The Atlantic Philanthropies

Combined Financial Statements
December 31, 2012 and 2011
(expressed in thousands of U.S. dollars)

Independent Auditor's Report

To the Trustees and Board of Directors of The Atlantic Philanthropies

We have audited the accompanying combined financial statements of The Atlantic Philanthropies, which comprise the combined statements of financial position as of December 31, 2012 and 2011, and the related combined statements of activities and changes in net assets and of cash flows for the years then ended.

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, Chartered Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F: +1 (441) 295 1242, www.pwc.com/bermuda

Opinion
In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Atlantic Philanthropies at December 31, 2012 and 2011 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers

Chartered Accountants
July 2, 2013

The Atlantic Philanthropies

Combined Statements of Financial Position

As of December 31, 2012 and 2011

(expressed in thousands of U.S. dollars)

	2012 $	2011 $
Assets		
Investments, at fair value		
Marketable securities (notes 3 and 5)	15,696	1,402
Alternative investments (notes 4 and 5)	1,947,118	2,090,101
Derivative contracts, net (notes 5 and 6)	5,368	-
	1,968,182	2,091,503
Cash and cash equivalents (notes 5 and 7)	152,950	227,002
Other current assets (note 9)	58,043	17,568
Property and equipment (note 10)	17,289	19,175
Other assets (note 11)	9,460	21,942
Investment in associated companies	13,544	14,166
Total assets	2,219,468	2,391,356
Liabilities		
Donations payable (note 12)	675,786	472,960
Marketable securities sold short (notes 3 and 5)	2	2
Derivative contracts, net (notes 5 and 6)	-	5,696
Other current liabilities (note 13)	18,922	29,294
Other liabilities (note 15)	53,523	17,605
Total liabilities	748,233	525,557
Net assets (unrestricted)	1,471,235	1,865,799
Total liabilities and net assets	2,219,468	2,391,356

The accompanying notes are an integral part of these combined financial statements.

The Atlantic Philanthropies

Combined Statements of Activities and Changes in Net Assets

For the years ended December 31, 2012 and 2011

(expressed in thousands of U.S. dollars)

	2012 $	2011 $
Investment transactions		
Net investment income	143	124
Net realized gains (note 16)	188,917	158,285
Net change in unrealized losses (note 16)	28,222	(119,082)
Net foreign exchange translation gains	181	221
Investment management fees and other direct expenses	(6,664)	(8,491)
Gain from investment transactions	210,799	31,057
Operating businesses		
Rental and other income	649	990
Selling and administrative expenses	(3,670)	(6,033)
Equity in earnings of associated companies	3,701	2,910
Gain (loss) from operating businesses	680	(2,133)
Donations and charitable expenses		
Donations expense (note 12)	(521,711)	(208,162)
Administrative expenses	(62,015)	(53,639)
Total donations and charitable expenses	(583,726)	(261,801)
Decrease in net assets from continuing operations before taxes	(372,247)	(232,877)
Tax expense (note 17)	(65)	(5,334)
Decrease in net assets from continuing operations	(372,312)	(238,211)
(Loss) income from discontinued operations (note 18)	(23,744)	10,582
Foreign currency translation gain (loss), net	1,492	(1,112)
Decrease in net assets	(394,564)	(228,741)
Net assets (unrestricted) - Beginning of year	1,865,799	2,094,540
Net assets (unrestricted) - End of year	1,471,235	1,865,799

The accompanying notes are an integral part of these combined financial statements.

The Atlantic Philanthropies

Combined Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(expressed in thousands of U.S. dollars)

	2012 $	2011 $
Cash flows from operating activities		
Decrease in net assets	(394,564)	(228,741)
Adjustments to reconcile decrease in net assets to net cash used in operating activities		
Net realized gains	(188,917)	(158,285)
Net change in unrealized losses	(28,222)	119,082
Equity in earnings of associated companies	(3,701)	(2,910)
Depreciation, amortization and other expenses	3,154	10,573
(Gain) Loss on disposal of discontinued operation	21,114	(42,263)
	(591,136)	(302,544)
Change in operating assets and liabilities	182,338	(113,298)
Net cash used in operating activities	(408,798)	(415,842)
Cash flows from investing activities		
(Purchase of) proceeds from marketable securities, net	(15,286)	1,861
Proceeds from alternative investments, net	351,140	366,129
(Purchase of) proceeds from derivative contracts, net	(2,491)	8,882
Purchase of property and equipment, net	(455)	(2,277)
Proceeds from (purchase of) other assets, net	5	(3,610)
Proceeds from discontinued operations	1,833	68,550
Net cash provided by investing activities	334,746	439,535
Cash flow from financing activities		
Repayments of debt obligations	-	(1,500)
Net cash used in financing activities	-	(1,500)
(Decrease) increase in cash and cash equivalents	(74,052)	22,193
Cash and cash equivalents - Beginning of year	227,002	204,809
Cash and cash equivalents - End of year	152,950	227,002
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Income and other taxes, net	200	402

The accompanying notes are an integral part of these combined financial statements.

(expressed in thousands of U.S. dollars)

1. Combined entities

These combined financial statements include The Atlantic Finance Company Limited (“AFC”), The Atlantic Foundation (“The Foundation”), The Atlantic Trust (“The Trust”), The Atlantic Advocacy Fund (“AAF”), The Atlantic Foundation of New York (“AFNY”), The Atlantic Charitable Trust (“ACT”), Atlantic Charitable Holdings (“ACH”) ,The Mangrove Foundation (“Mangrove”) and Bridge Charitable Trust (“Bridge”). Collectively the group is referred to as “The Atlantic Philanthropies” or “Atlantic”.

All of the combined entities have similar charitable objectives and their managements are interrelated. These combined financial statements have been prepared to provide an overview of the activities of the nine entities.

The Atlantic Philanthropies seeks to bring about lasting changes that will improve the lives of vulnerable people. Atlantic concentrates its giving in four fields: ageing, children and youth, the health of populations and reconciliation and human rights. In addition to its philanthropic interests, Atlantic owns 100% of General Atlantic Group Limited, a Bermuda corporation (“GAGL”), through its wholly-owned subsidiary, Exeter Associates Limited, a Bermuda corporation (“Exeter”). Through operating subsidiaries, GAGL is principally engaged in real estate development.

Atlantic plans to spend down its entire endowment by 2020 to make a sustainable impact in its four programme areas. In line with this decision, the Board of GAGL requested its management to develop a strategic plan and prepare to exit from all operating business subject to the achievement of the best available and reasonably achievable commercial terms (note 18).

2. Significant accounting policies

(a) **Basis of accounting presentation**
These combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

These combined financial statements include the consolidated financial statements of The Trust and The Foundation, Bridge and AFC and the financial statements of AFNY, AAF, ACT, ACH and Mangrove. GAGL’s financial statements are prepared for January 31, 2013 and 2012. The results of this entity have been adjusted for inclusion in the financial statements to reflect significant items of income and expenditure during the months of January 2013 and 2012. GAGL accounts for its 20% to 50% interests in associated companies under the equity method of accounting and consolidates its majority-owned and controlled subsidiaries. All significant intercompany accounts and transactions are eliminated.

(b) **Net assets**
There were no temporarily or permanently restricted net assets for charitable purposes as of December 31, 2012 and 2011.

(c) **Fair values of financial instruments**
Fair values of financial assets and liabilities are disclosed in the notes to combined financial statements where they differ significantly from carrying values. Accounts receivable, accounts payable and accrued liabilities approximate their fair values as these instruments are subject to normal credit terms. The maximum credit risk associated with accounts receivable is limited to the carrying amount.

Management has adopted a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

(expressed in thousands of U.S. dollars)

Level 1	Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that Atlantic has the ability to access at the measurement date;
Level 2	Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;
Level 3	Inputs that are unobservable.

Management uses the "market approach" valuation technique to value its alternative investments. As management's valuation of alternative investments has been based upon unobservable data, the alternative investments have been classified as level 3. The determination of what constitutes "observable" requires significant judgment by management.

The categorization of an alternative investment within the hierarchy is based upon the ability to redeem from that alternative investment as of the measurement date and does not necessarily correspond to management's perceived risk of that alternative investment.

(d) **Marketable securities and marketable securities sold short**
Marketable securities and marketable securities sold short are carried at fair value. Quoted securities are stated at market value, which is based on quoted prices on a recognized stock exchange on the last day of trading of the fiscal year. Other marketable securities, for which the primary market is "over-the-counter" are valued by management based upon information provided by investment advisors. Investment advisors determine the fair value using the most recent available "bid" quotations provided by one or more principal market makers for the security.

Investment transactions are recorded on the trade date and investment income is recognized on the accrual basis when receivable. Discounts and premiums on debt securities are accreted and amortized over the term of the securities. Gains and losses associated with the revaluation of marketable securities are recorded in the combined statements of activities and changes in net assets as unrealized gains and losses. Realized gains and losses are calculated on a first-in-first-out basis.

(e) **Alternative investments**
Alternative investments comprise investment funds and investments in private equity opportunities. Such investments are made in anticipation of market value appreciation and ultimate realization of capital gains upon sale.

Investment funds are carried at estimated fair market values, which are principally derived from the net asset values provided by third party administrators, fiduciary agents or in certain cases, investment managers and prime brokers, acting for each respective underlying investment fund.

The management agreements of the underlying funds provide for compensation to the respective managers in the form of fees determined as a percentage of net assets and in many cases, performance incentive fees based on net profits earned, subject to other limiting factors such as high water marks. The fees are deducted from the assets of the underlying funds and are reflected in the net asset values reported to management.

(expressed in thousands of U.S. dollars)

Gains and losses associated with the revaluation of investment funds are recorded in the combined statements of activities and changes in net assets as unrealized gains and losses. Redemption proceeds from investment funds in excess or below cost are recorded in the combined statements of activities and changes in net assets as realized gains and losses, respectively. Occasionally, the subscription agreements require a holdback of redemption proceeds for a specified time period or until the underlying fund has been audited. Such holdbacks are reported as receivables for securities sold, a component of other current assets in the combined statements of financial position.

Private equity investments are carried at fair value, as determined in good faith by Atlantic's management. Management determines the fair value of these investments principally on the basis of net asset values and limited partner interest provided by the investment managers.

Investment managers consider all pertinent information including available market prices, types of securities, subsequent purchases of the same or similar securities by other investors, pending mergers or acquisitions, current financial position, operating results and other appropriate information. A conservative basis is sought by generally requiring adjustments to be based on values established in meaningful third party transactions or based on other market information such as fair market valuations of comparable companies, or changed conditions within the investees. The values assigned to these securities are based upon available information and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot be reasonably determined until the individual positions are liquidated. Due to the absence of readily ascertainable market values and the inherent uncertainty of valuations, the estimated values may differ significantly from values that would have been used had a ready market for the securities existed, and the differences could be material.

Gains and losses associated with the revaluation of private equity investments are recorded in the combined statements of activities and changes in net assets as unrealized gains and losses. On receipt of distributions from private equity investments, a realized gain or loss is recognized equal to the proceeds less the identified cost basis of the liquidated investment.

(f) **Forward currency contracts**

Forward currency contracts are agreements to purchase or sell commodities or financial instruments at a specified future date. These instruments are recorded on the trade date and are carried at fair value. Notional values indicate the overall market exposure of the derivative contracts and are used by management to assess risk.

As forward contracts are not traded on an exchange, the agreements between counterparties are not standardized. There is generally no requirement to provide collateral, and changes in the value of forward contracts are settled only on termination of the contract rather than on a daily basis. Open forward contracts are revalued to fair value in the combined statements of financial position, based on the difference between the contract rate and the applicable forward rate to close out the contract. Gains and losses associated with the revaluation of open forward contracts are recorded in the combined statements of activities and changes in net assets as unrealized gains or losses. Upon contract expiration, or when an offsetting contract is entered into, the cumulative change in value is recognized as a realized gain or loss.

(g) **Cash and cash equivalents**

Cash and cash equivalents include marketable securities, repurchase agreements receivable and highly liquid debt instruments which have maturities of ninety days or less at date of purchase. Such instruments are valued at cost which, when combined with accrued interest, approximates market and fair value.

(expressed in thousands of U.S. dollars)

(h) **Repurchase agreements receivable**
A repurchase agreement involves acquiring securities for cash and obtaining a simultaneous commitment from the seller to repurchase the securities at an agreed upon price and date. Atlantic takes possession of the securities collateralizing the repurchase agreement. The collateral is marked to market daily to ensure that the market value of the underlying assets remains sufficient to protect Atlantic in the event of default by the seller. Atlantic records the repurchase agreements receivable in cash and cash equivalents in the combined statements of financial position.

(i) **Property and equipment**
Property and equipment is stated at the lower of the estimated fair value at the date of impairment or historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives or lease terms of the assets which range from 3 to 40 years.

The costs of maintenance, repairs and minor renewals are charged to expense; the costs of major improvements are capitalized. When assets are retired or otherwise disposed of, the cost of the assets and the related accumulated depreciation are removed from the accounts and any gain or loss on retirement is reflected in income for the current period.

Management considers all of the property and equipment to be held for long-term use. Long-lived assets and identifiable intangibles consist of property and equipment, lease premiums and related goodwill. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. In performing the review for recoverability, if the sum of the expected future undiscounted cash flows generated by the asset is less than the carrying amount of the asset, an impairment loss is recognized. The impairment loss, if any, is calculated by comparing the asset carrying value to the respective fair value. Fair value is estimated using third party appraisal, market comparison, discounted cash flow or direct capitalisation analysis. The evaluation of fair value and future cash flows from individual properties requires significant judgement; it is reasonably possible that a change in estimate could occur.

(j) **Donations**
Unconditional donations are expensed in the period in which the commitment is made. Conditional donations are expensed in the period in which the conditions under which they are granted are substantially met. Conditional donations whose conditions have not been met are disclosed in note 12.

Unconditional donations payable over a period greater than one year are discounted using the current risk-free rate of return for investments of a similar duration. The discount rate used for unconditional donations made during the year ended December 31, 2012 was 0.135% (2011 - 0.102%). The discount is amortized and included as part of donations expense over the term of the obligation. Management has included supplemental disclosure in note 12 to demonstrate the effect of including conditional donations payable as a liability on Atlantic's equity. For the purpose of supplemental disclosure, conditional donations have not been discounted as the payment terms can change frequently in relation to the conditions being met.

(k) **Operating business revenue recognition**
GAGL recognizes revenues when rooms or rental spaces are occupied for hotel and real estate rental operations, when full accrual method criteria are met for real estate sales operations, when goods are sold for retail operations, and as services are provided for hotel management.

(l) **Discontinued operations**
In general, sales and disposals of business segments are classified as discontinued operations. Therefore, as required, income or loss attributed to operations and sale of business segments sold, held for sale, or otherwise discontinued are presented in the combined statements of activities and changes in net assets as discontinued operations (note 18).

(expressed in thousands of U.S. dollars)

(m) **Foreign currency translation**
Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at year end exchange rates. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at average rates for the year. Gains and losses arising on the translation of foreign currency denominated investments are recorded as a component of realized and unrealized gains and losses. Gains and losses arising on the translation of donations denominated in foreign currencies are included as a component of donations expense (note 12). Gains and losses arising from translation of other assets and liabilities denominated in foreign currencies are recorded in the combined statements of activities and changes in net assets. Other exchange gains and losses that arise from exchange rate changes on transactions denominated in a currency other than the local currency are reflected in income as incurred.

(n) **Income taxes**
The Atlantic Philanthropies accounts for income taxes using the asset and liability method. This method requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of the assets and liabilities.

The Atlantic Philanthropies records deferred tax assets to the extent management believes these assets will more-likely-than-not be realized. In making such determinations, management considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies, and recent financial operations. In the event management were to determine that it would be able to realize deferred income tax assets in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be made which would reduce the provision for income taxes (note 17).

The authoritative guidance on accounting for and disclosure of uncertainty in tax positions ASC 740 – Income Taxes clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. If management considers that a tax position is “more-likely-than-not” of being sustained upon audit, based solely on the technical merits of the position, it recognizes the tax benefit. The Atlantic Philanthropies measures the tax benefit by determining the largest amount that is greater than 50% likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. These assessments can be complex and require significant judgment. To the extent that estimates change or the final tax outcome of these matters is different than the amounts recorded, such differences will impact the income tax provision in the period in which such determinations are made. If the initial assessment fails to result in the recognition of a tax benefit, management regularly monitors its position and subsequently recognizes the tax benefit if (i) there are changes in tax law or analogous case law that sufficiently raise the likelihood of prevailing on the technical merits of the position to more-likely-than-not, (ii) the statute of limitations expires, or (iii) there is a completion of an audit resulting in a settlement of that tax year with the appropriate agency. Uncertain tax positions are classified as current only when management expects to pay cash within the next twelve months. Interest and penalties, if any, are recorded within the provision for income taxes in The Atlantic Philanthropies' combined statements of activities and changes in net assets and are classified on the combined statements of financial position with the related liability for unrecognized tax benefits.

The Atlantic Philanthropies files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, The Atlantic Philanthropies is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of December 31, 2012, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2008 forward (with limited exceptions).

(expressed in thousands of U.S. dollars)

Jurisdiction	Earliest Tax Year Subject to Examination
U.S. Federal	2009
California	2008
New York State and City	2009

As of December 31, 2012, there were no positions for which management believes it is reasonably possible that the total amounts of tax contingencies will significantly increase or decrease within the next twelve months of the reporting date.

(o) **Use of estimates**
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

3. Marketable securities and marketable securities sold short

			2012		2011
	Cost $	Unrealized gain (loss) $	Fair value $	Cost $	Fair value $
Fixed income					
Sovereign debt	15,693	3	15,696	-	-
	15,693	3	15,696	-	-
Equities					
U.S. equities	-	-	-	1,310	1,402
	-	-	-	1,310	1,402
Marketable securities sold short					
Equities					
U.S. equities	(3)	1	(2)	(3)	(2)

The contractual maturities of fixed income, excluding short-term investments, at fair value are as follows:

	2012 $	2011 $
Due in one year or less	15,696	-

Certain equities are associated with deferred compensation balances, and accordingly unrealized gains and losses are reported as increases or decreases to the deferred compensation liability. At December 31, 2012 the market value of these equities amounted to $Nil (2011 - $1,402) with a net change in unrealized loss of $92 (2011 - loss $50).

(expressed in thousands of U.S. dollars)

4. *Alternative investments*

Investment funds are categorized by strategy as determined by management. These categories are used internally by management as a breakdown of asset classes in order to evaluate sources of potential risk and return. Management's classification of individual investments within these strategies is based on variable and subjective considerations. Similarities in the terminology used by management and that are used elsewhere in the investment industry do not imply any set definitions for such terminology.

			2012		2011	
	Cost $	**Unrealized gains (losses) $**	**Fair value $**	**Cost $**	**Fair value $**	
Hedge Funds						
Stock specific						
Directional	477,740	258,864	736,604	516,295	724,118	(1)
Sector specialists	50,000	11,238	61,238	50,000	51,994	(2)
	527,740	270,102	797,842	566,295	776,112	
Credit related	186,824	102,856	289,680	214,698	297,834	(3)
Event driven	63,798	26,454	90,252	77,936	99,176	(4)
Macro	156,188	62,410	218,598	180,035	260,235	(5)
Other	-	390	390	-	798	
Total hedge funds	934,550	462,212	1,396,762	1,038,964	1,434,155	
Private equity						
Information technology	606,527	(301,619)	304,908	668,041	415,603	
Private equity - other	218,263	27,185	245,448	212,475	240,343	
Total private equity	824,790	(274,434)	550,356	880,516	655,946	
Total alternative investments	1,759,340	187,778	1,947,118	1,919,480	2,090,101	

	Redemption frequency (if currently eligible)	**Notice period**
(1)	Monthly, quarterly	3-120 days
(2)	Monthly	90 days
(3)	Quarterly, semi-annually	60 – 120 days
(4)	Semi-annually	45 days
(5)	Monthly, quarterly	3 – 5 days

(expressed in thousands of U.S. dollars)

Certain investment funds restrict openings for investors to redeem shares. At December 31, 2012, the earliest dates that Atlantic could withdraw from investments with less than annual liquidity were as follows:

	2012 $	2011 $
Within one to two years	-	44,245
Within two to three years	-	44,245
	-	88,490

Certain investment funds designate special investments which cannot be redeemed. At December 31, 2012 Atlantic held $19,818 (2011 - $25,102) in designated special investments.

Private equity investments may be exposed to risk associated with concentration of investments in one geographic region and in certain industries. In addition, certain partnerships in the information technology sector hold large positions in publicly quoted securities. The value of investments in those partnerships can, therefore, vary significantly depending upon stock market movements. At December 31, 2012, the value of the partnership interests attributable to the five largest quoted security positions held within the underlying partnership investment portfolios was $135,289 (2011 - $170,112). These investments can never be redeemed. Distributions from these investments will be received as the underlying investments are liquidated. It is estimated that the underlying assets of these investments will be liquidated over the next five to ten years.

Certain investment funds are currently undergoing liquidation and cannot be redeemed. At December 31, 2012, the value held in these funds was $6,421.

Additionally, the investment funds and limited partnerships may be subject to other restrictions which affect their ability to realize certain investments within their portfolios at any point in time.

5. *Fair value measurement*

The following table details financial assets and liabilities that were accounted for at fair value as of December 31, 2012 and 2011 by level and fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Assets at fair value as of December 31, 2012			
	Level 1 $	Level 2 $	Level 3 $	Total $
Cash and cash equivalents	62,825	90,125	-	152,950
Marketable securities	15,696	-	-	15,696
Alternative investments	-	-	1,947,118	1,947,118
Derivative contracts	5,368	-	-	5,368
Collateral	2	-	-	2
Annuity	-	-	6,635	6,635
	83,891	90,125	1,953,753	2,127,769

(expressed in thousands of U.S. dollars)

	Liabilities at fair value as of December 31, 2012			
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Marketable securities sold short	2	-	-	2
Deferred compensation	-	-	40,204	40,204
	2	-	40,024	40,206

	Assets at fair value as of December 31, 2011			
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Cash and cash equivalents	98,670	128,332	-	227,002
Marketable securities	1,402	-	-	1,402
Alternative investments	-	-	2,090,101	2,090,101
Collateral	2	-	-	2
Annuity	-	-	7,396	7,396
	100,074	128,332	2,097,497	2,325,903

	Liabilities at fair value as of December 31, 2011			
	Level 1 **$**	**Level 2** **$**	**Level 3** **$**	**Total** **$**
Marketable securities sold short	2	-	-	2
Derivative contracts	5,696	-	-	5,696
Deferred compensation	1,465	-	21,264	22,729
	7,163	-	21,264	28,427

(expressed in thousands of U.S. dollars)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Annuity $	**Alternative Investments $**	**Deferred Compensation $**	**Total $**
Balance, December 31, 2010	8,117	2,412,344	(27,729)	2,392,732
Acquisitions	-	34,427		34,427
Sales	-	(400,555)	5,744	(394,811)
Income	(721)	-	721	-
Gains (losses)				
Realized	-	154,562	-	154,562
Unrealized	-	(110,677)	-	(110,677)
Balance, December 31, 2011	7,396	2,090,101	(21,264)	2,076,233
Acquisitions	-	11,165	-	11,165
Sales	-	(362,307)	(18,940)	(381,247)
Income	(761)	-	-	(761)
Gains (losses)				
Realized	-	191,002	-	191,002
Unrealized	-	17,157	-	17,157
Balance, December 31, 2012	6,635	1,947,118	(40,204)	1,913,549

Management uses the "income approach" valuation technique to value the annuity and deferred compensation in the table above. Income and expenses in the table above are reflected in selling and administrative expenses for operating business, and administrative expenses for charitable expenses. All net realized and unrealized gains (losses) in the table above are reflected in the accompanying combined statements of activities and change in net assets. Net unrealized gains of $48,818 (2011: losses of $155,545) relate to those financial instruments held at December 31, 2012 and 2011.

6. *Derivative contracts*

Forward currency contracts manage exposure to foreign currency gains and losses arising from investments in financial instruments and obligations denominated in foreign currencies. The Atlantic Philanthropies engages in forward contracts to mitigate exposure to foreign currency obligations. The contracts are presented and executed on a net basis. Open forward contracts at December 31, 2012 expire between June and December 2013 (2012 – June and December 2012).

(expressed in thousands of U.S. dollars)

Fair value of derivative instruments

2012	Balance sheet location	Fair value $	Notional value $
Derivatives not designated as hedging instruments under Subtopic 815-20			
Forward currency contracts			
AUD/USD	Derivative contracts, net	722	57,598
EURO/USD	Derivative contracts, net	3,464	220,279
GBP/USD	Derivative contracts, net	682	130,831
ZAR/USD	Derivative contracts, net	500	51,621
Total Derivatives		5,368	460,329

2011	Balance sheet location	Fair value $	Notional value $
Derivatives not designated as hedging instruments under Subtopic 815-20			
Forward currency contracts			
AUD/USD	Derivative contracts, net	1,095	84,542
EURO/USD	Derivative contracts, net	(3,734)	74,206
GBP/USD	Derivative contracts, net	(834)	32,127
ZAR/USD	Derivative contracts, net	(2,223)	49,823
Total Derivatives		(5,696)	240,698

The Effect of Derivatives on the Combined Statement of Activities and Changes in Net Assets for the years ended December 31, 2012 and 2011

		Amount of gain or (loss) recognised in income on derivative instruments	
Derivatives not designated as hedging instruments under Subtopic 815-20	**Location of gain or (loss) recognized in income on derivative instruments**	**2012 $**	**2011 $**
Forward currency contracts	Net realized gains (losses)	(2,491)	8,882
	Net change in unrealized gains (losses)	11,065	(13,680)
Total		8,574	(4,798)

(expressed in thousands of U.S. dollars)

7. *Cash and cash equivalents*

Cash and cash equivalents comprise the following:

	2012 $	2011 $
Repurchase agreements receivable	73,708	120,187
Cash and cash equivalents	62,825	84,442
Time deposits	-	14,228
Certificates of deposit	16,417	8,145
	152,950	227,002

8. *Financial instrument risks*

Atlantic's investment activities, either directly or indirectly, expose it to various types and degrees of risk including market, credit, leverage, liquidity and regulatory risk.

Market risk
Market risk is the risk that future changes in market prices may render financial instruments less valuable or increase the liability associated with such instruments. Exposure to market risk is determined by a number of factors, including the size, duration, composition and diversification of positions held, the absolute and relative levels of interest rates and foreign exchange rates, as well as market volatility and liquidity. Management seeks to diversify the investment portfolio so as to manage exposure to market risk.

Exposure to market risk associated with marketable securities, investment funds and private equity investments is equal to the carrying value of the instruments as recorded in the combined statements of financial position. Upon repurchasing marketable securities sold short, Atlantic may realize losses which exceed the liability recorded in the combined statements of financial position. Private equity investments may include less diversified, concentrated positions as discussed in note 4. Market risk exposure in respect of derivative contracts may exceed their carrying value. Derivative contract market risk depends on changes in the value of underlying markets or financial instruments relative to the notional value of the contracts.

Investment funds are generally investments in limited liability companies and in some cases limited partnerships, both of which are typically non-U.S. and are selected to provide positive risk adjusted returns within the context of a diversified portfolio. Atlantic is exposed to the investment activities of the underlying investment portfolios which may not be transparent to investors and could be affected by the actions of other investors. The underlying funds employ multiple investment strategies which may include the use of derivative instruments, leverage and investment in illiquid securities that could expose the funds to market risk in excess of the amounts recorded in their financial statements. Some investment funds place restrictions on redemptions as disclosed in note 4. Atlantic's exposure to market risk in respect of investment funds is limited to the on-balance sheet carrying value of the funds and partnerships. Management engages in initial and on-going assessments of all sources of risk presented to the portfolio by the underlying managers.

A component of market risk is currency risk, which arises from the possibility that fluctuations in foreign currency exchange rates will affect the value of financial instruments and/or obligations of Atlantic denominated in currencies other than U.S. dollars. The foreign currency exposure related to financial instruments in management's opinion is either a) a desirable component of the portfolio or b) not sufficient to require hedging, however Atlantic hedges foreign currency obligations as described in note 6, and two foreign currency alternative investments.

(expressed in thousands of U.S. dollars)

Credit risk
Credit risk represents the maximum accounting loss that would be recognized if counterparties failed completely to perform as contracted, reduced by the value of any collateral and any other available assets. Management, by policy, ensures that agreements are entered into with counterparties that have high quality credit ratings and, in addition, monitors its credit exposure to any one financial institution. At December 31, 2012 and 2011 the majority of the cash and cash equivalents and marketable securities were held with Bank of New York Mellon.

Exposure to credit risk associated with cash and cash equivalents, marketable securities, derivative contracts collateral and other receivables is represented by the carrying value of these financial instruments recorded in the combined statements of financial position. Credit risk in respect of derivative contracts is limited to the value of outstanding contracts at the time of non-performance.

A concentration of credit risk exists when there are significant contracts with individual counterparties or when groups of issuers or counterparties have similar business characteristics that would cause their ability to meet contractual commitments to be adversely affected, in a similar manner, by changes in the economy or other market conditions. Atlantic conducts business with financial institutions believed to be well established and monitors credit risk on both an individual and group counterparty basis.

Liquidity risk
Liquidity risk represents the potential loss due to the difficulty in liquidating thinly traded holdings quickly. Because of the nature of certain investments held by Atlantic, there can be no assurance that an active trading market for the underlying will exist, or that the prices at which underlying investments trade accurately reflect their values, and that these values can be realized.

Regulatory risk
Legal, tax and regulatory changes could occur during the term of Atlantic that may adversely affect Atlantic. The regulatory environment for hedge funds is evolving, and changes in the regulation of hedge funds may adversely affect the value of investments held by Atlantic and the ability of Atlantic to obtain the leverage it might otherwise obtain or to pursue its trading strategies. In addition, securities and futures markets are subject to comprehensive statutes, regulations and margin requirements. Regulators and self-regulatory organizations and exchanges are authorized to take extraordinary actions in the event of market emergencies. The regulation of derivative transactions and short selling, and funds that engage in such transactions, is an evolving area of law and is subject to modification by government and judicial actions.

Leverage risk
Atlantic utilizes leverage in its investments program by entering into short sales and some derivative instruments. The concept of leveraging is based on the premise that Atlantic's cost of borrowing will be at rates that normally will be lower than the rate of return anticipated on additional longer term investments that it makes. While the use of leverage may increase the returns on equity capital invested in Atlantic, the use of leverage also increases its risk of loss.

(expressed in thousands of U.S. dollars)

9. Other current assets

	2012 $	2011 $
Receivables for securities sold	40,290	4,182
Deferred tax asset (note 17)	9,601	502
Income tax receivable	5,304	6,105
Other	1,680	1,440
Annuity current portion	1,168	1,168
Escrow accounts	-	3,651
Current assets held for sale	-	448
Trade accounts receivable	-	72
	58,043	17,568

10. Property and equipment

	Estimated useful lives (years)	2012 $	2011 $
Land		1,552	1,552
Buildings and improvements	20-40	10,371	10,371
Leasehold improvements	10-20	10,876	10,838
Furniture, fixtures and equipment	3-10	5,761	6,469
		28,560	29,230
Less: Accumulated depreciation		(11,271)	(10,055)
		17,289	19,175

Depreciation expense for the year ended December 31, 2012 was $2,021 (2011 - $2,134).

11. Other assets

	2012 $	2011 $
Annuity, non-current portion	5,467	6,228
Other	3,790	3,796
Deferred tax asset (note 17)	201	5
Collateral	2	2
Assets held for sale	-	11,911
	9,460	21,942

Collateral provided in respect of investments in certain financial instruments generally comprises U.S. Treasury bills and short-term deposits, which are carried at fair value.

(expressed in thousands of U.S. dollars)

12. Charitable giving

Unconditional donations reported as donations payable on the combined statements of financial position amounted to $675,786 at December 31, 2012 (2011 - $472,960). Unfulfilled conditional donations at December 31, 2012 amounted to $88,188 (2011 - $44,657) which included $1,750 (2011 – $1,720) from GAGL. If the conditions under which these donations were granted are complied with, these donations will become payable and have the following effect on Atlantic's net assets:

	2012 $	2011 $
Net assets adjusted for conditional donations		
Net assets (unrestricted)	1,471,235	1,865,799
Conditional donations	(88,188)	(44,657)
	1,383,047	1,821,142

The total amounts payable for both unconditional and conditional donations are as follows:

			2012			2011
	Donations payable $	Conditional donations $	Total $	Donations payable $	Conditional donations $	Total $
Due within one year	274,693	37,517	312,210	309,227	23,607	332,834
Due within one to two years	113,197	33,660	146,857	118,815	14,197	133,012
Due within two to three years	104,562	11,351	115,913	20,752	5,641	26,393
Due within three to four years	64,158	1,891	66,049	22,042	823	22,865
Due within four to five years	60,600	522	61,122	2,104	389	2,493
Due thereafter	60,000	3,247	63,247	259	-	259
	677,210	88,188	765,398	473,199	44,657	517,856
Less: Unamortized discount	(1,424)	-	(1,424)	(239)	-	(239)
	675,786	88,188	763,974	472,960	44,657	517,617

Donations expense in the combined statements of activities and changes in net assets for the year ended December 31, 2012 of $521,711 (2011 - $208,162) includes donations made by GAGL of $1,838 (2011 - $4,155). Exchange loss for the year ended December 31, 2012 in the net aggregate amount of $2,290 (2011 - gain of $7,812) arising on the translation of donations denominated in foreign currencies are included in donations expense along with the increase in unamortized discount of $1,185 (2011 – decrease in unamortized discount of $1,156) on unconditional donations payable.

(expressed in thousands of U.S. dollars)

	2012 Total $	2011 Total $
Total donations and conditional donations payable at January 1	517,856	706,585
Donations committed during the year	567,873	204,932
Donations paid during the year	(320,616)	(385,128)
Foreign exchange translation (gains) losses	4,366	(8,405)
Amendments	(4,081)	(128)
	765,398	517,856
Less: Unamortized discount	(1,424)	(239)
Total donations and conditional donations payable December 31	763,974	517,617

13. *Other current liabilities*

	2012 $	2011 $
Deferred compensation	10,576	12,837
Accounts payable and accrued liabilities	8,295	11,844
Reserved liquidation costs	51	3,850
Current liabilities held for sale	-	409
Deferred taxes	-	354
	18,922	29,294

14. *Debt obligations*

Atlantic has a $200,000 364-day revolving credit facility with its custodian, Mellon Bank, N.A. All borrowings under the facility are unsecured and bear interest at Atlantic's option, at a rate equal to the greater of 200 basis points or 1, 2, or 3-month LIBOR plus 150 basis points or Fed Funds plus 200 basis points floating daily. The facility has a $20,000 sub limit for the issuance of standby letters of credit of which Atlantic has used $1,212. The facility will expire on September 30, 2014.

15. *Other liabilities*

	2012 $	2011 $
Deferred compensation	29,628	9,892
Deferred tax liabilities	19,609	2,624
Other	4,286	5,089
	53,523	17,605

(expressed in thousands of U.S. dollars)

16. Net realized gains (losses) and change in unrealized gains (losses)

Investment gains and losses are categorized by the corresponding asset classes.

	2012		2011	
	Realized gains (losses) $	**Net change in unrealized gains (losses) $**	**Realized gains (losses) $**	**Net change in unrealized gains (losses) $**
Fixed income	343	-	-	-
Marketable securities	64	-	(5,159)	5,275
Alternative investments	191,001	17,157	154,562	(110,677)
Forward currency contracts	(2,491)	11,065	8,882	(13,680)
	188,917	28,222	158,285	(119,082)

17. Income taxes

The nine entities comprising The Atlantic Philanthropies are not subject to tax in Bermuda. However, certain subsidiaries operate in countries that impose income tax, which is provided for at the relevant countries' rates and tax is withheld at appropriate rates on dividend income from sources outside Bermuda.

Income tax benefit	**2012 $**	**2011 $**
U.S. Federal (provision) benefit	(225)	(649)
Other provision	(394)	(291)
Current tax (provision) benefit	(619)	(940)
Deferred tax (provision) benefit	554	(4,394)
Income tax expense	(65)	(5,334)

The Atlantic Philanthropies has deferred tax assets and deferred tax liabilities consisting primarily of net operating loss carry forwards, charitable contribution carry forwards and the differences between the tax basis and the book basis of investments.

	2012 $	**2011 $**
Gross deferred tax assets	51,343	41,011
Valuation allowance	(35,476)	(25,905)
Deferred tax assets after valuation allowance	15,867	15,106
Gross deferred tax liabilities	(25,674)	(17,577)
Net deferred tax liabilities	(9,807)	(2,471)

(expressed in thousands of U.S. dollars)

The valuation allowance is provided for certain deferred tax assets based upon management's estimate that tax paying entities will not generate sufficient taxable income in future years to realize the related benefit. Although the future realization of the benefits of the remaining net deferred tax assets is not assured, management believes that it is more likely than not that the net benefits will be realized. Management will continue to review the recoverability of the combined entities' deferred tax assets in future years and will make adjustments to the valuation allowance as needed. The valuation allowance increased by $9,571 in 2012 (2011 - increased $5,508) primarily due to a corresponding increase in the gross deferred tax assets.

The net deferred tax assets are reported separately on the combined statements of financial position as follows:

	2012 $	2011 $
Other current assets (note 9)	9,601	502
Other assets (note 11)	201	5
Other current liabilities (note 13)	-	(354)
Other liabilities (note 15)	(19,609)	(2,624)
Net deferred tax liabilities	(9,807)	(2,471)

At December 31, 2012 Atlantic had available, for income tax purposes in various jurisdictions, net operating loss carry forwards of $133,698 expiring 2017 through 2032 and charitable contribution carrying forwards of $13,484 expiring 2013 through 2017.

18. Income from discontinued operations

On April 9, 2010, the Company entered into a sales agreement with a third party to sell its Bali investments for the total purchase price of $12,500. The purchase price is payable in three tranches over a two-year period. The first tranche of $2,800 was placed in escrow upon signing the sales agreement and subsequently released. The Company received the second tranche on March 30, 2011 and transferred all of its shares of its Bali investment companies to the buyer on March 31, 2011. The final tranche of $3,060 was received on November 15, 2011. The realized gain on disposal was $8,663. This completes the Company's exit from Bali investments.

On February 10, 2011, the Company entered into a sales agreement with a third party to sell its Thai resort investment for the total purchase price of $23,500 with all proceeds held in escrow for three years from the date of sales completion (May 10, 2011). On November 24, 2011, the Company negotiated a buy-out of the three year escrow for $1,000 and $22,274 was released. $1,000 remains in escrow until May 9, 2014. The realized gain on disposal was $16,267. This completes the Company's exit from Thai resort hotel operations.

On May 31, 2011, the Company completed a sale of its Pacific Island Club assets and assigned its marketing and management agreements to a third party for the total purchase price of $36,500. The Pacific Island Club assets included the Company's share capital in its Saipan resort investment, Pacific Island Club brand trademarks, PIC Products companies' assets and PIC Japan and Korea sales office assets. The realized gain on disposal was $10,864. This completes the Company's exit from Pacific Island Club resort management and marketing, Saipan resort hotel and Pacific Island Club retail operations.

(expressed in thousands of U.S. dollars)

On June 1, 2011, the Company's Australian resort operations entered into Members Voluntary Liquidation ("MVL") and transitioned its management to a third party administrator ("EA"). In order to effectuate the EA on a voluntary basis, the directors of the Company's Australian resort entities issued Statements of Solvency declaring the Australian resort companies are capable of paying all of their known operating costs as well as other potential costs for the next twelve months. Just prior to the MVL, the hotel operations were discontinued and the resort was put into care and maintenance mode. On October 8, 2012, the EA entered into a sales agreement with a third party on the Company's behalf to sell its Australian resort for the total purchase price of $4,145 (AUD 4,000). At the completion of the sale on November 30, 2012, an adjustment of $2,052 (AUD 1,980) was made to the purchase price for 49.5% of the purchase price in recognition of the costs in holding the resort assets. The realized loss on the sale of the resort assets is $22,947. The Company estimates liquidation of the Australia resort companies to be finalized three months from the Final Meeting of Members on April 30, 2013.

The assets and liabilities for discontinued operations above stated at net realizable value, included in the consolidated balance sheet are:

	2012 **$**	**2011** **$**
Assets	-	12,359
Liabilities	-	409

The results of the above operations are separately reported, net of tax (expense) benefit, as discontinued operations and the consolidated financial statements for the prior period have been adjusted to reflect this presentation.

The separately reported results of operations for these discontinued operations were:

	2013 **$**	**2011** **$**
Revenue	3,030	105,688
Operating expenses	(26,774)	(98,625)
(Loss) income before income tax	(23,744)	7,063
Income tax benefit (expense)	-	3,519
Net (loss) Income	(23,744)	10,582

19. Commitments and contingencies

(a) **Investment commitments**
Under the terms of its investments in certain limited partnerships and investment funds (notes 4 and 5), Atlantic is committed to investing a further $28,626 (2011 - $42,723).

(b) **Rental and lease commitments**
Certain subsidiaries occupy premises under non-cancellable operating leases expiring through 2073 for land and 2012, 2014, and 2021 for other premises. Certain leases provide for renegotiations of minimum rentals, escalation charges and additional rentals based on 3% of sales in excess of stipulated amounts. In addition, most leases provide that the lessee pay taxes, insurance and other expenses related to the leased premises.

(expressed in thousands of U.S. dollars)

Rental expense is summarized as follows:

	2012 $	2011 $
Minimum rentals	3,041	3,047
Net rental expense under operating leases	3,041	3,047

Future minimum rental commitments under operating leases, exclusive of the foregoing contingent rentals, are as follows:

	Operating leases $
Due within one year	3,916
Due within one to two years	3,797
Due within two to three years	2,891
Due within three to four years	2,878
Due within four to five years	2,819
Due thereafter	10,075
Net future minimum lease commitments	26,376

20. *Employee benefits and other compensation*

Some subsidiaries of entities included within The Atlantic Philanthropies maintain defined contribution plans for their employees. These plans comply with the required regulations pertaining to the employees' location of employment. Contributions to the plans range from 10% to 20% of the employee's salary with some subsidiaries matching between 50% to 100% of the contributions made by the employees. In some jurisdictions, the subsidiaries also make additional contributions of 5% of the employee's salary in certain circumstances and cover the employees' portion of medical and or life insurance premium contributions.

Some subsidiaries provide certain key employees who meet specific requirements with deferred compensation. The total deferred compensation for December 31, 2012 was $40,204 (2011 - $22,729) of which GAGL represented $6,635 (2011 - $8,861).

21. *Related parties*

Two outside members of Atlantic's investment committee, including its former Chief Investment Officer, have relationships with funds in which Atlantic invests. The former Chief Investment Officer invests in two of the funds. Atlantic valued its investments in the two funds at approximately $153,208 (2011 - $175,757) at December 31, 2012.

A Director of Atlantic who serves on the investment committee is a director of a subsidiary of the custodian. The subsidiary manages investments on behalf of Atlantic with a value of approximately $90,200 (2011 - $143,120) at December 31, 2012. During the year fees of $62 were paid to the custodian's subsidiary.

During 2011, a subsidiary provided a loan to a Director of Atlantic for $2,700. The note bears interest at the rate of 2% per annum and is repayable on December 31, 2016.

(expressed in thousands of U.S. dollars)

22. Comparative balances

Certain prior period balances have been reclassified to conform to the current year's presentation.

23. Subsequent event

On April 30, 2013, a liquidating distribution of surplus funds in the amount of US$ 5,107 (AUD 5,153) was made upon finalization of administration of the Australian resort companies.

Management has performed an evaluation of subsequent events through July 2, 2013 which is the date the combined financial statements were available to be issued and have concluded that no additional disclosure is required.