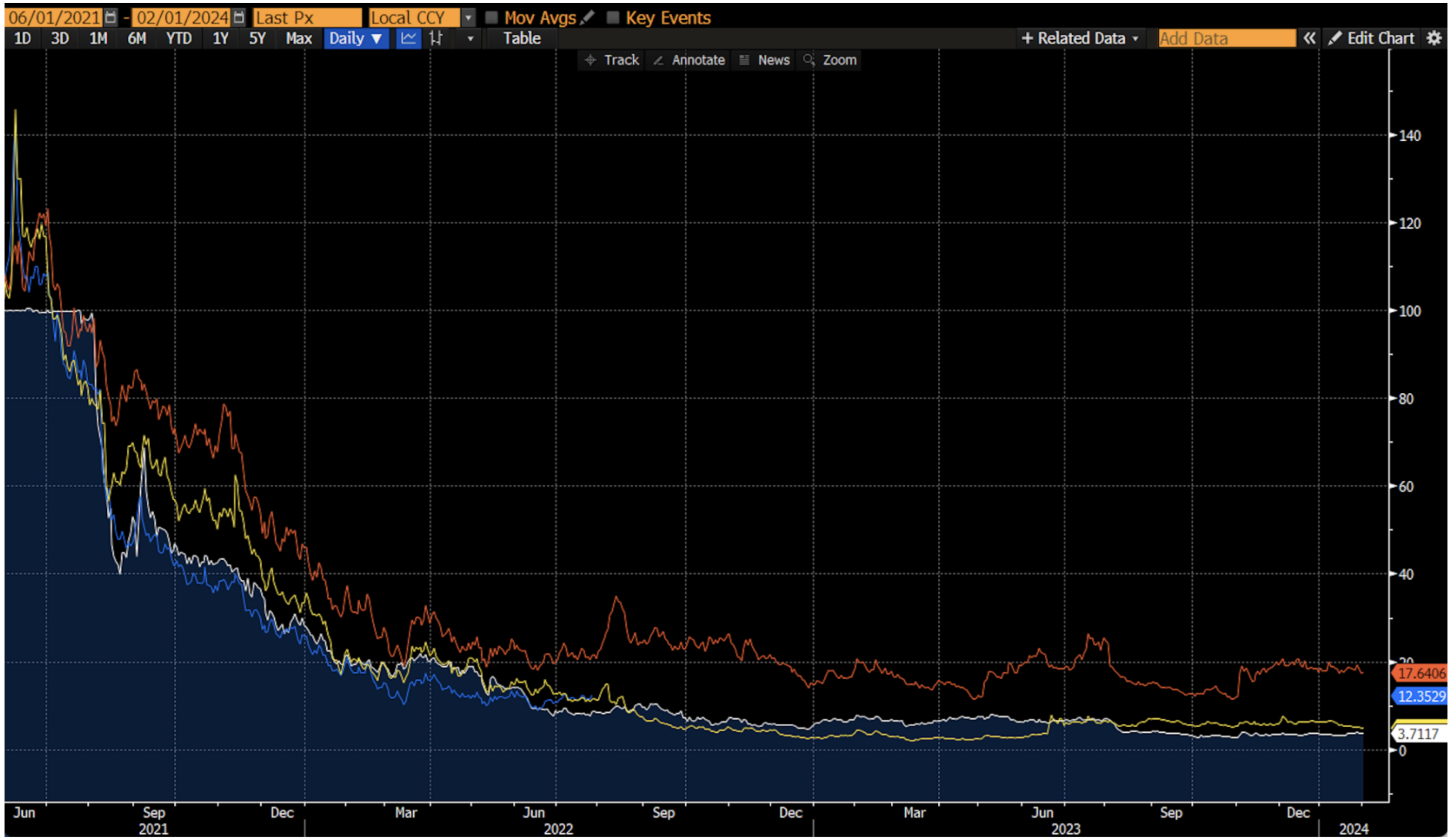


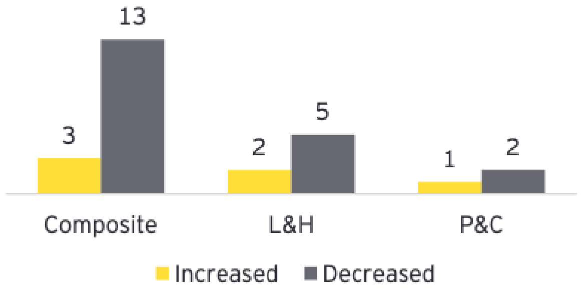
2023: IFRS 17

Fairfax Records a Suspiciously Large "Too Good to be True" Gain on Adoption of IFRS 17. Based on Comps, We Adjust the Gain Down by $1.2 Billion.

Fairfax's IFRS 17 Adoption Equity Increase is Suspiciously Large

- IFRS 17 requires insurers to discount their anticipated insurance liabilities. The gains from the discounting theoretically reverse as the discount factor for liabilities decreases as time passes. Despite the future reversal, Fairfax appears to have taken its adoption of IFRS 17 as an opportunity to unjustifiably inflate profits and Book Value further.
- The adoption of IFRS 17 increased Fairfax's Book Value by 15.5%.[1]
- According to an EY July 2023 market update on the impacts of IFRS 17 and 9 adoption by insurers, the three P&C insurers it studied had Book Value swings of -2% to +3% (at right).[2]

IFRS 17 and IFRS 9 vs. IFRS 4 and IAS 39 – 1 January 2022



- Approximately 83% of insurers disclosed their impacts on equity at the transition date.
- For the large majority of composite and L&H insurers, there has been a decrease in equity, mainly due to the recognition of RA and CSM. The percentage of decrease varied across these insurers, with the majority reporting a decrease between 5% and 25%, while two insurers mentioned a decrease of up to 50%.
- For P&C insurers, the impact was less pronounced, given the majority of their business is measured under the PAA. The percentage of change varied between -2% and +3%.

[1] Fairfax May 11, 2023 Press Release of Q1 2023 Results.
[2] Available at: https://assets.ey.com/content/dam/ey-sites/ey-com/en_gl/topics/insurance/ey-market-updates-on-the-impact-of-ifrs-17-and-ifrs-9-july-2023.pdf?download

Fairfax's IFRS 17 Adoption Equity Increase is Suspiciously Large

- We then divided the size of Fairfax's IFRS 17 adoption gain ($2.4 billion) by its post-gain Contract Liabilities ($39.9 billion) to arrive at an adjustment percentage of 6.1%. (Until companies adopt IFRS 17, there is no Contract Liabilities account, making only comparisons to post-adoption amounts possible.)
- Fairfax's 6.1% gain is out of line with those of a comp group of other P&C insurers that have adopted IFRS 17.

	Admiral	Hiscox	Intact	DFY	Trisura	Fairfax
Increase of equity post IFRS 17	(68.4)	219.6	420.0	158.0	10.4	2,439.0
Post-Adoption Contract Liabilities	4,025.4	6,694.3	28,946.0	3,577.7	2,165.1	39,900.0
% Increase (Decrease)	**-1.7%**	**3.3%**	**1.5%**	**4.4%**	**0.5%**	**6.1%**

Adjusting Fairfax's IFRS 17 Increase in Book Value

- If we adjust the increase in book value to the top end of the P&C insurer range in the EY market update (3% increase), we would haircut Fairfax's Book Value by $2.0 billion.
- To be conservative, we instead adjust to 3.0% of Post-Adoption Contract Assets, which is near the high end of the range of comps. This yields a $1.24 billion haircut to Book Value.

		Delta
Adjust to 3% of Prior Equity	462.0	1,977.0
Adjust to 3% of Contract Assets	1,197.0	1,242.0

2023: Farmers Edge

Fairfax Under-Impairs a Consolidated Subsidiary by ~$66 Million When the Market Cap Has Already Crashed to ~C$10 Million. Fairfax Then Makes Undisclosed Additional Loans of C$75 Million that Seemingly Throw Good Money After C$376 Million that Already Went Bad.

Under-Impairing and Good Money After Bad

- Fairfax first invested in Farmers Edge in 2015. It IPOed in 2021 and is -98% since.
- In 2022, Fairfax impaired it by $133.4 million. This was an under-impairment, as Fairfax still carried it at $71 million while the market value was $5 million.
- In 2022, undisclosed in Fairfax's filings, Fairfax agreed to provide a C$75.0 million credit facility to Farmers Edge. Farmers Edge drew C$38.0 million on the line in 2022, and another $36.9 million through Q3 2023, for a total balance of C$74.9 million.
- Farmers Edge Adjusted Free Cash Flow through the first nine months of 2023 was -C$42.4 million.

$71 Million Carrying Value vs $5 Million Market Value

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(3) *Non-cash impairment charges recorded in operating expenses and in other expenses in the consolidated statement of earnings by the insurance and reinsurance companies and Non-insurance companies reporting segment, respectively. During 2022 the company recognized non-cash goodwill impairment charges of $133.4 on Farmers Edge.*

Common Stock Holdings as at December 31, 2022

	Shares *(millions)*	Ownership	Carrying Value per Share *($)*	Share Price *($)*	Carrying Value	Market Value
Farmers Edge	25.7	61%	2.76	0.20	71	5

Loan Undisclosed in Fairfax Statements, but Disclosed in Farmers Edge Statements

- **LIQUIDITY AND CAPITAL RESOURCES**
- On July 8, 2022, the Company closed a secured $75.0 million credit agreement with Fairfax Financial Holdings Limited and certain of its affiliates (collectively, “Fairfax”) (the “Facility”). The Facility bears interest at a rate of 6% per annum and will mature on January 31, 2025. The net proceeds of the Facility are being used for working capital and general corporate purposes. As of September 30, 2023, the Company has drawn $75.0 million against the Facility (see note 8 to the interim financial statements for further information). **Fairfax has also committed to provide financial support** to the Company for the next twelve months to fund loses as required. --- Farmers Edge 2022Q3 FS, p.9

Farmers Edge Still On the Edge

OPERATING HIGHLIGHTS

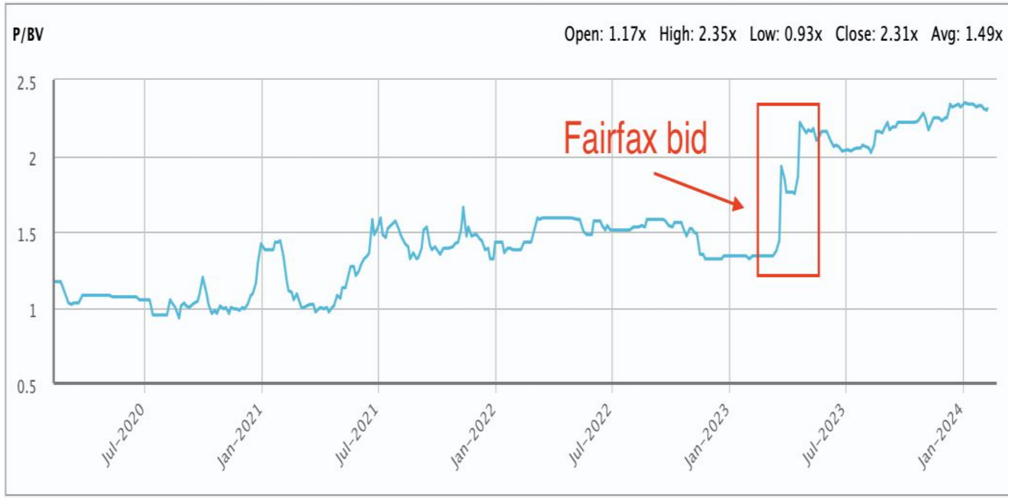
in thousands, except per share amounts	Three Months Ended September 30		Nine Months Ended September 30	
	2023	**2022**	**2023**	**2022**
FINANCIAL PERFORMANCE				
Revenues	$ 4,427	$ 5,943	$ 15,906	$ 22,182
Operating expenses [1]	(17,695)	(24,379)	(58,755)	(79,936)
Non-recurring items [2]	2,215	2,606	4,112	5,880
Adjusted EBITDA [3]	$ (11,053)	$ (15,830)	$ (38,737)	$ (51,874)
Net loss	$ (17,900)	$ (21,125)	$ (55,143)	$ (66,826)
Loss per share - basic & diluted	$ (0.43)	$ (0.50)	$ (1.31)	$ (1.59)
Adjusted Free Cash Flow Deficiency[3]	$ (13,285)	$ (15,059)	$ (42,350)	$ (57,728)
			September 30, 2023	**December 31, 2022**
FINANCIAL POSITION **as at date specified**				
Total assets			$ 59,382	$ 87,018
Total liabilities			$ 91,666	$ 66,529
Total equity (deficiency)			$ (32,284)	$ 20,489

Gulf Insurance

In December, Fairfax Continues its Gonzo Mode by Buying out the Portion of Gulf Insurance it Did Not Already Own at a Very Rich Multiple of ~2.4x Book Value, Taking a ~$300 Million Gain on Existing Shares

Gulf Insurance Will Generate a Questionable $300 Million Gain to Book Value for Fairfax in Q4 2023

Fairfax owned 43.4% of Gulf Insurance, a publicly listed Insurance company in Kuwait. From June 2021 through March 2023 the stock traded in a reasonably tight valuation range of ~1.3x to 1.5%x P/B. On April19, 2023 Fairfax announced it would acquire 43.69% that it didn't own for KwD 2,000 ~2.4x P/B. The acquisition consideration was $860 million, which is a ~100% premium to the undisturbed share price.[1] We believe this is the latest accounting lever Fairfax will pull in Q4 2023 and note the stock trades lower than the price Fairfax paid for the buyout.



[1] The acquisition was announced on 4/19/2023 but the share price had risen from the "undisturbed price" in March when it was rumored Fairfax were interested in increasing their stake.