



Second Quarter
2011

Condensed Interim Consolidated Financial Statements (Unaudited)
As at and for the six months ended June 30, 2011

Atlas Financial Holdings, Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

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Atlas Financial Holdings, Inc.
Condensed Interim Consolidated Balance Sheets
(unaudited)

(in thousands of US dollars, except for share and per share amounts)

As at	Note	June 30, 2011	December 31, 2010
Assets			
Investments			
Cash and cash equivalents	\$	5,540	\$ 19,037
Securities	4	147,295	154,011
		152,835	173,048
Accrued investment income		1,033	1,293
Accounts receivable and other assets		12,531	13,340
Due from reinsurers and other insurers	8	11,320	11,276
Deferred policy acquisition costs		3,506	3,804
Deferred tax asset	6	6,399	6,399
Office equipment	7	334	1,274
Assets held for sale	7	13,930	15,004
Total Assets	\$	201,888	\$ 225,438
Liabilities			
Claims liabilities	9 \$	112,011	\$ 132,579
Unearned premiums		17,046	17,061
Due to reinsurers and other insurers		7,714	9,614
Preferred shares dividend liability	11, 15	2,762	2,647
Accounts payable and other liabilities		6,151	6,015
Total Liabilities		145,684	167,916
Shareholders' Equity			
Preferred shares, par value per share \$0.001, 100,000,000 shares authorized, 18,000,000 shares issued and outstanding at June 30, 2011 and December 31, 2010. Liquidation value \$1.00 per share	11, 15	15,353	15,353
Ordinary voting common shares, par value per share \$0.001, 800,000,000 shares authorized, 4,569,205 shares issued and outstanding at June 30, 2011 and 4,553,502 at December 31, 2010	11	4	4
Restricted voting common shares, par value per share \$0.001, 100,000,000 shares authorized, 13,804,861 shares issued and outstanding at June 30, 2011 and December 31, 2010	11	14	14
Contributed surplus		152,689	152,466
Retained deficit		(114,148)	(113,371)
Accumulated other comprehensive income, net of tax		2,292	3,056
Total Shareholders' Equity		56,204	57,522
Total liabilities and shareholders' equity	\$	201,888	\$ 225,438

See accompanying Notes to Condensed Interim Consolidated Financial Statements

Atlas Financial Holdings, Inc.
Condensed Interim Consolidated Statements of Comprehensive Income
(unaudited)

(in thousands of US dollars, except for share and per share amounts)

	Note	3 months ended		6 months ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Gross premiums written		\$ 7,856	8,558	\$ 22,022	27,243
Net premiums earned		9,062	12,515	17,871	31,815
Net claims incurred	9	6,723	14,885	13,612	30,230
Acquisition costs		1,844	2,696	3,623	6,712
Other underwriting expenses		2,024	8,121	4,435	12,697
Underwriting loss		(1,529)	(13,187)	(3,799)	(17,824)
Net investment income		934	1,390	1,933	2,791
Net investment gains		417	138	850	355
Other income		290	(663)	239	(39)
Income (loss) before income tax benefit		112	(12,322)	(777)	(14,717)
Income tax benefit	6	--	4,187	--	4,998
Net income (loss)		\$ 112	(8,135)	\$ (777)	(9,719)
Basic weighted avg. common shares outstanding	13	18,374,066	18,358,363	18,371,386	18,358,363
Earnings (loss) per common share, basic	13	\$ 0.01	(0.44)	\$ (0.04)	(0.53)
Diluted weighted avg. common shares outstanding	13	18,410,021	18,358,363	18,371,386	18,358,363
Earnings per common share, diluted	13	\$ 0.01	(0.44)	\$ (0.04)	(0.53)
Net income (loss)		\$ 112	(8,135)	\$ (777)	(9,719)
Other comprehensive income (loss)					
Available for sale securities:					
Changes in net unrealized gains (losses)	4	\$ 152	2,862	\$ (764)	4,058
Effect of income tax	6	--	(973)	--	(1,379)
Other comprehensive income(loss) for the period		152	1,889	(764)	2,679
Total comprehensive income (loss)		\$ 264	(6,246)	\$ (1,541)	(7,040)

See accompanying Notes to Condensed Interim Consolidated Financial Statements.

Atlas Financial Holdings, Inc.
Condensed Interim Consolidated Statements of Changes in Stockholders' Equity
(unaudited)

(in thousands of US dollars)

	Preferred Shares	Ordinary Voting Common Shares	Restricted Voting Common Shares	Contributed Surplus	Retained Deficit	Accumulated Other Comprehensive Income (loss)	Total
Balance as at January 1, 2011	\$ 15,353	\$ 4	\$ 14	\$ 152,466	\$ (113,371)	\$ 3,056	\$ 57,522
Net loss					(777)		(777)
Other comprehensive loss for the period						(764)	(764)
Total comprehensive loss for the period					(777)	(764)	(1,541)
Share-based compensation				207			207
Stock options exercised				16			16
Balance as at June 30, 2011	\$ 15,353	\$ 4	\$ 14	\$ 152,689	\$ (114,148)	\$ 2,292	\$ 56,204
Balance as at January 1, 2010	\$ 15,353	\$ 4	\$ 14	\$ 82,675	\$ (47,714)	\$ (433)	\$ 49,899
Net loss					(9,719)		(9,719)
Other comprehensive gain for the period						2,679	2,679
Total comprehensive gain (loss) for the period					(9,719)	2,679	(7,040)
Merger of Southern United				59,772	(43,845)	331	16,258
Capital Contributions				12,542			12,542
Dividends Declared				(16,700)			(16,700)
Balance as at June 30, 2010	\$ 15,353	\$ 4	\$ 14	\$ 138,289	\$ (101,278)	\$ 2,577	\$ 54,959

See accompanying Notes to Condensed Interim Consolidated Financial Statements.

Atlas Financial Holdings, Inc.

Condensed Interim Consolidated Statements of Cash Flows (unaudited)

(in thousands of US dollars)

For the six month period ended:	Note	June 30, 2011	June 30, 2010
Operating Activities			
Net loss attributable to shareholders		\$ (777)	\$ (9,719)
Adjustments for non-cash items		731	787
Changes in other operating assets and liabilities		(341)	(3,722)
Changes in net claims and liabilities	9	(20,568)	(22,605)
Net cash flows used in operating activities		(20,955)	(35,259)
Investing Activities			
Proceeds from sale and maturity of investments		28,937	85,617
Purchases of investments		(23,367)	(25,982)
Cash acquired from merger of subsidiary		--	3,872
Net purchases of property, plant and equipment		(111)	(92)
Proceeds from sale of property, plant and equipment	7	1,983	--
Net cash flows provided by investing activities		7,442	63,415
Financing Activities			
Options exercised	10	16	--
Dividends paid	11	--	(14,300)
Net cash flows provided by (used in) financing activities		16	(14,300)
Net (decrease) increase in cash and cash equivalents		(13,497)	13,856
Cash and cash equivalents, beginning of period		19,037	6,695
Cash and cash equivalents, end of period		\$ 5,540	\$ 20,551

See accompanying Notes to Condensed Interim Consolidated Financial Statements.

Notes to Condensed Interim Consolidated Financial Statements (unaudited)

(All amounts in thousands of U.S. dollars, except for amounts preceded by "C" as Canadian dollars, share and per share amounts)

Note 1 Atlas and its business

Formation of Atlas - Atlas Financial Holdings, Inc., ("Atlas") is a financial services holding company formed on December 31, 2010 in a transaction amongst:

- (a) JJR VI Acquisition Corporation (JJR VI), a Canadian Capital Pool Company sponsored by JJR Capital, a Toronto based merchant bank,
- (b) American Insurance Acquisition Inc., ("American Acquisition"), a corporation formed under the laws of Delaware by Kingsway America Inc. ("KAI"), a subsidiary of Kingsway Financial Services Inc. ("KFSI"), a Canadian public company formed under the laws of Ontario and whose shares are traded on the Toronto and New York Stock Exchanges, and,
- (c) Atlas Acquisition Corp, a Delaware corporation formed by JJR VI.

Prior to the transaction, KAI transferred 100% of the capital stock of American Service Insurance Company ("American Service") and American Country Insurance Company ("American Country," together with American Service the "insurance subsidiaries"), to American Acquisition in exchange for common and preferred shares of American Acquisition and promissory notes aggregating C\$60,780. In addition, American Acquisition raised C\$7,967 through a private placement offering of subscription receipts to qualified investors at a price of C\$2.00 per subscription receipt.

KAI received 13,804,861 restricted voting common shares valued at \$27,760, along with 18,000,000 non-voting preferred shares valued at \$18,000, and C\$7,967 in exchange for 100% of the outstanding shares of American Acquisition and full payment of the promissory notes. Investors in the American Acquisition subscription receipts received 3,983,502 ordinary voting common shares plus warrants to purchase one ordinary common voting share for each subscription receipt at C\$2.00 at any time until December 31, 2013. JJR VI common shares held by former shareholders of JJR VI were consolidated on the basis of one post-consolidation JJR VI common share for every 10 pre-consolidation JJR VI common shares. The post-consolidation JJR VI common shares were then exchanged on a one-for-one basis for ordinary voting common shares of Atlas.

Atlas commenced operations on December 31, 2010. Atlas ordinary voting common shares have been traded on TSX Venture Exchange ("TSXV") under the symbol "AFH" since January 7, 2011.

The address of Atlas' registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The operating headquarters of Atlas and its subsidiaries is located at 150 Northwest Point Blvd., Elk Grove Village, Illinois 60007, USA.

Business - The primary business of Atlas, which is carried out through the insurance subsidiaries is the underwriting of commercial automobile insurance policies in the United States, with a niche market orientation and focus on insurance in the "light" commercial automobile sector. This sector includes taxi cabs, non-emergency para-transit, limousine, livery and business autos. Automobile insurance products provide insurance coverage in three major areas: liability, accident benefits and physical damage. Liability insurance provides coverage where the insured is responsible for an automobile accident, for the payment for injuries and property damage to third parties. Accident benefit policies or personal injury protection policies provide coverage for loss of income, medical and rehabilitation expenses for insured persons who are injured in an automobile accident,

regardless of fault. Physical damage coverage provides for the payment of damages to an insured automobile arising from a collision with another object or from other risks such as fire or theft. In the short run, automobile physical damage and liability coverage generally provides more predictable results than automobile accident benefit or personal injury insurance.

Atlas' insurance subsidiaries distribute their insurance products through a network of independent retail agents. Together, American Country and American Service are licensed to write property and casualty ("P&C") insurance in 47 states in the United States. The management and operating infrastructure of the insurance subsidiaries are fully integrated.

Seasonality - The P&C insurance business is seasonal in nature. While Atlas' net premiums earned are generally stable from quarter to quarter, Atlas' gross premiums written follow the common renewal dates for the light commercial risks that represent its core lines of business. For example, January 1 and March 1 are common taxi cab renewal dates in Illinois and New York respectively. Net underwriting income is driven mainly by the timing and nature of claims, which can vary widely. Atlas' ability to generate written premium is also impacted by the timing of policy periods in the states in which Atlas operates.

Note 2 Basis of presentation and adoption of IFRS

Atlas prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). In 2010, the Accounting Standards Board of Canada amended the Handbook of the Canadian Institute of Chartered Accountants to incorporate IFRS, and require public enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, Atlas began reporting on this basis in its March 31, 2011 condensed interim consolidated financial statements.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The accounting policies followed in these condensed interim financial statements are identical as those applied in Atlas' interim financial statements for the period ended March 31, 2011. Atlas has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect. However, any subsequent changes to IFRS prior to year-end may be applicable to Atlas and could result in restatement of these condensed interim consolidated financial statements.

Note 15 discloses the impact of the transition to IFRS on Atlas' reported equity at January 1, 2010, June 30, 2010 and December 31, 2010 as well as comprehensive income for the three and six months ended June 30, 2010, including the nature and effect of significant changes in accounting policies from those used in Atlas' consolidated financial statements for the year ended December 31, 2010.

These condensed interim consolidated financial statements should be read in conjunction with Atlas' annual financial statements for the year ended December 31, 2010 prepared in accordance with U.S. GAAP, and Atlas' interim consolidated financial statements for the quarter ended March 31, 2011 prepared in accordance with IFRS.

Where necessary for comparative purposes, certain prior period data has been re-classified to conform to the presentation adopted in the current period.

Note 3 IFRS Standards issued but not yet effective

In November 2009, IFRS 9, *Financial Instruments* was issued as the first phase of a three-phase project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The objective of the standard is to reduce complexity by replacing the many different rules in IAS 39.

The first phase addresses the measurement and classification of financial assets and retains, but simplifies, the measurement model by establishing two primary methods – amortized cost and fair value. Under the fair value method, amounts can be

recorded through income or through other comprehensive income. The method selected is dependent on the entity's business model and the contractual cash flows of the asset. In 2010 the second phase was issued covering the measurement and classification of financial liabilities. This phase provides for the option to measure debt issued by an entity at fair value. The portion of the fair value adjustment attributable to an entity's own credit risk is classified in other comprehensive income (loss) and changes not attributable to the changes in an entity's own credit risk are recognized through income. The final third unissued phase of the project is expected to address hedge accounting.

IFRS 9 is currently effective for accounting periods commencing on or after January, 2013 with earlier adoption permitted. However, on August 4, 2011 the International Accounting Standards Board published an exposure draft proposing to push back the mandatory effective date of IFRS 9 to January 2015. Atlas is assessing the potential impact of this pronouncement on its results and financial position.

Note 4 Investments in Securities

The amortized cost, unrealized gains, unrealized losses and fair value of Atlas' investment in securities is shown below:

As at June 30, 2011		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits		\$ 14,901	\$ 3	\$	\$ 14,904
Bonds:					
U.S.	-Government	62,234	1,917		64,151
	- Corporate	50,271	2,519	(1)	52,789
	- Commercial mortgage backed	12,393	239	(7)	12,625
	- Other asset backed	2,780	47	(1)	2,826
Totals		\$ 142,579	\$ 4,725	\$ (9)	\$ 147,295

As at December 31, 2010		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits		\$ 7,898	\$ 3	\$ --	\$ 7,901
Bonds:					
U.S.	-Government	67,388	2,117	--	69,505
	- Corporate	62,429	3,011	--	65,440
	- Commercial mortgage backed	8,445	270	--	8,715
	- Other asset backed	2,371	79	--	2,450
Totals		\$ 148,531	\$ 5,480	\$ --	\$ 154,011

The following table summarizes carrying amounts of securities by contractual maturity.

As at June 30, 2011	One year or less		One to five years		Five to ten years		More than ten years		Total	
Securities	\$	42,169	\$	62,612	\$	19,742	\$	22,772	\$	147,295
Percentage of total		28.6 %		42.5 %		13.4 %		15.5 %		100 %

As certain securities and debentures have the right to call or prepay obligations, the actual settlement dates may differ from contractual maturity.

As at June 30, 2011 securities with an estimated fair value of \$10,801 were on deposit with state regulators and \$10,516 of securities were pledged to third party reinsurers and insurers as collateral for liabilities under its policies of insurance. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to Atlas' standard risk management controls.

Management performs a quarterly analysis of Atlas' investment holdings to determine if declines in fair value are other than temporary. The analysis includes some or all of the following procedures as deemed appropriate by management:

- identifying all security holdings in unrealized loss positions that have existed for at least six months or other circumstances that management believes may impact the recoverability of the security;
- obtaining a valuation analysis from third party investment managers regarding these holdings based on their knowledge, experience and other market based valuation techniques;
- reviewing the trading range of certain securities over the preceding calendar period;
- assessing if declines in market value are other than temporary for debt security holdings based on their investment grade credit ratings from third party security rating agencies;
- assessing if declines in market value are other than temporary for any debt security holding with a non-investment grade credit rating based on the continuity of its debt service record;
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed; and,

The risks and uncertainties inherent in the assessment methodology utilized to determine declines in market value that are other than temporary include, but may not be limited to, the following:

- the opinion of professional investment managers could be incorrect;
- the past trading patterns of individual securities may not reflect future valuation trends;
- the credit ratings assigned by independent credit rating agencies may be incorrect due to unforeseen or unknown facts related to a company's financial situation; and
- the debt service pattern of non-investment grade securities may not reflect future debt service capabilities and may not reflect a company's unknown underlying financial problems.

There were no impairments recorded in the six months ended June 30, 2011 or the year ended December 31, 2010 as a result of the above analysis performed by management to determine declines in market value that may be other than temporary.

Note 5 Financial and Capital Risk Management

By virtue of the nature of Atlas' business activities, financial instruments make up the majority of the balance sheet. The risks which arise from transacting financial instruments include credit risk, market risk, liquidity risk and cash flow risk. These risks may be caused by factors specific to an individual instrument or factors affecting all instruments traded in the market. Atlas has a risk management framework in place to monitor, evaluate and manage the risks assumed in conducting its business. Atlas' risk management policies and practices are as follows:

Credit risk - Atlas is exposed to credit risk principally through its fixed income securities and balances receivable from policyholders and reinsurers. Atlas controls and monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of U.S. bonds) as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. Atlas' credit exposure to any one individual policyholder is not material. Atlas has policies requiring evaluation of the financial condition of its reinsurers and monitors concentrations of

credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

The following table summarizes the credit exposure of Atlas from its investments in fixed income securities and term deposits by rating as assigned by Fitch, Standard & Poor's or Moody's Investor Services, using the higher of these ratings for any security where there is a split rating:

Rating	June 30, 2011			December 31, 2010		
	Amount	% of Total		Amount	% of Total	
AAA/Aaa	\$ 99,086	67.2 %		\$ 88,684	57.6 %	
AA/Aa	11,955	8.1		26,388	17.1	
A/A	33,292	22.6		35,027	22.7	
BBB/Baa	2,907	2.0		3,851	2.5	
CCC/Caa or lower or not rated	55	0.1		61	0.1	
Total Securities	\$ 147,295	100.0 %		\$ 154,011	100.0 %	

Equity price risk - This is the risk of loss due to adverse movements in equity prices. Since Atlas does not own equity securities, exposure to equity price risk is considered to be nil.

Foreign currency risk - Atlas is not currently exposed to changes in the U.S. dollar currency exchange rates with any other foreign currency.

Liquidity and cash flow risk - Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavorable rates or selling assets on a forced basis. Liquidity risk arises from general business activities and in the course of managing the assets and liabilities of Atlas. There is the risk of loss to the extent that the sale of a security prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows. Cash flow risk arises from risk that future inflation of policyholder cash flow exceeds returns on long-term investment securities. The purpose of liquidity and cash flow management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity and cash flow requirements of Atlas' business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

Fair value - Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate the fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, corresponding market volatility levels and option volatilities. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Atlas records the available for sale securities held in its securities portfolio at their fair value. Atlas primarily uses the services of external securities pricing vendors to obtain these values. The securities are valued using quoted market prices or prices

established using observable market inputs. In the current volatile market conditions, these quoted market prices or observable market inputs can change rapidly causing a significant impact on fair value and financial results recorded.

Atlas employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The hierarchy is comprised of quoted market prices (Level 1), third party models using observable market information (Level 2) and internal models without observable market information (Level 3). Atlas used Level 2 inputs to value 100% of its available for sale securities investments as of June 30, 2011 and December 31, 2010.

Capital Management - Atlas' capital management objectives, policies and procedures are described in Note 13 of Atlas' 2010 annual report. There have been no significant changes since December 31, 2010.

Note 6 Income Taxes

The effective tax rate was 0% and 34% for the six months ended June 30, 2011 and 2010, respectively, compared to the U.S. statutory income tax rate of 34% as shown below:

	June 30, 2011			June 30, 2010		
	Amount	%		Amount	%	
Expected income tax benefit at statutory rate	\$ (264)	(34.0)	%	\$ (5,004)	(34.0)	%
Nondeductible expenses	43	5.5		6	0.0	
Provision for deferred tax assets deemed unrealizable	221	28.5		--	-	
Total	\$ --	0.0	%	\$ (4,998)	(34.0)	%

The components of deferred tax assets and liabilities are as follows:

	June 30, 2011	December 31, 2010
Deferred tax assets:		
Unpaid claims and unearned premiums	\$ 3,703	\$ 4,218
Loss carry-forwards	2,370	1,964
Pension expense	841	841
Bad debts	1,318	1,356
Other	1,312	1,394
Total gross deferred tax assets	9,544	9,773
Deferred tax liabilities:		
Investment securities	1,603	1,863
Deferred policy acquisition costs	1,192	1,293
Other	350	218
Total gross deferred tax liabilities	3,145	3,374
Net deferred tax assets	\$ 6,399	\$ 6,399

A deferred tax asset of \$2,370 has been recognized for \$6,968 of loss carry-forwards (on a tax effected basis) based on management's current assessment of the probable amount of future taxable income that will be available against which the net operating loss carry-forwards can be utilized before expiration. Atlas has net operating loss carry-forwards totaling \$38,016 and net capital loss carry-forwards of \$3,570 as of June 30, 2011.

Atlas has the following total net operating loss carry-forwards as of June 30, 2011:

Year of Occurrence	Year of Expiration	Amount
2008	2027	\$ 3,808
2009	2028	20,723
2010	2029	10,884
2011	2030	2,601
Total		\$ 38,016

Note 7 Office Equipment and Assets Held For Sale

As at June 30, 2011, Atlas had four properties held for sale with an aggregate carrying value of \$13,930, including its headquarters building in Elk Grove Village, Illinois. All of the properties' individual carrying values were less than their respective appraised values less reasonably estimated selling costs at the time those appraisals were received and at the time properties were deemed to be held for sale. All properties were listed for sale through brokers at the appraised values and above carrying values as of June 30, 2011.

The Elk Grove Village building and property were previously owned by KAI and were contributed to Atlas as a capital contribution in June 2010. The other three properties, all located in Alabama, were assets of Southern United Fire Insurance Company which was merged into American Service in February 2010.

In the second quarter of 2011, Atlas re-classified leasehold improvements with a net book value of \$926 from office equipment to assets held for sale. Further, on June 8, 2011, the Mobile, Alabama office building previously held for sale was sold for \$1,983 and a loss on the sale of \$17 was recognized.

Note 8 Underwriting Policy and Reinsurance Ceded

Underwriting Risk - Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic loss risk, reinsurance coverage risk and that loss and loss adjustment expense reserves are not sufficient.

Reinsurance Ceded - As is customary in the insurance industry, Atlas reinsures portions of certain insurance policies it writes, thereby providing a greater diversification of risk and minimizing exposure on larger risks. Atlas remains contingently at risk with respect to any reinsurance ceded and would incur an additional loss if an assuming company were unable to meet its obligation under the reinsurance treaty.

Atlas monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Letters of credit are maintained for any unauthorized reinsurer to cover ceded unearned premium, ceded loss reserve balances and ceded paid losses.

Gross premiums written and ceded premiums, losses and commissions are summarized as follows:

6 months ended June 30,	2011	2010
Gross premiums written	\$ 22,022	\$ 27,243
Ceded premiums written	3,206	9,206
Net premiums written	18,816	18,037
Ceded premiums earned	4,166	4,709
Ceded losses and loss adjustment expenses	2,102	1,868
Ceded unpaid losses and loss adjustment expenses	7,968	4,475
Ceded unearned premiums	2,734	4,722
Other amounts due from reinsurers	618	918
Ceded commissions	1,360	3,606

Note 9 Provision for Unpaid Claims

Provision for unpaid claims - The changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the six months ended June 30, 2011 and 2010 were as follows:

6 months ended June 30,	2011	2010
Unpaid claims, beginning of period	\$ 132,579	\$ 169,515
Less: reinsurance recoverable	6,477	5,192
Net beginning unpaid claims reserves	126,102	164,323
Incurred related to:		
Current year	13,635	24,746
Prior years	(23)	5,484
	13,612	30,230
Paid related to:		
Current year	4,173	9,236
Prior years	31,498	42,878
	35,671	52,114
Net unpaid claims of subsidiary acquired	--	9,535
Net unpaid claims, end of period	104,043	151,974
Add: reinsurance recoverable	7,968	4,475
Unpaid claims, end of period	\$ 112,011	\$ 156,449

Note 10 Stock Options and Warrants

Stock options - Stock option activity for the six months ended June 30, 2011 and the year ended December 31, 2010 is as follows:

	June 30, 2011		December 31, 2010	
	Number	Avg. Price	Number	Avg. Price
Outstanding, beginning of period	110,600	C\$1.00	--	--
Granted	369,749	C\$2.00	132,000	C\$1.00
Exercised	(15,703)	C\$1.00	--	--
Expired	--	--	(21,400)	C\$1.00
Outstanding, end of period	464,646	C\$1.80	110,600	C\$1.00

Information about options outstanding at June 30, 2011 is as follows:

Grant Date	Expiration Date	Exercise Price	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
January 18, 2011	January 18, 2021	C\$2.00	9.5	369,749	92,437
March 18, 2010	March 31, 2012	C\$1.00	0.7	9,297	9,297
March 18, 2010	March 18, 2020	C\$1.00	8.7	32,100	32,100
March 18, 2010	December 21, 2011	C\$1.00	0.5	53,500	53,500
Total			8.2 wtd. average	464,646	187,334

On March 18, 2010, JJR VI issued options to purchase 250,000 common shares to the agent that assisted JJR VI in raising capital and options (the "IPO agent") to purchase 1,070,000 shares to directors. All of the options were vested at the date of grant. Options to purchase 214,000 shares held by directors expired before the merger as a result of a director resignation. All outstanding JJR VI options were exchanged for Atlas options without modification on the basis of 1 Atlas option for each 10 JJR VI options and the exercise price was changed from C\$0.10 to C\$1.00, which was on the same basis as the JJR VI exchange ratio for shares, and thus did not represent any additional value or related expense. This resulted in 25,000 and 85,600 Atlas options for the agent and former JJR VI directors, respectively, outstanding after the merger. On February 1, 2011, the IPO agent exercised 15,703 options.

On January 6, 2011, Atlas adopted a stock option plan in order to advance the interests of Atlas by providing incentives to eligible persons defined in the plan. The maximum number of ordinary voting common shares reserved for issuance under the plan together with all other security based plans is equal to 10% of issued and outstanding ordinary voting common shares at the date of grant. The exercise price of options granted under the plan cannot be less than the volume weighted average trading price of Atlas' ordinary voting common shares for the five preceding trading days. Options generally vest over a three year period and expire ten years from grant date.

On January 18, 2011, Atlas granted options to purchase 369,749 ordinary shares of Atlas stock to officers and directors at an exercise price of C\$2.00 per share. The options vest 25% at date of grant and 25% on each of the next three anniversary dates and expire on January 18, 2021. In accordance with IFRS 2, *Share-based Payments*, for options with graded vesting, each tranche is treated as a separate grant and accelerated compensation expense is recognized.

The Black-Scholes option pricing model was used to estimate the fair value of compensation expense using the following assumptions – risk-free interest rate 2.27% to 3.13%; dividend yield 0.0%; expected volatility 100%; expected life of 6 to 9 years.

For the six months ended June 30, 2011 Atlas recognized \$207 in stock compensation expense, which has been categorized within Other Underwriting Expenses.

Warrants - On November 1, 2010, American Acquisition closed a private placement and issued 3,983,502 subscription receipts for ordinary voting common shares of Atlas and warrants to purchase 3,983,502 ordinary voting common shares of Atlas for C\$2.00 per share in connection with the merger. The subscription receipts were converted to Atlas ordinary voting shares in connection with the merger. The warrants are still outstanding at June 30, 2011 and expire on December 31, 2013.

Atlas ordinary voting common shares were trading on the TSXV for C\$1.50 and C1.86 on June 30, 2011 and March 31, 2011 respectively.

Note 11 Share Capital

The share capital for the common shares:

As at	June 30, 2011			December 31, 2010		
	Shares Authorized	Shares Issued and Outstanding	Amount	Shares Issued and Outstanding		Amount
Ordinary	800,000,000	4,569,205	\$ 4	4,553,502	¹	\$ 4
Restricted	100,000,000	13,804,861	14	13,804,861		14
Total common shares	900,000,000	18,374,066	\$ 18	18,358,363		\$ 18

¹ Summation of 3,983,502 ordinary voting common shares (refer above to note 10) and 570,000 shares issued to former JJR VI shareholders (no cash paid)

The restricted voting common shares are convertible to ordinary voting common shares at the option of the holder in the event that an offer is made to purchase all or substantially all of the restricted voting common shares.

All of the issued and outstanding restricted voting common shares are beneficially owned or controlled by Kingsway Financial Services Inc. or its affiliated entities (“Kingsway”). In the event that such shares are disposed of such that Kingsway’s beneficial interest is less than 10% of the issued and outstanding restricted voting common shares, the restricted voting common shares shall be converted into fully paid and non-assessable ordinary voting common shares.

The restricted voting common shares are entitled to vote at all meetings of shareholders, except at meetings of holders of a specific class that are entitled to vote separately as a class. The restricted voting common shares as a class shall not carry more than 30% of the aggregate votes eligible to be voted at a general meeting of common shareholders.

Preferred shares are not entitled to vote. Preferred shareholders are entitled to dividends on a cumulative basis whether or not declared by the Board of Directors at the rate of U.S. \$0.045 per share per year (4.5%) and may be paid in cash or in additional preferred shares at the option of Atlas. In liquidation, dissolution or winding-up of Atlas, preferred shareholders receive the greater of US\$1.00 per share plus all declared and unpaid dividends or the amount it would receive in liquidation if the preferred shares had been converted to restricted voting common shares or ordinary voting common shares immediately prior to liquidation. Preferred shares are convertible into ordinary voting shares at the option of the holder at any date after the fifth year of issuance at the rate of 0.3808 ordinary voting common shares for each preferred share. The conversion rate is subject to change if the number of ordinary voting common shares or restricted voting common shares changes. The preferred shares are redeemable at the option of Atlas at a price of US\$1.00 per share plus accrued and unpaid dividends commencing at the earlier of two years from issuance date of the preferred shares or the date the preferred shares are transferred to a party other than Kingsway or its subsidiaries or entities in which KAI holds a 10% or greater interest.

In accordance with IAS 32, *Financial Instruments: Presentation*, because of their mandatory dividend feature the preferred shares are deemed to contain both a liability and an equity component. The liability component is the estimated present value of the

future dividends Atlas estimates will accrue beginning December 31, 2010 and ending before the preferred shares are either redeemed, at the option of Atlas, or converted into ordinary restricted voting common shares, at the option of the holder. The liability component was \$2,762 and \$2,647 as at June 30, 2011 and December 31, 2010 respectively. The equity component was \$15,353 at both June 30, 2011 and December 31, 2010 in the accompanying balance sheet. The liability component is measured at amortized cost with adjustments as necessary for changes in estimates recorded through income, and a corresponding charge to interest expense at the rate of 8.6% per year. For the six months ended June 30, 2011 Atlas recognized \$115 in interest expense associated with the accretion of the liability component.

A reconciliation of the liquidation value of the preferred shares follows:

As at:	June 30, 2011	December 31, 2010
Preferred share dividend liability	\$ 2,762	\$ 2,647
Preferred shares within shareholders' equity	15,353	15,353
Total per balance sheet	18,115	18,000
Excess cumulative dividend	287	--
Preferred shares liquidation preference	\$ 18,402	\$ 18,000

The amount noted above as the "Excess cumulative dividend" represents the difference between the amount Atlas has recorded as accretion expense (\$115) in accordance with IAS 32 and the cumulative amount of dividends to which the preferred shareholders are entitled upon liquidation or sooner, if Atlas elects to pay dividends (\$402).

Note 12 Other Employee Benefit Plans

Defined Contribution Plan - In January 2011, Atlas formed a defined contribution 401(k) plan covering all qualified employees of Atlas and its subsidiaries. Employees can choose to contribute up to 60% of their annual earnings but not more than \$16,500 for 2011 to the plan. Qualifying employees age 50 and older can contribute an additional \$5,500 in 2011. Atlas matches 50% of the employee contribution up to 5% of annual earnings for a total maximum expense of 2.5% of annual earnings per participant. Atlas contributions are discretionary. Employees are 100% vested in their own contributions and vest in Atlas contributions based on years of service with 100% vested after five years. Atlas' contributions were \$51 for the six months ended June 30, 2011.

Prior to 2011, eligible employees participated in a defined contribution 401(k) plan maintained by KAI ("the Kingsway Plan") with features identical to Atlas' current plan (the "Atlas Plan"). Employer contributions to the Kingsway Plan attributable to the Atlas insurance subsidiaries were \$70 for the six months ended June 30, 2010, and is included in Other Underwriting Expenses in that period. Assets of the Kingsway Plan, attributable to Atlas' employees, were transferred to the Atlas Plan in March 2011.

Defined Benefit Plan - Prior to December 31, 1997, substantially all salaried employees of American Country were covered by a defined benefit pension plan known as the American Country Pension Plan (the "pension plan"). Benefits were based on the employee's length of service and wages and benefits, as defined by the pension plan. The funding policy of the pension plan was generally to contribute amounts required to maintain minimum funding standards in accordance with the Employee Retirement Income Security Act. Effective December 31, 1997, upon resolution by the board of directors, the pension plan was frozen. During 2010, American Country made an application to the U.S. Internal Revenue Service to dissolve the pension plan and distribute the net plan assets to the beneficiaries (see Note 16 for more information).

Atlas plans to make contributions to the pension plan in 2011 that are not less than the minimum funding requirements under Internal Revenue Code Section 412 or greater than the maximum deductible amount under Code Section 404 for a taxable employer.

Pension expense was \$30 and \$10 for the six months ended June 30, 2011 and 2010, respectively. Information about the plan assets, liabilities and actuarial assumptions as of December 31, 2010 is contained in Note 18 of Atlas' 2010 annual report.

Employee Stock Purchase Plan - In the second quarter of 2011, Atlas initiated the Atlas Employee Stock Purchase Plan (the "ESPP") to encourage continued employee interest in the operation, growth and development of Atlas and to provide an additional investment opportunity to employees. Beginning in June 2011, full time and permanent part time employees working more than 30 hours per week are allowed to invest up to 5% of adjusted salary in Atlas ordinary voting common shares. Atlas matches 50% of the employee contribution up to 5% of annual earnings for a total maximum expense of 2.5% of annual earnings per participant. Employees who signed up for the ESPP by May 30, 2011 each received an additional 100 ordinary voting common shares as an initial participation incentive. Atlas will also pay administrative costs related to this plan. Total expenses related to the plan of \$10 were recognized in the second quarter of 2011.

Note 13 Earnings per Share

Earnings per ordinary voting common shares and restricted voting common shares (collectively the "common shares") are as follows:

	3 months ended		6 months ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Net income (loss) available to common shareholders	\$ 112	(8,135)	\$ (777)	(9,719)
Basic:				
Weighted average common shares outstanding	18,374,066	18,358,363	18,371,386	18,358,363
Basic earnings (loss) per common share	\$ 0.01	(0.44)	\$ (0.04)	(0.53)
Diluted:				
Weighted average common shares outstanding	18,374,066	18,358,363	18,371,386	18,358,363
Dilutive potential ordinary shares	35,955	--	--	--
Diluted average common shares outstanding	18,410,021	18,358,363	18,371,386	18,358,363
Diluted earnings (loss) per common share	\$ 0.01	(0.44)	\$ (0.04)	(0.53)

For 2011, basic earnings (loss) per common share has been computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period.

For the three and six months ended June 30, 2010, basic loss per share has been computed by dividing net loss for the period by the number of common shares outstanding at June 30, 2010, which is the same as those outstanding on December 31, 2010, as required by continuation accounting.

Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding each period plus the incremental number of shares added as a result of converting dilutive potential ordinary shares, calculated using the treasury stock method. Atlas' dilutive potential common shares consist of outstanding stock options and warrants to purchase ordinary voting common shares. The effects of options and warrants to issue ordinary voting common shares are excluded from the computation of diluted earnings per share in periods in which the effect would be anti-dilutive. For the six month period ended June 30, 2011 and the three and six month periods ended June 30, 2010 potential ordinary voting

common shares were anti-dilutive due to exercise prices over the average period trading price, or in periods where Atlas incurred a net loss.

Note 14 Related-Party Transactions

The business of Atlas is carried on through its insurance subsidiaries. Atlas' insurance subsidiaries have been a party to various transactions with affiliates in the past, although activity in this regard has diminished over time. Related party transactions, including services provided to or received by Atlas' insurance subsidiaries, are carried out in the normal course of operations and are measured at the amount of consideration paid or received as established and agreed upon by the parties. Management believes that consideration paid for such services approximates fair value.

At June 30, 2011 and December 31, 2010, Atlas reported net amounts receivable from (payable to) affiliates as follows which are included within other assets and accounts payable and accrued expenses on the balance sheets:

Balances receivable from (payable to) affiliates, as at	June 30, 2011		December 31, 2010	
Kingsway America, Inc.	\$	319	\$	2,058
Universal Casualty Company		(504)		--
Kingsway Amigo Insurance Company		(2)		(13)
Hamilton Risk Management Inc.		--		(1)
Total	\$	(187)	\$	2,044

In 2010, Atlas' insurance subsidiaries remitted management fees monthly to KAI for managerial services. During the first six months of 2010, those management fees included rent for Atlas' Elk Grove Village headquarters building. That building was contributed to Atlas on June 30, 2010 and rental payments ceased at that time. Management fees paid to KAI totaled approximately \$0 and \$1,321 for the six months ended June 30, 2011 and 2010, respectively.

Atlas' insurance subsidiaries received \$158 in regularly scheduled monthly mortgage payments for the six months ended June 30, 2010 under mortgage loan agreements with KAI which were secured by the Elk Grove Village headquarters building. In June 2010, American Service forgave the \$1,695 remaining balance of its mortgage loan from KAI and American Country was paid the \$1,767 total remaining balance of its mortgage loan from KAI.

For the six months ended June 30, 2011 and 2010, Atlas paid \$1,255 and \$2,212, respectively, as commissions to Avalon Risk Management, Inc. ("Avalon"). In the six months ended June 30, 2011 and 2010, Atlas also paid Avalon \$48 and \$63 respectively, for marketing services. Avalon was a KFSI subsidiary through October 2009, and has investors and directors in common with Atlas.

During the six months ended June 30, 2010, dividends of \$14,300 were paid to KAI by insurance subsidiaries of Atlas and another \$2,400 in dividends were declared and included in other liabilities as of June 30, 2010.

Note 15 Impact of adopting International Financial Reporting Standards

The following table reconciles shareholders' equity as reported under US GAAP with shareholders' equity in accordance with IFRS:

As at	December 31, 2010	June 30, 2010	January 1, 2010
Shareholders' equity based on US GAAP	\$ 60,169	\$ 57,606	\$ 52,546
Effect of Adoption of IFRS (IAS 32) on Preferred Stock (see Note 11)	(2,647)	(2,647)	(2,647)
Other Comprehensive Income	--		--
Shareholders' equity based on IFRS	\$ 57,522	\$ 54,959	\$ 49,899

There were no other differences between IFRS and U.S. GAAP which had an impact on Atlas' financial statements. Accordingly, there are no other reconciling items that have changed the reported amounts under IFRS in these unaudited condensed interim consolidated financial statements compared to Atlas' previous financial statements prepared under U.S. GAAP as of December 31, 2010 and December 31, 2009. Additionally, there were no other adoption impacts to Atlas' consolidated statements of comprehensive income, or statements of changes in shareholders' equity for the six months ended June 30, 2010 and the year ended December 31, 2010.

Note 16 Events after the Reporting Period

Events have been evaluated through August 26, 2011, the date the Atlas Board of Directors approved the financial statements for issuance.

On August 1, 2011, Atlas received a favorable determination letter from the U.S. Internal Revenue Service concluding that the termination of the American Country Pension Plan will not adversely affect its qualification for federal tax purposes. Atlas intends to move forward with the dissolution of the plan and distribution of the plan assets in 2011. The dissolution will result in the immediate recognition of approximately \$2,473 in accrued pension costs currently recorded in Accumulated Other Comprehensive Income. It is also anticipated to have an insignificant impact on book value. Management believes the liquidation of the American Country Pension Plan prior to year end 2011 eliminates all potential future liability that accompanies this defined benefit plan.