

The Atlantic Philanthropies

Combined Financial Statements

December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)



October 21, 2018

Report of Independent Auditors

To the Members of The Atlantic Philanthropies

We have audited the accompanying combined financial statements of The Atlantic Philanthropies (the “Group”), which include the combined statements of financial position as of December 31, 2017 and 2016, 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.

Auditors’ 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 Group’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 Group’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.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Atlantic Philanthropies as of December 31, 2017 and 2016, 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 Ltd.

Chartered Professional Accountants

The Atlantic Philanthropies
 Combined Statements of Financial Position
 As of December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

	2017	2016
	\$	\$
Assets		
Investments, at fair value		
Marketable securities (notes 3 and 4)	612,836	118,624
	612,836	118,624
Cash and cash equivalents (notes 4 and 5)	113,865	439,321
Other current assets (note 7)	7,327	299,767
Property and equipment (note 8)	6,631	10,373
Other assets (note 9)	10,487	5,310
	751,146	873,395
Total assets	751,146	873,395
Liabilities		
Donations payable (note 10)	474,987	549,471
Other current liabilities (note 11)	5,284	4,219
Other liabilities (note 13)	20,952	21,022
	501,223	574,712
Total liabilities	501,223	574,712
Non-controlling interest	3,746	1,495
	246,177	297,188
Net assets (unrestricted)	246,177	297,188
	751,146	873,395
Total liabilities and net assets	751,146	873,395

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, 2017 and 2016

(expressed in thousands of U.S. dollars)

	2017 \$	2016 \$
Investment transactions		
Net investment income	12,368	1,412
Net realized gains (loss) (note 14)	356	(136,303)
Net change in unrealized gains and losses (note 14)	7,906	110,630
Net foreign exchange translation gains (losses)	181	(525)
Investment management fees and other direct expenses	(534)	(358)
	<u>20,277</u>	<u>(25,133)</u>
Gain/(loss) from investment transactions		
Operating businesses		
Rental and other income	374	246
Selling and administrative expenses	(1,785)	(1,652)
Net realized gain from sale of operating assets	1,803	-
Net realized loss from investment in associated company	(1,165)	-
	<u>(773)</u>	<u>(1,406)</u>
Loss from operating businesses		
Donations and charitable expenses		
Donations expense (note 10)	(52,335)	(474,370)
Administrative expenses	(18,926)	(31,819)
	<u>(71,261)</u>	<u>(506,189)</u>
Total donations and charitable expenses		
Decrease in net assets from continuing operations before taxes	(51,757)	(532,728)
Tax benefit (note 15)	547	5,099
Decrease in net assets from continuing operations	(51,210)	(527,629)
Loss from discontinued operations (note 16)	-	(260)
Foreign currency gain (loss), net	302	(770)
Decrease in net assets before non-controlling interest	(50,908)	(528,659)
Non-controlling interest	(103)	(43)
Decrease in net assets	(51,011)	(528,702)
Net assets (unrestricted) - Beginning of year	297,188	825,890
Net assets (unrestricted) - End of year	<u>246,177</u>	<u>297,188</u>

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, 2017 and 2016

(expressed in thousands of U.S. dollars)

	2017 \$	2016 \$
Cash flows from operating activities		
Decrease in net assets	(51,011)	(528,702)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities		
Net realized loss (gains)	-	136,303
Net change in unrealized gains or losses	(6,260)	(110,630)
Gain on asset disposition	(1,803)	-
Realized loss on associated company	1,165	-
Depreciation expense	1,849	1,636
Amortization expense	-	29
Bond premium amortization	3,817	-
Bond premium accretion	(1,192)	-
Other income	2	4
	(53,433)	(501,368)
Change in operating assets and liabilities		
Decrease (increase) in other current assets	262,398	(25,195)
Decrease (increase) in other assets	30,471	(2,618)
Decrease in donations payable	(74,485)	(12,989)
Increase (decrease) in current liabilities	818	(6,656)
Decrease in other liabilities	(5,430)	(2,185)
	213,772	(49,643)
Net cash provided by (used) in operating activities	160,339	(551,011)
Cash flows from investing activities		
Proceeds from marketable securities	218,033	115,165
Purchase of marketable securities	(708,610)	(129,463)
Proceeds from alternative investments, net	-	989,990
Purchase of derivative contracts, net	-	(28,910)
Purchase of property and equipment, net	(20)	(222)
Proceeds from property, plant and equipment	3,715	-
Increase in other liabilities	(5,218)	-
Increase in other assets	5,218	2,700
Expenditure for other assets	-	(2,400)
Increase in receivables for securities sold	-	(201,959)
Dividends (donations) paid to minority interest	1,087	(52)
Net cash (used in) provided by investing activities	(485,795)	744,849

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

The Atlantic Philanthropies

Combined Statements of Cash Flows (Continued)
For the years ended December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

	2017	2016
	\$	\$
(Decrease) increase in cash and cash equivalents	(325,456)	193,838
Cash and cash equivalents - Beginning of year	439,321	245,483
Cash and cash equivalents - End of year	113,865	439,321
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Income and other taxes, net	-	24

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

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

1. **Combined entities**

These combined financial statements include The Atlantic Foundation (“The Foundation”), The Atlantic Finance Company Limited (“AFC”), The Atlantic Advocacy Fund (“AAF”), The Atlantic Charitable Trust (“ACT”), The Mangrove Foundation (“Mangrove”), and Bridge Charitable Trust (“Bridge”). These combined financial statements have been prepared to provide an overview of the activities of the six entities, collectively referred to as “The Atlantic Philanthropies” or “Atlantic.”

As of June 26th, 2017, The Foundation entered into an assignment and undertaking with Mangrove, under which it accepted the assets of Mangrove in exchange for agreeing to meet its grant commitments and use any excess funds received for charitable and benevolent and/or philanthropic purposes. Mangrove was liquidated as of December 31, 2017.

The combined entities have interrelated managements and a common charitable mission: investing in promising programs, people, and places to create opportunity and promote greater fairness and equity.

Atlantic, which plans to close in 2020, completed substantially all of its grantmaking at the end of 2016. In line with this decision, it was decided to shift its investment holdings to cash, short-term investments and government securities and the Board of Directors of General Atlantic Group Limited, the holding company for Atlantic’s businesses (“GAGL”), requested its management to develop a strategic plan and prepare to exit from all operating businesses, subject to the achievement of the best available and reasonably achievable commercial terms (note 16). The exit from these businesses and from Atlantic’s private equity and hedge fund investments was completed by the end of 2016.

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

These combined financial statements include the consolidated financial statements of The Foundation, Bridge and AFC and the financial statements of AAF, ACT and Mangrove. GAGL’s financial statements are prepared for January 31, 2018 and 2017. 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 2018 and 2017.

(b) **Net assets**

There were no temporarily or permanently restricted net assets for charitable purposes as of December 31, 2017 and 2016.

(c) **Fair values of financial instruments**

Fair values of financial assets and liabilities are disclosed in the notes to the financial statements in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value in accordance with the authoritative guidance on fair value measurements and disclosures under GAAP. 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.

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

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:

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. The inputs used in the determination of fair value require significant judgement and estimation

Management uses the “market approach” valuation technique to value its investment in AFC. The determination of what constitutes “observable” requires significant judgment by management.

(d) **Valuation of investments**

Investments are valued at fair value in accordance with authoritative guidance, Accounting Standards Codification (ASC) Topic 820, “Fair Value Measurement and Disclosures”. 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.

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) **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.

(f) **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.

(g) **Property and equipment**

Property and equipment is stated at the lower of the estimated fair value 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.

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

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.

(h) **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 10.

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, 2017 was 1.60% (2016 - 0.78%). The discount is amortized and included as part of donations expense over the term of the obligation. Management has included supplemental disclosure in note 10 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.

(i) **Operating business revenue recognition**

The Foundation recognizes revenues when rental spaces are occupied for real estate rental operations, and when full accrual method criteria are met for real estate sales operations.

(j) **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 16).

As discussed in note 1, at the end of 2016 The Foundation had exited from all its business operations.

(k) **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 10). 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.

(l) **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.

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Notes to Combined Financial Statements

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(expressed in thousands of U.S. dollars)

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 15).

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, 2017, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations is from the year 2014 forward (with limited exceptions).

<u>Jurisdiction</u>	<u>Earliest Tax Year Subject to Examination</u>
U.S. Federal	2014
California	2014
New York State and City	2014

As of December 31, 2017, 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.

(m) **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.

The Atlantic Philanthropies
Notes to Combined Financial Statements
December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

3. Marketable securities and marketable securities sold short

	2017			
	Amortised cost/cost \$	Unrealized gain \$	Unrealized loss \$	Fair value \$
Marketable securities				
Fixed income				
Marketable debt securities	489,763	26	(2,159)	487,630
Foreign government bonds	125,417	-	(211)	125,206
Total	615,180	26	(2,370)	612,836

	2016			
	Amortised cost/cost \$	Unrealized gain \$	Unrealized loss \$	Fair value \$
Marketable securities				
Fixed income				
Marketable debt securities	118,776	28	(182)	118,624
Total	118,776	28	(182)	118,624

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

	Due within one year	Due after one year through three years	Total \$
As of December 2017			
Marketable debt securities	245,712	241,918	487,630
Foreign government bonds	22,319	102,887	125,206
Total	268,031	344,805	612,836

	Due within one year	Due after one year through three years	Total \$
As of December 2016			
Marketable debt securities	101,438	17,186	118,624
Total	101,438	17,186	118,624

The Atlantic Philanthropies
Notes to Combined Financial Statements
December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

4. Fair value measurement

The following table details financial assets and liabilities that were accounted for at fair value as of December 31, 2017 and 2016 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, 2017				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and cash equivalents	90,365	23,500	-	113,865
Marketable securities	-	612,836	-	612,836
Annuity	-	-	9,254	9,254
	90,365	636,336	9,254	735,955
Liabilities at fair value as of December 31, 2017				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Deferred compensation	-	-	23,355	23,355
Assets at fair value as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Cash and cash equivalents	302,248	137,073	-	439,321
Marketable securities	118,624	-	-	118,624
Annuity	-	-	3,149	3,149
	420,872	137,073	3,149	561,094
Liabilities at fair value as of December 31, 2016				
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Deferred compensation	-	-	20,961	20,961

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			Total \$
	Annuity \$	Alternative investments \$	Deferred compensation \$	
Balance, December 31, 2015	4,091	990,895	(22,019)	972,967
Acquisitions	-	-	-	-
Sales	-	(989,990)	-	(989,990)
Income (expense)	(942)	-	1,058	116
Gains (losses)				
Realized	-	(106,751)	-	(106,751)
Change in unrealized	-	105,846	-	105,846
Balance, December 31, 2016	3,149	-	(20,961)	(17,812)
Income (expense)	6,105	-	(2,394)	3,711
Balance, December 31, 2017	9,254	-	(23,355)	(14,101)

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 change in unrealized loss of \$Nil (2016: net change in unrealized loss of \$Nil) relate to those financial instruments held at December 31, 2017 and 2016.

5. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2017 \$	2016 \$
Repurchase agreements receivable	23,500	137,073
Cash at bank	89,784	295,652
Restricted cash	581	6,596
	113,865	439,321

6. 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.

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

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.

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.

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, 2017 and 2016 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.

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. 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 Atlantic Philanthropies
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(expressed in thousands of U.S. dollars)

7. Other current assets

	2017	2016
	\$	\$
Receivables for securities sold	-	266,643
Deferred tax asset (note 15)	1,178	-
Income tax receivable	1,376	1,003
Interest receivable	3,130	-
Accounts receivable from third party	-	30,898
Other	476	943
Annuity current portion	1,167	280
	<u>7,327</u>	<u>299,767</u>

8. Property and equipment

	Estimated useful lives (years)	2017	2016
		\$	\$
Land		950	1,552
Buildings and improvements	20-40	7,459	9,868
Leasehold improvements	10-20	8,594	8,686
Furniture, fixtures and equipment	3-10	2,098	2,173
		19,101	22,279
Less: Accumulated depreciation		<u>(12,470)</u>	<u>(11,906)</u>
		<u>6,631</u>	<u>10,373</u>

Depreciation expense for the year ended December 31, 2017 was \$1,849 (2016 - \$1,636).

9. Other assets

	2017	2016
	\$	\$
Annuity, non-current portion	8,087	2,869
Other	2,400	2,441
	<u>10,487</u>	<u>5,310</u>

10. Charitable giving

Unconditional donations reported as donations payable on the combined statements of financial position amounted to \$474,987 at December 31, 2017 (2016 - \$549,471). Unfulfilled conditional donations at December 31, 2017 amounted to \$6,921 (2016 - \$33,171). 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:

The Atlantic Philanthropies
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(expressed in thousands of U.S. dollars)

	2017	2016
	\$	\$
Net assets adjusted for conditional donations		
Net assets (unrestricted)	246,177	297,188
Conditional donations	(6,921)	(33,171)
	<u>239,256</u>	<u>264,017</u>

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

	2017			2016		
	Donations payable	Conditional donations	Total	Donations payable	Conditional donations	Total
	\$	\$	\$	\$	\$	\$
Due within one year	128,607	5,445	134,052	111,518	23,538	135,056
Due within one to two years	165,283	206	165,489	104,133	5,772	109,905
Due within two to three years	189,626	1,270	190,896	161,581	811	162,392
Due within three to four years	-	-	-	179,676	3,050	182,726
	<u>483,516</u>	<u>6,921</u>	<u>490,437</u>	<u>556,908</u>	<u>33,171</u>	<u>590,079</u>
Less: Unamortized discount	(8,529)	-	(8,529)	(7,437)	-	(7,437)
	<u>474,987</u>	<u>6,921</u>	<u>481,908</u>	<u>549,471</u>	<u>33,171</u>	<u>582,642</u>

Donations expense in the combined statements of activities and changes in net assets for the year ended December 31, 2017 of \$52,335 (2016 - \$474,370) includes donations made by GAGL of \$10,320 (2016 - \$21,585). Exchange loss for the year ended December 31, 2017 in the net aggregate amount of \$16,411 (2016 - loss of \$16,769) arising on the translation of donations denominated in foreign currencies are included in donations expense along with the increase in unamortized discount of \$1,090 (2016 – increase in unamortized discount of \$3,423) on unconditional donations payable.

	2017	2016
	Total	Total
	\$	\$
Total donations and conditional donations payable at January 1	590,079	674,761
Donations committed during the year	15,530	428,938
Donations paid during the year	(127,511)	(483,993)
Foreign exchange translation	16,411	(16,769)
Amendments	(4,072)	(12,858)
	<u>490,437</u>	<u>590,079</u>
Less: Unamortized discount	(8,529)	(7,437)
Total donations and conditional donations payable December 31	<u>481,908</u>	<u>582,642</u>

The Atlantic Philanthropies
Notes to Combined Financial Statements
December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

11. Other current liabilities

	2017	2016
	\$	\$
Deferred compensation	2,403	2,648
Accounts payable and accrued liabilities	1,811	1,571
Income tax payable	1,070	-
	5,284	4,219

12. Debt obligations

Atlantic has established a letter of credit (“LOC”) in the amount of \$550 for the purpose of collateralizing the leases for the Atlantic’s office in New York City. The facility rolls over annually unless cancelled through the term of the underlying lease. No drawings were made during the year end of 2017 and 2016.

13. Other liabilities

	2017	2016
	\$	\$
Deferred compensation	20,952	18,313
Other	-	2,709
	20,952	21,022

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

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

	2017		2016	
	Realized gains (losses)	Net change in unrealized gains (losses)	Realized gains (losses)	Net change in unrealized gains (losses)
	\$	\$	\$	\$
Fixed income	356	7,906	(642)	(180)
Alternative investments	-	-	(106,751)	105,846
Forward currency contracts	-	-	(28,910)	4,964
Investment in associated companies	(1,165)	-	-	-
	(809)	7,906	(136,303)	110,630

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Notes to Combined Financial Statements

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(expressed in thousands of U.S. dollars)

15. Income taxes

The eight 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	2017	2016
	\$	\$
U.S. Federal benefit (provision)	1,161	(66)
Other provision	(614)	(104)
Current tax benefit (provision)	547	(170)
Deferred tax (provision) benefit	-	5,269
Income tax benefit (expense)	547	5,099

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.

	2017	2016
	\$	\$
Gross deferred tax assets	10,547	9,391
Valuation allowance	(9,369)	(9,391)
Deferred tax assets (liabilities) after valuation allowance	1,178	-
Net deferred tax assets	1,178	-

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 decreased by \$22 in 2017 (2016 - decreased by \$34,857) primarily due to a corresponding change in the gross deferred tax assets.

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

	2017	2016
	\$	\$
Other current assets (note 7)	1,178	-
Net deferred tax assets	1,178	-

The Atlantic Philanthropies

Notes to Combined Financial Statements

December 31, 2017 and 2016

(expressed in thousands of U.S. dollars)

At December 31, 2017 Atlantic had available, for income tax purposes in various jurisdictions, net operating loss carry forwards of \$97,985 expiring 2018 through 2037 and charitable contribution carrying forwards of \$54,334 expiring 2018 through 2022.

16. *Income from discontinued operations*

The results of the discontinued operations are separately reported, net of tax (expense) benefit, as discontinued operations. The separately reported results of operations for these discontinued operations were:

	2017 \$	2016 \$
Revenue	-	-
Operating expenses	-	(260)
Loss before income tax	-	(260)
Income tax benefit (expense)	-	-
Net loss	-	(260)

17. *Commitments and contingencies*

Rental and lease commitments

Certain subsidiaries occupy premises under non-cancellable operating leases expiring through 2018. The lease in New York City had an original expiration date of April 30, 2021. The subsidiary exercised its cancellation option in accordance with the lease to terminate it effective December 31, 2018. The lease provides that the lessee pay taxes, insurance and other expenses related to the leased premises.

Rental expense net of license fees is summarized as follows:

	2017 \$	2016 \$
Minimum rentals	922	1,874
Net rental expense under operating leases	922	1,874

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

	Operating leases \$
Due within one year	2,876
Net future minimum lease commitments	2,876

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Notes to Combined Financial Statements

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(expressed in thousands of U.S. dollars)

18. 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. In some jurisdictions, the subsidiaries 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, 2017 was \$23,355 (2016 - \$20,961) of which GAGL represented \$9,254 (2016 - \$3,149).

19. Related parties

During 2011, a subsidiary provided a loan to a Director of Atlantic for \$2,700. The note bore interest at the rate of 2% per annum and was repaid on September 30, 2016.

Commencing in 2015, Atlantic has agreed to provide medical and personal care expenses to one of its members during his lifetime. Given the nature of the support, there is currently no limit on the amount of expenditure that may be incurred, and management is unable to estimate the expected future costs. During the year ended December 31, 2017, total expenses incurred under this support were \$546 (2016 - \$555).

20. Subsequent events

Management has performed an evaluation of subsequent events through October 21, 2018 which is the date the combined financial statements were available to be issued and have concluded that no additional disclosure is required.

21. Comparative balances

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