



Second Quarter
2011

Management's Discussion and Analysis
For the quarter ended June 30, 2011

Atlas Financial Holdings, Inc.

Atlas Financial Holdings, Inc.

Management Discussion and Analysis – Period ended June 30, 2011

August 26, 2011

The following is a discussion of the historical results of operations and financial condition of Atlas Financial Holdings, Inc. (“Atlas”) and factors affecting Atlas’ financial condition. This discussion should be read in conjunction with Atlas’ unaudited condensed interim consolidated financial statements and accompanying notes as of and for the quarter ended June 30, 2011, as well as the Management Discussion & Analysis (“MD&A”) and the audited consolidated financial statements in Atlas’ 2010 Annual Report. All amounts herein are expressed in thousands of United States dollars except for share and per share amounts and amounts preceded by a “C” denoting Canadian dollars.

The core business of Atlas, which is carried out through American County Insurance Company (“American Country”) and American Service Insurance, Inc. (“American Service” together with American Country, the “insurance subsidiaries”), is the underwriting of commercial automobile insurance policies, focusing on the “light” commercial automobile sector. This sector includes taxi cabs, non-emergency para-transit, limousine, livery and business autos. Atlas has developed and is implementing a strategic business plan that focuses on these core lines of business. Some of this business was lost during the two years prior to the formation of Atlas on December 31, 2010. These core lines of business historically produced an underwriting profit; Atlas’ primary objective is to re-capture this core business. However, it will take time for Atlas to re-energize and rebuild business volumes to levels that optimize operational efficiency and profitability.

In addition to income from underwriting and claim related functions, significant investment income is earned from investing funds generated by those activities and from shareholders’ equity. Investment management aims for stability of income from interest and dividends, protection of capital, and managing liquidity to meet underwriting and other obligations as they become payable in the future. Securities trading and the realization of capital gains are not in the strategic plan. The investment philosophy emphasizes value and credit quality.

Though Atlas first began operations in its current form on December 31, 2010, management of Atlas is seasoned in the industry and the insurance subsidiaries have a long history of operations under previous ownership. Company affairs are managed for the long run. Atlas’ operating results and financial condition will best be evaluated by observing operating performance trends over the next five to ten years. This time frame will likely encompass one or two underwriting cycles, provide appropriate time for those cycles to run their course and for reserved claim costs to be quantified with greater certainty.

Atlas delivers value to its agents through its competitive advantages. Atlas has a team of experienced underwriters, many with more than 15 years of experience who are committed to the commercial auto insurance market which enables us to identify and more efficiently serve more profitable sectors than the competition. Atlas has a large geographic foothold which enables accurate pricing in target markets and ease of entry into new markets. Together, American Country and American Service are licensed to write property and casualty (P&C) insurance in 47 states in the United States. Further, Atlas’ customized, user-friendly web-enabled point-of-sale system adds value through reducing the need for direct agent communication and increasing efficiency.

Caution Regarding Forward-Looking Statements

This MD&A contains “forward-looking information” which may include, but is not limited to, statements with respect to estimates of future expenses, revenue and profitability; trends affecting financial condition and results of operations; the availability and terms of additional capital; dependence on key suppliers, manufacturers and strategic partners; industry trends and the competitive and regulatory environment; the impact of losing one or more senior executives or failing to attract additional key personnel; and other factors referenced in this MD&A.

Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates”, or “believes” or variations (including negative variations) of such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Atlas to be materially different from any

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future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political, regulatory and social uncertainties.

Although Atlas has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results to differ from those anticipated, estimated or intended. Forward-looking statements contained herein are made as of the date of this MD&A and Atlas disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results, or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty in them.

Additional information relating to Atlas is available on SEDAR at www.sedar.com or from Atlas' website at www.atlas-fin.com. The information contained on Atlas' website is not incorporated by reference into this MD&A and should not be considered a part of this MD&A.

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I. CORPORATE OVERVIEW

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

a) **Formation of Atlas**

Atlas was 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 and American Country to American Acquisition in exchange for common and preferred shares of American Acquisition and promissory notes aggregating to 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 of restricted voting common shares valued at \$27,760, along with 18,000,000 of non-voting preferred shares valued at \$18,000, and C\$7,967 in cash 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 ten 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.

b) **Insurance Subsidiaries**

The business of Atlas is carried on through the insurance subsidiaries: American Service and American Country. The insurance subsidiaries distribute their products through a network of retail independent agents. Together, American Country and American Service are licensed to write P&C insurance in 47 states in the United States. The management of American Country and American Service is fully integrated with a single operating infrastructure supporting both insurance entities.

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Effective January 1, 2009, American Service and American Country formed a statutory pool (the “American Service Pool”), pursuant to which American Country cedes 100% of its net premium written, related liabilities and certain operating expenses to American Service. American Service then retrocedes 30% of the pooled net premium written, related liabilities and certain operating expenses to American Country and retains the remaining 70% of the pool.

A.M. Best Co. upgraded the Financial Strength Rating of the insurance subsidiaries to “B” from “B-” on January 6, 2011. Simultaneous to the upgrades for the insurance subsidiaries, A.M. Best Co. also upgraded the American Service Pool to “B” from “B-”. A.M. Best Co. assigned to the insurance subsidiaries an outlook of “stable” to all Financial Strength Ratings and has also eliminated the status of “under review with developing implications”. A.M. Best Co. also upgraded the Issuer Credit Ratings of the insurance subsidiaries to “bb” from “bb-”, and issued an Issuer Credit Rating of “b-” to Atlas. The outlook assigned to the Issuer Credit Ratings was also “stable”. These ratings are unchanged from June 30, 2011.

c) 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 required 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 first quarter 2011 condensed interim consolidated financial statements.

This MD&A should be read in conjunction with Atlas’ annual financial statements for the years ended December 31, 2010 and 2009 prepared in accordance with US GAAP, and Atlas’ interim financial statements for the quarter ended March 31, 2011 and the quarter and six month period ended June 30, 2011 prepared in accordance with IFRS.

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

d) Go-Forward Earnings

Atlas incurred significant, non-recurring costs in the first quarter of 2011 and for the year ended December 31, 2010 related to the formation of Atlas on December 31, 2010. As a result, the financial statements for those periods are not indicative of likely future results and the following items should be noted:

- Business mix and volume will be different in the future, consistent with Atlas’ business strategy. A number of non-profitable and non-strategic lines of business have been non-renewed during periods prior to 2011. Some previously profitable lines of business which were de-emphasized under the former owner’s business strategy are Atlas’ go-forward focus, namely light commercial lines. As these lines of business become a larger portion of Atlas’ book of business, the underwriting results from these core lines are expected to trend favorably as the management team executes the business plan.
- Cost savings are being achieved as a result of combining the insurance subsidiaries’ operations coupled with other expense reduction initiatives.

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II. CONSOLIDATED PERFORMANCE

Second Quarter Key Highlights

- Q2 2011 net income was \$112 or \$0.01 per common share diluted.
- Core commercial auto lines gross premium written increased 65.2% over Q2 2010 reflecting a positive market reaction to the transaction which formed Atlas.
- Total shareholder's equity increased to \$56,204 as of June 30, 2011.
- Book value per common share diluted increased to \$2.21.
- Atlas carries a provision, in the amount of \$0.64 per share diluted at June 30, 2011, against its deferred tax asset.

The following financial data is derived from Atlas' unaudited condensed interim consolidated financial statements for the three and six month periods ended June 30, 2011 and 2010:

Table 1 Selected financial information

	3 Months Ended		6 months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
<i>Gross premium written</i>	\$ 7,856	8,558	\$ 22,022	27,243
Net premium earned	9,062	12,515	17,871	31,815
Losses on claims	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
Net underwriting loss	(1,529)	(13,187)	(3,799)	(17,824)
Net investment and other income	1,641	865	3,022	3,107
Net income (loss) before tax	112	(12,322)	(777)	(14,717)
Income tax benefit	--	4,187	--	4,998
Net income (loss)	\$ 112	(8,135)	\$ (777)	(9,719)
Key Financial Ratios:				
Loss ratio	74.2%	118.9%	76.2%	95.0%
Acquisition cost ratio	20.4%	21.5%	20.3%	21.1%
Other underwriting expense ratio*	19.8%	61.8%	22.2%	36.9%
Combined ratio (see Table 6)	114.4%	202.3%	118.7%	153.0%
Return on equity	0.8%	(61.6)%	(2.8)%	(37.1)%
Earnings (loss) per common share, basic and diluted	\$ 0.01	(0.44)	\$ (0.04)	(0.53)
Book value per common share	\$ 2.21	2.16	\$ 2.21	2.16

*Computed based on other underwriting expenses net of policy fee income

Second quarter 2011

Underwriting performance continues to be on pace with expectations with improvements in the second quarter 2011 combined ratio of 114.4% as compared to 123.1% and 202.3% in the first quarter of 2011 and second quarter of 2010, respectively. Core commercial automobile lines are becoming a larger part of Atlas' gross premium written as a result of the renewed strategic focus on these core lines of business coupled with a positive response from agents and policyholders to Atlas' value proposition.

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Gross premium written related to these core commercial lines increased by 65.2% in the second quarter of 2011 as compared to the second quarter of 2010. Atlas' underlying loss ratio continues to trend lower as the core commercial automobile lines become a larger portion of net premium earned. The second quarter loss ratio of 74.2% is lower than the first quarter of 2011 and the second quarter of 2010 of 78.2% and 118.7%, respectively. Underwriting expense reductions continue to be in line with expectations as the other underwriting expense ratio for the second quarter 2011 was 19.8% as compared to 24.7% for the first quarter of 2011 and 61.8% for the second quarter of 2010.

Investment performance and other income generated \$1,641 of income for the quarter ended June 30, 2011 and was 18.8% better than the income generated in the first quarter of 2011 of \$1,381. Cash and invested assets were \$152,835 as of June 30, 2011 and were \$20,213 lower than December 31, 2010 resulting from an overall decrease in premium volumes and the payment of claim settlements. This reduction in cash and invested assets is in line with Atlas' expectations.

Overall, Atlas generated net income after tax of \$112 or \$.01 per common share diluted for the second quarter ended June 30, 2011 compared to a net loss after tax of \$889 or (\$.05) per common share for the first quarter of 2011.

Book value per common share as of June 30, 2011 increased to \$2.21 as compared to \$2.19 as of March 31, 2011. Atlas has a provision against deferred tax currently deemed unrealizable in the amount of \$.64 per common share as of June 30, 2011. Tax loss carry-forwards were assumed through the acquisition of the insurance subsidiaries. These deferred tax assets could be realized in the future dependent upon profitability during the next twenty year period.

Year to date June 30, 2011

Underwriting results improved by \$14,025 for the six months ended June 30, 2011 versus the same period in 2010. Atlas continues to improve its underwriting results through the elimination of non-profitable lines of business, the decrease in underwriting expenses and the focus on core commercial automobile lines of business. The result of these initiatives are reflected in the reduction to the combined ratio from 153.0% for the six months ended June 30, 2010 compared to 118.7% for the six months ended June 30, 2011.

Net loss improved to \$777 from \$9,719 for the six months ended June 30, 2011 versus the six months ended June 30, 2010 as a result of the initiatives indicated above.

III. BUSINESS DEVELOPMENT AND OPERATING ENVIRONMENT

The insurance subsidiaries have a diversified network consisting of independent retail agents. Within this channel the insurance subsidiaries have a committed group of cornerstone agents in each state in which Atlas operates. Cornerstone agents are producers who focus on commercial automobile insurance and are considered strategic partners. Illinois is the most developed state in terms of current distribution with a large number of smaller agents located throughout the state in addition to cornerstone agents focusing on major metropolitan areas.

Going forward, the insurance subsidiaries' distribution strategy is to develop a producer network for all states where the insurance subsidiaries are licensed similar to the one it created Illinois. As of August 2011, Atlas expanded its agent distribution channel across 19 states. Atlas will establish specific business objectives with each cornerstone agent, including an expectation that Atlas will represent one of such agent's top three insurance carriers and set minimum annual written premium targets. Underwriting profit will be measured as a primary metric of success with respect to each agent's book of business.

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Government Regulation

The insurance subsidiaries are regulated at the state level, with the Illinois Department of Insurance being the primary regulator. American Service is also licensed by the U.S. Treasury to provide insurance/surety where the U.S. Federal Government is the beneficiary.

The insurance subsidiaries pay premium tax in all states where premium is written. On average, they pay tax equal to 1.3% of written premium. However, Atlas expects the average tax rate to increase as expansion into other states continues.

A primary metric used by insurance regulators is the National Association of Insurance Commissioners' ("NAIC") risk based capital ("RBC") ratio which is computed at the end of each year based on annual information. The insurance subsidiaries are required to maintain certain minimum RBC ratios as provided for by insurance statutes in the states in which they write business. The insurance subsidiaries were above the 200% minimum RBC ratio threshold as measured at December 31, 2010. Based on the 2010 annual statutory financial statements, December 31, 2010 RBC ratios were 322% and 536% for American Country and American Service, respectively, and indicated estimated aggregate capital in excess of the 200% level of approximately \$26,100. Management projects the insurance subsidiaries will be above the 200% minimum RBC ratio threshold at December 31, 2011, the next annual measurement date.

Legislative or industry developments can lead to increased competition in the markets in which the insurance subsidiaries operate or reduce their ability to price risks appropriately. New competition from these potential changes could cause the prices for insurance to fall, adversely affecting underwriting profitability or volume of business written.

IV. OPERATING RESULTS

a) Gross Premium Written

TABLE 2 Gross premium written by line of business

	3 Months Ended				6 Months Ended			
	June 30		Change		June 30		Change	
	2011	2010	%		2011	2010	%	
Commercial automobile	\$ 2,487	1,505	65.2	%	\$ 9,005	7,129	26.3	%
Non-standard Automobile	3,707	4,000	(7.3)		9,639	14,548	(33.7)	
Other	1,662	3,053	(45.6)		3,378	5,566	(39.3)	
Total Gross Premium Written	\$ 7,856	8,558	(8.2)	%	\$ 22,022	27,243	19.2	%

Table 2 above summarizes gross premium written by line of business for the periods indicated. For the quarter ended June 30, 2011, gross premium written was \$7,856 compared to \$8,558 in the second quarter of 2010 and \$14,166 in the first quarter of 2011, representing an 8.2% and 44.5% decrease, respectively. By comparison, gross premium written decreased 45.8% from the first quarter of 2010 to the second.

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. Atlas' ability to generate written premium is also impacted by the timing of policy periods in the states in which Atlas operates. For example, January 1 and March 1 are common taxi cab renewal dates in Illinois and New York respectively, therefore gross premium written is traditionally higher in the first quarter of the year. Net underwriting income is driven mainly by the timing and nature of claims, which can vary widely. In 2010, the production of gross premium written

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over the four quarters during the year was as follows: 40% first quarter, 18% second quarter, 22% third quarter and 20% fourth quarter.

Commercial Automobile

Commercial automobile policies provide coverage for light weight, individual unit or small fleet commercial vehicles typically with the minimum limits prescribed by statute, municipal or other regulatory requirements. In the quarter ended June 30, 2011, gross premium written from commercial automobile was \$2,487, representing a 65.2% increase relative to second quarter 2010. The increase relative to second quarter 2010 was the result of Atlas' strategic focus on these core lines of business coupled with a positive response from agents and policyholders to Atlas' value proposition. As a percentage of the insurance subsidiaries' overall book of business, commercial auto gross premium written represented 31.7% of gross premium written in the second quarter 2011 compared to 17.6% and 46.0% for the quarters ended June 30, 2010 and March 31, 2011. The relatively smaller percentage seen in the second quarter as opposed to the first quarter was due to seasonality in Atlas' core lines of business, as previously discussed, particularly in the state of Illinois.

Commercial automobile insurance has outperformed the overall P&C industry in each of the past ten years based on data compiled by the NAIC. Each of the specialty business lines on which Atlas' strategy is focused is a subset of this historically profitable industry subset.

Because there are a limited number of competitors specializing in these lines of business, management believes a strong value proposition is very important and can result in desirable retention levels as policies renew on an annual basis. There are also a relatively limited number of agents who specialize in these lines of business. As a result, strategic agent relationships are important to ensure efficient distribution.

There is a positive correlation between the economy and commercial automobile insurance in general. However, operators of commercial automobiles may be less likely than other business segments within the commercial auto line to take vehicles out of service as their businesses and business reputations rely heavily on availability. With respect to certain business lines such as the taxi line, there are also other factors such as the cost and limited supply of medallions which may discourage a policy holder from taking vehicles out of service in the face of reduced demand for the use of the vehicle.

Maintaining continuous insurance on all vehicles under dispatch is an important aspect of Atlas' target policyholders' businesses.

Non-Standard Automobile

Non-standard automobile insurance is principally provided to individuals who do not qualify for standard automobile insurance coverage because of their payment history, driving record, place of residence, age, vehicle type or other factors. Such drivers typically represent higher than normal risks and pay higher insurance rates for comparable coverage.

Consistent with Atlas' focus on commercial automobile insurance, Atlas is transitioning away from the non-standard auto line. Atlas' target is to cease renewals of policies of this type by the end of the 2011 year, to be offset from expected growth within the commercial automobile business.

Other

This line of a business is primarily comprised of Atlas' surety business, which is 100% reinsured.

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Geographic Concentration

Table 3 Gross premium written by state

	3 Months Ended				6 Months Ended				
	June 30,		Change		June 30,		Change		
	2011	2010	\$	%	2011	2010	\$	%	
Illinois	\$ 5,092	6,876	\$ (1,784)	(26.0)	% \$ 15,315	15,447	\$ (132)	(0.9)	%
Indiana	431	884	(453)	(51.2)	1,620	2,849	(1,227)	(43.1)	
Michigan	772	336	436	129.2	1,718	696	1,021	146.7	
New York	364	(177)	¹ 543	305.5	1,164	1,757	(592)	(33.7)	
Minnesota	546	345	201	58.0	1,082	477	605	126.8	
Texas	129	138	(9)	(5.9)	341	289	52	18.0	
Wisconsin	80	11	69	643.2	274	63	211	332.0	
Other	442	145	297	203.5	508	5,665	(5,160)	(91.0)	
Total	\$ 7,856	8,558	\$ (702)	(8.2)	% \$ 22,022	27,243	\$ (5,221)	(19.2)	%

¹ Results from cancellations in excess of premium written for the period

As illustrated by the data in Table 3 above, 64.8% of Atlas' second quarter 2011 gross premium written came from the state of Illinois and 80.1% came from the top three states (factoring in Indiana and Michigan), as compared to 94.6% in the second quarter 2010. On a year-to-date basis 84.7% of our written premium came from those three states. Atlas' future business success is primarily dependent upon the health of the economy and business climate in those areas coupled with opportunities in areas where Atlas is licensed and intends to expand or begin writing business.

Geographic diversification is planned as Atlas continues to increase business writings in states where 2010 gross premium written were below target levels and in select states where the insurance subsidiaries have licenses which were not utilized. The pace and focus of these expansion plans will be driven by pricing and competitive analyses performed by Atlas.

b) Ceded Premium Written

Ceded premium written is equal to premium ceded under the terms of Atlas' in force reinsurance treaties. Ceded premium written decreased 66.2% to \$1,455 for the quarter ended June 30, 2011 compared with \$4,298 for the quarter ended June 30, 2010 and decreased 16.9% as compared to \$1,751 of ceded premium written in the first quarter 2011. These decreases are attributed to the reduction of Atlas' surety gross premium written.

c) Net Premium Written

Net premium written is equal to gross premium written less the ceded premium written under the terms of Atlas' in force reinsurance treaties. Net premium written increased 50.4% to \$6,401 for the second quarter 2011 compared with \$4,260 for the second quarter 2010, and decreased 48.4% compared to \$12,415 net premium written in the first quarter 2011. These changes are attributed to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above.

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d) Net Premium Earned

Premiums are earned ratably over the term of the underlying policy. Net premium earned was \$9,062 the second quarter 2011, a 27.6% decrease compared with \$12,515 during second quarter of 2010 and a 2.8% increase compared to \$8,809 in the first quarter 2011. The decrease in net premiums earned when comparing the second quarter of 2011 versus the second quarter of 2010 are attributable to the premium decline experienced by the Company's operating insurance subsidiaries prior to Atlas' formation. The increase in net premiums earned between the first and second quarters of 2011 is attributable to the increase in written premiums over the last few quarters as the transaction creating Atlas was successfully completed. Policy periods in Atlas' core lines of business are typically twelve months.

e) Claims Incurred

The loss ratio relating to the claims incurred for the second quarter of 2011 was 74.2% compared to 118.9% for second quarter 2010 and 78.2% for first quarter 2011. The second quarter 2011 loss ratio reflects the trend towards the expected loss ratio of Atlas' core lines of business. Atlas has extensive experience and expertise with respect to underwriting and claims management in this specialty area of insurance.

f) Acquisition Costs

Acquisition costs represent commissions and taxes incurred on net premium earned. Acquisition costs were \$1,844 for the second quarter of 2011 or 20.4% of net premium earned, as compared to 21.5% and 20.2% for the second quarter of 2010 and first quarter 2011, respectively. These ratios were relatively consistent over these periods, but are anticipated to decrease as Atlas transitions away from the non-standard automobile lines which carry higher commission rates.

g) Other Underwriting Expenses

The other underwriting expense ratio was 19.8% in second quarter 2011 compared to 61.8% in second quarter of 2010 and 24.7% in first quarter 2011. In the second quarter 2010, Atlas wrote off \$3,114 in receivables due from Atlas' former parent within other underwriting expenses. Excluding this item, the second quarter 2010 ratio was 37.0%. The decreased expense in the second quarter 2011 compared to second quarter 2010 is primarily due to elimination of costs related to the insurance subsidiaries' former parent and other cost reduction initiatives undertaken in connection with the Atlas transaction.

Atlas incurred additional expenses of approximately \$627 in the first quarter 2011 that are deemed non-recurring. These items are highlighted in the table below:

Table 4 Non-recurring Expenses

Expense Item	Description	Non-recurring Expense/(Benefit)
Licenses, taxes and assessments	Amounts paid in Q1 2011	\$ 198
Professional fees	Legal and Accounting fees	121
Salary and benefits	Q1 staff reduction impacts	174
EDP expense	Decommissioning software expenses previously capitalized	84
Occupancy	Straight-line lease adjustment	(194)
Miscellaneous expense	Straight-line lease adjustment	244
Total non-recurring expenses		\$ 627

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h) Net Investment Income

Table 5 Investment Results

	3 Months Ended				6 Months Ended			
	June 30,				June 30,			
	2011	2010			2011	2010		
Avg. securities at cost (including cash)	\$	150,781	198,118		\$	157,843	203,544	
Interest income after expenses		934	1,390			1,933	2,791	
Percent earned on average investments		0.6	0.7	%		1.2	1.4	%
Net realized gains (losses)		417	138			850	355	
Total investment income		1,351	1,528			2,783	3,146	
Total realized yield (annualized)		3.6	3.1	%		3.5	3.1	%

Investment income (excluding net realized gains) decreased by 32.8% to \$934 in the second quarter of 2011, compared to \$1,390 in the second quarter of 2010. These amounts are primarily comprised of interest income. This decrease is attributed to expected reductions in invested assets due to the payment of claims related to prior accident years. Average yield on invested assets (including net realized gains) in the second quarter was 3.6% as compared with 3.1% in the second quarter 2010 and 3.6% in the first quarter 2011.

i) Net Realized Investment Gains (Losses)

Net realized investment gains in the second quarter of 2011 were \$417 compared to \$138 and \$433 in second quarter 2010 and first quarter 2011, respectively.

j) Miscellaneous Income (Loss)

Atlas recorded miscellaneous income in the second quarter 2011 of \$290 compared to a loss of \$663 for second quarter 2010 and a loss of \$51 in first quarter 2011. In the second quarter of 2010, miscellaneous expense of \$1,695 was recognized related to the forgiveness of the mortgage obligation due from Atlas' former parent, partially offset by \$697 in rental income from Atlas headquarters in Elk Grove Village.

Also included in this category is fee income of \$229, compared to \$382 and \$236 in the second quarter 2010 and first quarter 2011, respectively. These fees include installment payment fees, policy fees, non-sufficient funds fees and certain required regulatory report filing and preparation fees received from insurance customers. Atlas nets these fees against other underwriting expenses when computing its expense and combined ratios.

k) Combined Ratio

Net underwriting loss and Atlas' combined ratio is summarized in the table below. The underwriting loss is attributable to the factors described in the 'Claims Incurred', 'Acquisition Costs', and 'Other Underwriting Expenses' sections above.

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Table 6 Combined Ratios

Quarter Ended	June 30, 2011		March 31, 2011		June 30, 2010	
Net premium earned	\$	9,062	\$	8,809	\$	12,515
Underwriting expenses *		10,591		11,079		25,702
Fee income		229		236		382
Underwriting loss, net of fee income	\$	10,362	\$	10,843	\$	25,320
Combined ratio		114.4%		123.1%		202.3%

**Underwriting expense is the combination of losses on claims, acquisition costs, and other underwriting expenses*

l) Loss before Income Taxes

Atlas generated income before tax of \$112 in the second quarter 2011 as compared to a loss before income taxes of \$12,322 and \$889 for the second quarter 2010 and first quarter 2011, respectively, the components of which are discussed above.

m) Income Tax Benefit

Atlas has not recognized any income tax expense or benefit in 2011 because the deferred tax asset otherwise attributable to pre-tax income or loss was not considered realizable. This compares to a tax benefit of \$4,187 recognized in the second quarter of 2010. The following table reconciles tax benefit from applying the statutory U.S. tax rate of 34% to the actual percentage of pre-tax losses provided for the six month periods ended June 30, 2011 and 2010.

Table 7 Income tax expense (benefit) reconciliation

	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) %	

Upon formation of Atlas on December 31, 2010, a yearly limitation as required by U.S. tax law Section 382 that applies to changes in ownership on the future utilization of Atlas' net operating loss carry-forwards was calculated. Atlas' subsidiaries' prior parent retained those tax assets previously attributed to Atlas' subsidiaries which could not be utilized by Atlas as a result of this limitation. As a result, Atlas' ability to recognize future tax benefits associated with a portion of its deferred tax assets generated during prior years and the current year have been permanently limited to the amount determined under U.S. tax law Section 382. The result is a maximum expected net deferred tax asset which Atlas has available after the merger which is believed more-likely-than-not to be utilized in the future.

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n) Net Income (Loss) and Earnings (Loss) per Share

Atlas earned \$112 during the second quarter 2011 compared to net losses of \$8,135 and \$889 for the second quarter 2010 and first quarter 2011, respectively. After taking the impact of the preferred shares into consideration, the basic and diluted earnings per common share in the second quarter was \$0.01 versus a loss per common share of \$(.44) and \$(.05) for second quarter 2010 computed under continuation accounting rules and first quarter 2011 respectively.

There were 18,374,066 weighted average common shares outstanding during the second quarter of 2011 and 18,410,021 after the dilutive effect of share-based activity. For the comparable 2010 quarter 18,358,363 shares were used to compute both basic and dilutive earnings per common share, the number of voting common shares at the merger date as required by continuation accounting rules.

o) Book Value per Common Share

Book value per common share was \$2.21 at second quarter 2011 as compared to \$2.16 at second quarter 2010 and \$2.19 at first quarter 2011.

p) Selected Quarterly Data

The following table presents quarterly data since Atlas' inception on December 31, 2010:

Table 8 Selected Quarterly Data

Period ended:	Q2 2011		Q1 2011	
<i>Gross premium written</i>	\$	7,856	\$	14,166
Net premium earned		9,062		8,809
Net income (loss) before tax		112		(889)
Net income (loss)		112		(889)
Earnings (loss) per common share, basic and diluted	\$	0.01	\$	(0.05)
Book value per common share diluted		2.21		2.19
Ending Share Price	C\$	1.50	C\$	1.86
Combined Ratio		114.4 %		123.1 %

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V. FINANCIAL CONDITION

Table 9 Condensed Interim Consolidated Balance Sheet

As at	June 30, 2011	December 31, 2010
Assets		
Investments		
Cash and cash equivalents	\$ 5,540	\$ 19,037
Securities	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	11,320	11,276
Deferred policy acquisition costs	3,506	3,804
Deferred tax asset	6,399	6,399
Office equipment	334	1,274
Assets held for sale	13,930	15,004
Total assets	\$ 201,888	\$ 225,438
Liabilities		
Claims liabilities	\$ 112,011	\$ 132,579
Unearned premiums	17,046	17,061
Due to reinsurers and other insurers	7,714	9,614
Preferred shares dividend liability	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	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	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	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

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a) Investments

Investments Overview and Strategy

Atlas manages its securities portfolio to support the liabilities of the insurance subsidiaries, to preserve capital and to generate investment returns. Atlas invests predominantly in corporate and government bonds with relatively short durations that correlate with the payout patterns of Atlas' claims liabilities. The securities are managed by a third-party investment management firm pursuant to Atlas' investment policies and guidelines as approved by its Board of Directors. Atlas monitors the third-party investment manager's performance and its compliance with both its mandate and Atlas' investment policies and guidelines.

Atlas' investment guidelines stress the preservation of capital, market liquidity to support payment of liabilities and the diversification of risk. With respect to fixed income securities, Atlas generally purchases securities with the expectation of holding them to their maturities; however, the securities are available for sale if liquidity needs arise.

Portfolio Composition

At June 30, 2011, Atlas held securities with a fair value of \$147,295, which was comprised primarily of fixed income securities. The insurance subsidiaries' securities must comply with applicable regulations that prescribe the type, quality and concentration of securities. These regulations in the various jurisdictions in which the insurance subsidiaries are domiciled permit investments in government, state, municipal and corporate bonds, preferred and common equities, and other high quality investments, within specified limits and subject to certain qualifications. Atlas' portfolio has an average duration of 2.01 years.

The following table summarizes the fair value of the securities portfolio, including cash and cash equivalents, as at the dates indicated.

Table 10 Fair value of securities portfolio

As at June 30, 2011		Amortized	Gross	Gross	Fair
		Cost	Unrealized	Unrealized	Value
			Gains	Losses	
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

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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

Table 11 Net Change in unrealized gains/(losses) on available-for-sale securities

As at:	June 30, 2011	March 31, 2011	Change	Dec. 31, 2010	June 30 YTD Change
Term deposits	\$ 3	\$ 4	\$ (1)	\$ 3	\$ --
Bonds					
U.S. -Government	1,917	1,959	(42)	2,117	(200)
-Corporate	2,518	2,328	190	3,011	(493)
-Commercial mortgage backed	232	214	18	270	(38)
-Other asset backed	46	59	(12)	79	(33)
Total	\$ 4,716	\$ 4,564	\$ 153	\$ 5,480	\$ (764)

For the three and six months ended June 30, 2011 Atlas recognized \$417 and \$850 in net investment gains.

Liquidity and Cash Flow Risk

The following table summarizes the fair value by contractual maturities of the fixed income securities portfolio excluding cash and cash equivalents at the dates indicated.

Table 12 Fair value by contractual maturity date

As at:	June 30, 2011			December 31, 2010		
	Amount	%		Amount	%	
Due in less than one year	\$ 42,169	28.6	%	\$ 21,555	14.0	%
Due in one through five years	62,612	42.5		88,564	57.5	
Due after five through ten years	19,742	13.4		24,026	15.6	
Due after ten years	22,772	15.5		19,866	12.9	
Total	\$ 147,295	100.0	%	\$ 154,011	100.0	%

At June 30, 2011, 71.1% of the fixed income securities, including treasury bills, bankers' acceptances, government bonds and corporate bonds had contractual maturities of five years or less. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. Atlas holds cash and high grade short-term assets which, along with fixed income security maturities, management believes are sufficient for the payment of claims on a timely basis. In the event that additional cash is required to meet obligations to policyholders,

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Atlas believes that the high quality, liquid securities portfolio provides us with sufficient liquidity. Atlas' portfolio is very well positioned should rates rise meaningfully. With an average duration of 2.01 years, changes in interest rates will have a modest market value impact on the Atlas portfolio relative to longer duration portfolios. Atlas can and typically does hold bonds to maturity by matching duration with forecasted liquidity needs.

Market Risk

Market risk is the risk that Atlas will incur losses due to adverse changes in interest rates, currency exchange rates or equity prices. Having disposed of a majority of its asset backed securities, its primary market risk exposures in the fixed income securities portfolio are to changes in interest rates. Because Atlas' securities portfolio is comprised of primarily fixed income securities that are usually held to maturity, periodic changes in interest rate levels generally impact its financial results to the extent that the securities in its available for sale portfolio are recorded at market value. Also, reinvestment yields on maturing securities are different than the original yields. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

Credit Risk

Credit risk is defined as the risk of financial loss due to failure of the other party to a financial instrument to discharge an obligation. Atlas is exposed to credit risk principally through its investments and balances receivable from policyholders and reinsurers. It 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. government bonds) as well as through ongoing review of the credit ratings of issuers in the securities portfolio. Credit exposure to any one individual policyholder is not material. Its policies, however, are distributed by agents who may manage cash collection on its behalf pursuant to the terms of their agency agreement. Atlas has policies to evaluate 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 reinsurers' insolvency.

The following table summarizes the composition of the fair value of the fixed income securities portfolio, excluding cash and cash equivalents, as of the dates indicated, by ratings assigned by Fitch, S&P or Moody's Investors Service. The fixed income securities portfolio consists of predominantly very high quality securities in corporate and government bonds with 97.9% rated 'A' or better as at June 30, 2011 compared to 97.4% as at December 31, 2010.

Table 13 Credit ratings of fixed income securities portfolio

Rating as at	June 30, 2011		December 31, 2010	
AAA/Aaa	67.2	%	57.6	%
AA/Aa	8.1		17.1	
A/A	22.6		22.7	
Percentage rated A/A or better	97.9	%	97.4	%
BBB/Baa	2.0		2.5	
Not rated	0.1		0.1	
Total	100.0	%	100.0	%

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Other-than-temporary impairment

Atlas recognizes losses on securities for which a decline in market value was deemed to be other-than-temporary. Management performs a quarterly analysis of the securities holdings to determine if declines in market value are other-than-temporary. Atlas did not recognize charges for securities impairments that were considered other-than-temporary for the quarters ended June 30, 2011 and June 30, 2010.

The length of time securities may be held in an unrealized loss position may vary based on the opinion of the appointed investment manager and their respective analyses related to valuation and to the various credit risks that may prevent us from recapturing the principal investment. In cases of securities with a maturity date where the appointed investment manager determines that there is little or no risk of default prior to the maturity of a holding, Atlas would elect to hold the security in an unrealized loss position until the price recovers or the security matures. In situations where facts emerge that might increase the risk associated with recapture of principal, Atlas may elect to sell securities at a loss. As of June 30, 2011 and December 31, 2010, Atlas had no material gross unrealized losses in its portfolio.

Estimated impact of changes in interest rates and securities prices

For Atlas' AFS fixed income securities, a 100 basis point increase in interest rates would have increased second quarter income before taxes by approximately \$224. A 100 basis point increase would have also decreased other comprehensive income by approximately \$2,973 due to "mark-to-market" requirement; however, holding investments to maturity would mitigate this impact. Conversely, a 100 basis point decrease in interest rates would decrease income before taxes and increase other comprehensive income by the same amounts, respectively. The impacts described here are approximately linear to the change in interest rates.

U.S. Treasury Downgrade

On August 5, 2011 Standard & Poor's (S&P) lowered its long-term sovereign credit rating on the U.S. to 'AA+' from 'AAA' and assigned a negative outlook. S&P's downgrade action has created higher volatility in the U.S. capital markets and added to the general economic uncertainty in the U.S. Within a few days, several other large "AAA" rated companies were similarly downgraded by S&P, in most cases due to their material dependencies on the U.S. Treasury and/or agencies. The other two major ratings agencies (Fitch and Moody's) continue to maintain the U.S. debt at their highest ratings.

Although the long-term effects of these actions are unpredictable, Atlas continues to assess the effects of these actions on its financial condition, growth and profitability in order to mitigate inherent risks while maximizing shareholder value. There is also no anticipated effect on reserve or state licensing requirements.

At June 30, 2011 Atlas' securities portfolio is not significantly exposed to drops in value of long-term U.S. Treasuries and U.S. government agency and agency-guaranteed securities. Atlas understands the value of these holdings may be slightly lower in the future with more pricing volatility, but still considers U.S. Treasuries and agencies a safe haven when compared to other investment sectors.

b) Due from Reinsurers and Other Insurers

Atlas purchases reinsurance from third parties in order to reduce its liability on individual risks and its exposure to large losses. Reinsurance is insurance purchased by one insurance company from another for part of the risk originally underwritten by the purchasing (ceding) insurance company. The practice of ceding insurance to reinsurers allows an insurance company to reduce

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its exposure to loss by size, geographic area, and type of risk or on a particular policy. An effect of ceding insurance is to permit an insurance company to write additional insurance for risks in greater number or in larger amounts than it would otherwise insure independently, having regard to its statutory capital, risk tolerance and other factors.

Atlas generally purchases reinsurance to limit net exposure to a maximum amount on any one loss of \$500 with respect to commercial automobile liability claims. Atlas also purchases reinsurance to protect against awards in excess of its policy limits. In addition, in 2010 the insurance subsidiaries were part of a larger group of insurance companies that purchased catastrophe reinsurance providing coverage in the event of a series of claims arising out of a single occurrence, limiting exposure to \$2,000 per occurrence with a maximum coverage of \$38,000. This catastrophic coverage was deemed appropriate at the time based on the insurance subsidiaries being part of a larger group of companies. However, this exposure is now much more limited due to the insurance subsidiaries' relatively low limits of first party physical damage coverage. Further, we primarily operate in geographic regions with less exposure to natural disasters; therefore management determined that catastrophe reinsurance was not required in 2011 going forward. Atlas will continue to evaluate and adjust its reinsurance needs based on business volume, mix, and supply levels.

Reinsurance ceded does not relieve Atlas of its ultimate liability to its insured in the event that any reinsurer is unable to meet their obligations under its reinsurance contracts. Therefore, Atlas enters into reinsurance contracts with only those reinsurers who have sufficient financial resources to provide the requested coverage. Reinsurance treaties are generally subject to cancellation by the reinsurers or Atlas on the anniversary date and are subject to renegotiation annually. Atlas regularly evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk to minimize its exposure to significant losses as a result of the insolvency of a reinsurer. Atlas believes that the amounts it has recorded as reinsurance recoverables are appropriately established. Estimating amounts of reinsurance recoverables, however, is subject to various uncertainties and the amounts ultimately recoverable may vary from amounts currently recorded. As at June 30, 2011, Atlas had \$11,320 recoverable from third party reinsurers and other insurers as compared to \$11,276 as at December 31, 2010.

Estimating amounts of reinsurance recoverables is also impacted by the uncertainties involved in the establishment of provisions for unpaid claims. As underlying reserves potentially develop, the amounts ultimately recoverable may vary from amounts currently recorded. Atlas' reinsurance recoverables are generally unsecured. Atlas regularly evaluates its reinsurers, and the respective amounts recoverable, and an allowance for uncollectible reinsurance is provided for, if needed.

c) Deferred Tax Asset

The deferred tax asset balance has not changed from year end 2010 due to the establishment of a provision for deferred tax assets deemed unrealizable which offsets the 2011 income tax benefit (see section entitled 'Income Tax Benefit').

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Table 14 Components of deferred tax assets and liabilities

As at	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 (on a tax effected basis) of loss carry-forwards based on management's 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 operating carry-forwards totaling \$38,016 and capital loss carry-forwards of \$3,560 as at June 30, 2011.

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

Table 15 Net operating loss carry-forward by expiry

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

d) 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 net of 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. We expect to re-invest the proceeds from the sale of real estate in strategic growth initiatives.

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.

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In the second quarter 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.

e) Claims Liabilities

The table below shows the amounts of total case reserves and incurred but not reported (“IBNR”) claims provision as of June 30, 2011 and December 31, 2010. The provision for unpaid claims decreased by 15.5% to \$112,011 at the end of the second quarter of 2011 compared to \$132,579 at the end of 2010. During 2011, case reserves decreased by 15.7% compared to December 31, 2010, while IBNR reserves decreased by 15.2% generally due to the payment of claims related to prior accident years, consistent with management’s expectations. No changes were made to Atlas’ prior year expected ultimate loss ratios in the second quarter 2011.

Table 16 Provision for unpaid claims by type

As at:	June 30, 2011	December 31, 2010	YTD % Change
Case reserves	\$ 73,476	\$ 87,119	(15.7) %
IBNR	38,535	45,460	(15.2)
Total	\$ 112,011	\$ 132,579	(15.5) %

Table 17 Provision for unpaid claims by line of business – gross

As at:	June 30, 2011	December 31, 2010	YTD % Change
Non-standard auto	\$ 23,378	\$ 28,897	(19.1) %
Commercial auto	76,754	92,669	(17.2)
Other	11,879	11,013	7.9
Total	\$ 112,011	\$ 132,579	(15.5) %

Table 18 Provision for unpaid claims by line of business - net of reinsurance recoverables

As at:	June 30, 2011	December 31, 2010	YTD % Change
Non-standard Auto	\$ 23,378	\$ 28,897	(19.1) %
Commercial Auto	76,050	92,102	(17.5)
Other	4,615	5,102	(9.5)
Total	\$ 104,043	\$ 126,101	(17.5) %

The reduction of the provision for unpaid claims is consistent with the reduction of written premium in 2011. However, because the establishment of reserves is an inherently uncertain process involving estimates, current provisions may not be sufficient. Adjustments to reserves, both positive and negative, are reflected in the statement of income quarterly as estimates are updated.

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f) Due to Reinsurers

The decrease in due to reinsurers is consistent with the payout patterns of the underlying claims liabilities.

g) Shareholders' Equity

The table below identifies changes in shareholders' equity for the six months ended June 30, 2011 and June 30, 2010.

Table 19 Comparison of Shareholders' Equity

	Preferred Shares	Ordinary Voting Common Shares	Restricted Voting Common Shares	Contributed Surplus	Retained Deficit	Accum.Other Comp. 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

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.

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All of the issued and outstanding restricted voting common shares are beneficially owned or controlled by KFSI or its affiliated entities. In the event that such shares are disposed of such that KFSI'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 shares.

The holders of restricted voting 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. They accrue dividends on a cumulative basis whether or not declared by the Board of Directors at the rate of \$0.045 per share per year (4.5%) and may be paid in cash or in additional preferred shares at the option of Atlas. Upon liquidation, dissolution or winding-up of Atlas, holders of preferred shares receive the greater of \$1.00 per share plus all declared and unpaid dividends or the amount they 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 common shares at the option of the holder at any date that is after December 31, 2015, the fifth year after 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 December 31, 2012, two years from issuance date, or the date at which KFSI's beneficial interest is less than 10%.

The outstanding preferred shares are entitled to accrued dividends on a cumulative basis whether or not declared by the Board of Directors. 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 fair value of the future dividends Atlas estimates will accrue beginning on December 31, 2010 through the date on which 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, classified as preferred shares dividend liability is \$2,762 and \$2,647, and the preferred share equity component, classified in shareholders' equity, is \$15,353 at both June 30, 2011 and December 31, 2010, in the accompanying balance sheet. The liability component is recognized at fair value with a corresponding charge to interest expense at the rate of 8.6% per year. Interest expense for the six months ended June 30, 2011 was \$115.

The following table reconciles shareholders' equity as reported under US GAAP with shareholders' equity in accordance with IFRS for 2010.

Table 20 Impact of Adoption of 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 – reclassification of dividend liability	(2,647)	(2,647)	(2,647)
Other comprehensive income	--	--	--
Shareholders' equity based on IFRS	\$ 57,522	\$ 54,959	\$ 49,899

h) Liquidity and Capital Resources

The purpose of liquidity management is to ensure there is sufficient cash to meet all financial commitments and obligations as they become due. The liquidity 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

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payment of claims and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

As a holding company, Atlas may derive cash from its subsidiaries generally in the form of dividends and in the future may charge management fees to the extent allowed by statute or other regulatory approval requirements to meet its obligations. Atlas' insurance subsidiaries fund their obligations primarily through premium and investment income and maturities in their securities portfolio. These insurance subsidiaries require regulatory approval for the return of capital and, in certain circumstances, payment of dividends. In the event that dividends and management fees available to the holding company are inadequate to service its obligations, the holding company would need to raise capital, sell assets or incur debt obligations. At June 30, 2011, Atlas did not have any outstanding debt, and therefore, no near term debt service obligations.

In 2010 the insurance subsidiaries paid dividends of \$16,700, respectively, to Kingsway America Inc. as their parent during that time period.

In 2010 the insurance subsidiaries incurred losses under their former owner, as did Atlas which at the time was a newly formed capital pool company known as JJR VI with no operating subsidiaries. The result of the losses by the insurance subsidiaries reduces Atlas' capital flexibility by limiting their dividend paying capacity.

For further details on the capital adequacy of the insurance subsidiaries, see the 'Capital Requirements' narrative in the MD&A for fiscal year 2010.

i) Financial Strength and Credit Rating

A.M. Best upgraded the Financial Strength Rating of the insurance subsidiaries, American Country and American Service, on January 6, 2011 to "B" from "B-". Both companies are members of the American Service Pool and had previously been downgraded from "B" to "B-" on November 24, 2009. Upon completion of the Atlas transaction, A.M. Best assigned an outlook of "stable" to all Financial Strength Ratings of the insurance subsidiaries and has eliminated the "under review with developing implications" status. A.M. Best also upgraded the Issuer Credit Ratings of the insurance subsidiaries to "bb" from "bb-", and issued an Issuer Credit Rating of "b-" to Atlas. The outlook assigned to the Issuer Credit Ratings was also "stable". These ratings have remained in effect through June 30, 2011.

j) Risk Based Capital ("RBC")

A primary metric used by insurance regulators is the NAIC RBC ratio which is computed at the end of each year based on annual information. The insurance subsidiaries are required to maintain certain minimum RBC ratios as provided for by insurance statutes in the states in which they write business. The insurance subsidiaries were above the 200% minimum RBC ratio threshold as measured at December 31, 2010. Based on the 2010 annual statutory financial statements, December 31, 2010 RBC ratios were 322% and 536% for American Country and American Service, respectively, and indicated estimated aggregate capital in excess of the 200% level of approximately \$26,100. Management projects the insurance entities will be above the 200% minimum RBC ratio threshold at December 31, 2011, the next annual measurement date.

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VI. ACCOUNTING AND DISCLOSURE MATTERS

a) **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the President and Chief Executive Officer (one person) and the Chief Financial Officer of Atlas, on a timely basis so that appropriate decisions can be made regarding public disclosure.

An evaluation of the effectiveness of the design and operation of Atlas' disclosure controls and procedures was conducted as of June 30, 2011, by and under the supervision of Atlas' management, including the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings were effective as of such date to ensure that information relating to Atlas required to be disclosed in reports that are filed or submitted under Canadian securities legislation are processed, summarized and reported within the time periods specified by those laws.

b) **Internal Control over Financial Reporting**

Management designed and is responsible for maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

No changes were made to Atlas' on-going internal controls over financial reporting during the period ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect Atlas' internal controls over financial reporting.

All control systems contain inherent limitations, no matter how well designed. As a result, Atlas' management acknowledges that its internal controls over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any have been detected.

c) **Critical Accounting Estimates**

The preparation of financial statements in conformity with IFRS requires management to make certain estimates and assumptions, some of which may relate to matters that are uncertain. As more information becomes known, these estimates and assumptions could change and thus have a material impact on Atlas' financial condition and results of operations in the future.

d) **Adoption of International Financial Reporting Standards (IFRS)**

Atlas prepares its financial statements in accordance with 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 first quarter 2011 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

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accounting policies followed in the 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.

With the exception of the adjustment for preferred share dividends shown above in Table 18, 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 interim consolidated financial statements compared to Atlas' previous financial statements prepared under U.S. GAAP as of January 1, 2011, the transition date to IFRS, or the consolidated balance sheet as of December 31, 2010. Additionally, there was no other adoption impact to Atlas' consolidated statement of comprehensive income, or statement of changes in shareholders' equity for the six months ended June 30, 2010 and the year ended December 31, 2010.

VII. RELATED PARTY TRANSACTIONS

Atlas has been a party to various transactions with its affiliates in the past, although activity in this regard has diminished over time. Related party transactions, including services provided to or received by Atlas' 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 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 sheet. Universal Casualty Company, Kingsway Amigo Insurance Company and Hamilton Risk Management, Inc. are all subsidiaries of KAI.

Table 21 Related Party Balances

Balances receivable from (payable to) affiliates:	June 30, 2011	December 31, 2010
Kingsway America Inc.	\$ 319	\$ 2,058
Universal Casualty Company	(504)	0
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. The management agreements previously in effect have now been terminated.

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, they also paid Avalon \$48 and \$63 respectively,

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for marketing services. Avalon was a KAI 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.

VIII. RISK MANAGEMENT

Atlas has not significantly changed its risk management strategy presented in the 2010 annual MD&A.

IX. SUBSEQUENT EVENTS

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 cost currently recorded in Accumulated Other Comprehensive Income and 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.

A summary of the August 5, 2011 Standard & Poor's downgrade of U.S. Government long term debt is included on page 20.

X. OUTLOOK

Over the past two years, through dispositions and by placing certain lines of business into run-off, the insurance subsidiaries have streamlined operations to focus on the lines of business they believe will produce favorable underwriting results. Significant progress has also been made in aligning the cost base to this reduced revenue base. The core functions of the insurance subsidiaries were integrated into a common operating platform. Management believes that both insurance subsidiaries are well positioned to return to historic volumes with better than industry level profitability. They have a long heritage with respect to their go forward lines of business and will benefit from the efficient operating infrastructure established in recent periods.

Management believes that the most significant opportunities going forward are: (i) re-energizing distribution channels with the objective of recapturing the volume of business generated prior to 2009, (ii) expanding into geographic markets where licensed, but not currently active, and (iii) opportunistically acquiring books of business provided market conditions support this activity. Primary risks related to these activities include: (i) insurance market conditions remaining "soft" for a sustained period of time, (ii) not being able to achieve the expected support from distribution partners, and (iii) the insurance subsidiaries not successfully maintaining improved ratings from A.M. Best.

In 2011, Atlas' focus is the underwriting of commercial automobile insurance in the U.S. Atlas will seek to deploy its capital to maximize the return for its shareholders, either by investing in growing the operations or other capital initiatives, depending upon insurance and capital market conditions. Atlas will use historic and current data to analyze and assess future business opportunities.