



Third Quarter

2011

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

Atlas Financial Holdings, Inc.

Atlas Financial Holdings, Inc.

Management Discussion and Analysis – Period ended September 30, 2011

November 28, 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 September 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 thousands of Canadian dollars.

The core business of Atlas, which is carried out through American Country 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 auto. 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 is making progress with respect to its primary objective of recapturing this core business. However, it may 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, 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 with a primary objective of capital preservation while managing liquidity to meet underwriting and other obligations as they become payable in the future and maximizing yield within Atlas’ investment guidelines. The investment philosophy emphasizes value and credit quality.

Atlas first began operations in its current form on December 31, 2010, however, the 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, providing 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’ team of underwriters, many with more than 15 years of experience, are committed to the commercial auto insurance market enabling 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. Atlas is currently actively writing business in 24 states. Further, Atlas’ customized, user-friendly, web-enabled point-of-sale system adds value by allowing direct agent communication and increased 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, and other 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

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 voting common 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 listed on TSX Venture Exchange (“TSXV”) under the symbol “AFH” since January 6, 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 independent retail 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.

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.

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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 as of September 30, 2011.

c) Basis of Presentation and Adoption of International Financial Reporting Standards:

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, the quarter and six month period ended June 30, 2011 and the quarter and nine month period ended September 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

Third Quarter Key Highlights

- Q3 2011 net income was \$984 or \$0.05 per common share diluted
- Core commercial auto lines gross premium written for Q3 2011 increased 57.7% over Q3 2010 reflecting a continuing positive market reaction to the transaction which formed Atlas
- Quarter over quarter expenses in 2011 have remained flat, and are consistent with Atlas' expected ability to grow core business without materially increasing infrastructure costs
- Atlas expanded its underwriting into five additional states during Q3 2011
- Book value per common share diluted at September 30, 2011 was \$2.18
- Atlas carries a provision, in the amount of \$0.64 per common share diluted at September 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 nine month periods ended September 30, 2011 and 2010:

Table 1 Selected financial information

	3 Months Ended		9 months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Gross premium written	\$ 10,928	10,163	\$ 32,950	37,406
Net premium earned	\$ 8,797	10,192	\$ 26,668	42,008
Losses on claims	6,984	7,756	20,596	37,986
Acquisition costs	1,720	2,328	5,343	9,040
Other underwriting expenses	1,845	2,501	5,816	14,242
Net underwriting loss	(1,752)	(2,393)	(5,087)	(19,260)
Net investment and other income	2,736	1,389	5,294	3,539
Net income (loss) before tax	984	(1,004)	207	(15,721)
Income tax benefit	--	(340)	--	(5,338)
Net income (loss)	\$ 984	(664)	\$ 207	(10,383)
Key Financial Ratios:				
Loss ratio	79.4 %	76.1 %	77.2 %	90.4 %
Acquisition cost ratio	19.6 %	22.8 %	20.0 %	21.5 %
Other underwriting expense ratio	21.0 %	24.5 %	21.8 %	33.9 %
Combined ratio (see Table 6)	120.0 %	123.4 %	119.0 %	145.8 %
Return on equity				
Earnings (loss) per common share, basic and diluted	\$ 0.05	(0.04)	\$ 0.01	(0.57)
Book value per common share	\$ 2.18	2.18	\$ 2.18	2.18

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Underwriting performance continues to be on pace with expectations as Atlas' combined ratio in the third quarter was 120.0%, compared to 114.4% and 123.4% in the second quarter of 2011 and third quarter of 2010, respectively. As planned, core commercial automobile lines are becoming a more significant component of Atlas' gross premium written as a result of the strategic focus on these core lines of business coupled with positive response from new and existing agents. Gross premium written related to these core commercial lines increased by 57.7% in the third quarter of 2011 as compared to the third quarter of 2010. The third quarter loss ratio of 79.4% is higher than the second quarter of 2011 and the third quarter of 2010 of 74.2% and 77.2%, respectively. The increase was primarily due to higher unallocated loss adjustment expenses ("ULAE") in the third quarter resulting from a temporary reduction of claim volume flowing through Atlas' claims infrastructure which is being maintained at relatively consistent levels in anticipation of growth in core lines. However, underwriting expense reductions continue to be in line with expectations as the other underwriting expense ratio for the third quarter 2011 was 21.0% as compared to 19.8% for the second quarter of 2011 and 24.5% for the third quarter of 2010.

Investment performance and other income generated \$2,736 of income for the quarter ended September 30, 2011, of which \$1,962 is realized gains. This resulted in a 7.5% yield (annualized) for the third quarter of 2011. Cash and invested assets were \$143,372 as of September 30, 2011 and were \$29,676 lower than December 31, 2010, resulting primarily from the payment of claim settlements. This reduction in cash and invested assets is in line with expectations as Atlas rebuilds its book of business.

Overall, Atlas generated net income of \$984 or \$0.05 per common share diluted for the third quarter ended September 30, 2011 compared to net income of \$112 or \$0.01 per common share diluted for the second quarter of 2011 and a net loss of \$664 or (\$0.04) per common share diluted in the third quarter ended September 30, 2010.

Book value per common share diluted as of September 30, 2011 remained \$2.18, the same as September 30, 2010. Atlas has a provision against deferred tax currently deemed unrealizable in the amount of \$0.64 per common share diluted as of September 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 September 30, 2011

Underwriting results improved by \$14,173 for the nine months ended September 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. As a result, Atlas recorded \$207 of net income for the nine months ended September 30, 2011 versus a net loss of \$10,383 for the nine months ended September 30, 2010 as a result of the initiatives indicated above.

III. BUSINESS DEVELOPMENT AND OPERATING ENVIRONMENT

The insurance subsidiaries have a diversified distribution 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

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insurance subsidiaries are licensed) similar to the one it created in Illinois. Through November 2011, Atlas has expanded its agent distribution channel to include 24 states. Atlas' active states can be found at www.atlas-fin.com. 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.

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.

Market Overview

Top-line growth for the commercial automobile insurance sector has been challenging since 2006. Commercial automobile insurance is positively correlated with both the U.S. economy and the P&C insurance market cycle. The insurance subsidiaries experienced declines in premium for the past four years due to weakness in both the U.S. economy and P&C market generally. However, management expects market conditions will result in a constriction of capacity deployed into Atlas' niche lines of business, reducing competition and allowing for rate increases. Atlas' business plans assume flat to moderate "hardening" in the insurance sector within the next three years.

Characteristics of the commercial automobile industry that may impact insurance results include:

- Higher unemployment creates a larger driver pool, with the ability to select better drivers;
- Immigration rules, such as changes in monitoring or immigrants status, affects the pools of drivers and the ability to verify drivers' records; and
- Favorable regulatory climate increases effectiveness of industry's lobbying initiatives.

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Atlas' primary market risk relates to the current soft insurance market, which is mitigated through pricing discipline and consistent focus on achieving underwriting profit as opposed to top-line growth.

Competitive Conditions

The insurance industry is price competitive in all markets in which the insurance subsidiaries operate. Atlas strives to employ disciplined underwriting practices with the objective of rejecting under-priced risks. Based on the current size of the commercial automobile insurance industry, Atlas requires only 1% market share to achieve its business plan.

Atlas competes on a number of factors such as distribution strength, pricing, agency relationships, policy support and claim service, and market reputation. In Atlas' core commercial automobile lines, the primary offerings are policies at the minimum prescribed limits in each state, as established by statutory, municipal and other regulations. Management believes that many larger companies compete for this specialty business and lack Atlas' committed focus to these lines of business.

In the specialty insurance market, American Country and American Service compete against, among others, American Transit Insurance Company (New York only), Canal Insurance Company, CNA Financial Corporation, Carolina Casualty Insurance Company, Empire Fire & Marine Insurance Company (subsidiary of Zurich Financial Services Ltd.), Gateway Insurance Company, Global Liberty Insurance Company of New York, Grenada Insurance Company, Hereford Holding Company, Inc., Hartford Financial Services Group, Lancer Financial Group, MAPFRE USA, Maya Assurance Company, Mercury General Corporation, National Indemnity Company (subsidiary of Berkshire Hathaway, Inc.), National Interstate Corporation, Northland Insurance Company (subsidiary of Travelers Companies, Inc.), Safeco Corporation (subsidiary of Liberty Mutual), Scottsdale Insurance Company (National Casualty Company) and ULLICO, Inc.

To compete successfully in the specialty commercial insurance industry, Atlas relies on its ability to: identify markets that are most likely to produce an underwriting profit; operate with a disciplined underwriting approach; offer diversified products and geographic platforms; practice prudent claims management; reserve appropriately for unpaid claims; strive for cost containment and the economics of shared support functions where deemed appropriate; and provide services and competitive commissions to its independent agents and brokers.

IV. OPERATING RESULTS

a) Gross Premium Written

TABLE 2 Gross premium written by line of business

	3 Months Ended			9 Months Ended		
	September 30		Change	September 30		Change
	2011	2010	%	2011	2010	%
Commercial automobile	\$ 5,350	3,393	57.7	\$ 14,504	10,522	37.8
Non-standard automobile	4,343	4,021	8.0	14,012	18,568	(24.5)
Other	1,235	2,749	(55.0)	4,434	8,316	(46.7)

Table 2 above summarizes gross premium written by line of business for the periods indicated. For the quarter ended September 30, 2011, gross premium written was \$10,928 compared to \$10,163 in the third quarter of 2010 and \$7,856 in the second quarter of 2011, representing a 7.5% and a 39.1% increase, respectively.

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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. In 2010, the production of gross premium written 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 September 30, 2011, gross premium written from commercial automobile was \$5,350, representing a 57.7% increase relative to third quarter 2010. The increase relative to third quarter 2010 was the result of Atlas' continued focus on these core lines of business coupled with a positive response from both new and existing agents and policyholders to Atlas' value proposition. As a percentage of the insurance subsidiaries' overall book of business, commercial auto gross premium written represented 49.0% of gross premium written in the third quarter 2011 compared to 33.4% and 31.7% for the quarters ended September 30, 2010 and June 30, 2011, respectively.

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, allowing surplus and additional resources to be devoted to the expected growth of the commercial automobile business.

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Other

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

Geographic Concentration

Table 3 Gross premium written by state

	3 Months Ended				9 Months Ended			
	September 30,		Change		September 30,		Change	
	2011	2010	\$	%	2011	2010	\$	%
Illinois	\$ 5,303	7,078	\$ (1,775)	(25.1) %	\$ 20,618	22,526	\$ (1,908)	(8.5) %
Indiana	710	883	(173)	(19.5)	2,330	3,730	(1,400)	(37.5)
Michigan	930	655	275	42.0	2,648	1,351	1,297	95.9
New York	323	695	(372)	(53.6)	1,487	1,090	397	36.4
Minnesota	663	613	50	8.1	1,745	2,451	(706)	(28.8)
Louisiana	1,388	(6)	1,394	22,615.8	1,391	(142)	1,533	1,078.7
Wisconsin	450	135	315	233.4	724	198	526	265.0
Other	1,161	110	1,051	958.7	2,007	6,202	(4,195)	(67.6)
Total	\$ 10,928	10,163	\$ 765	7.5 %	\$ 32,950	37,406	\$ (4,456)	(11.9) %

As illustrated by the data in Table 3 above, 48.5% of Atlas' third quarter 2011 gross premium written came from the state of Illinois and 63.5% came from the three states currently producing the most year-to-date premium volume (Illinois, Indiana and Michigan), as compared to 84.8% in the third quarter 2010. On a year-to-date basis, 77.7% of Atlas' written premium came from those three states. This trend is consistent with Atlas' commitment to diversifying geographically by expanding in new areas of the country, leveraging experience, historical data and research. In the third quarter of 2011, Atlas began actively writing in five new states.

The decline of written premium for the quarter ended September 30, 2011 and the year ended September 30, 2011 in Illinois and Indiana is primarily attributable to Atlas' de-emphasis of non-standard automobile insurance. The majority of the 2010 non-standard automobile written premium came from those two states.

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 53.7% to \$1,418 for the quarter ended September 30, 2011 compared with \$3,064 for the quarter ended September 30, 2010 and decreased 2.5% as compared to \$1,455 of ceded premium written in the second 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 34.0% to \$9,510 for the third quarter 2011 compared with \$7,099 for the third quarter 2010, and increased 48.6% compared to \$6,401 net premium written in the second 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 \$8,797 in the third quarter 2011, a 13.7% decrease compared with \$10,192 during the third quarter of 2010 and a 2.9% decrease compared to \$9,062 in the second quarter 2011. The decrease in net premiums earned is attributable to the written premium decline experienced by the Company's insurance subsidiaries prior to Atlas' formation, coupled with the transition away from private passenger automobile insurance. 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 third quarter of 2011 was 79.4% compared to 76.1% for third quarter 2010 and 74.2% for second quarter 2011. The increase in third quarter 2011 was primarily due to higher ULAE in the third quarter. Atlas has extensive experience and expertise with respect to underwriting and claims management in this specialty area of insurance and expects the loss ratio to trend back towards levels seen in the second quarter 2011. The company is committed to retain this claim handling expertise as a core competency as the volume of business increases.

f) Acquisition Costs

Acquisition costs represent commissions and taxes incurred on net premium earned. Acquisition costs were \$1,720 for the third quarter of 2011 or 19.6% of net premium earned, as compared to 22.8% and 20.4% for the third quarter of 2010 and second quarter 2011, respectively. These ratios are declining due to the shift away from private passenger automobile insurance which carry higher commission rates and are anticipated to continue decreasing as Atlas transitions away from the non-standard automobile lines.

g) Other Underwriting Expenses

The other underwriting expense ratio was 21.0% in third quarter 2011 compared to 24.5% in third quarter of 2010 and 19.8% in second quarter 2011. The decreased expense in the third quarter 2011 compared to third 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. As compared to the second quarter 2011, operating expenses were relatively flat in terms of dollars. The slight increase in the operating expense ratio in the third quarter 2011 as compared to the second quarter 2011 was a result of the decrease in net earned premium.

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

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Table 4 Non-recurring Expenses

Expense Item	Description	Non-recurring Expense
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/Miscellaneous expense	Straight-line lease adjustment	50
Total non-recurring expenses		\$ 627

h) Net Investment Income

Table 5 Investment Results

	3 Months Ended		9 Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Avg. securities at cost (including cash)	\$ 144,028	191,621	\$ 153,753	207,882
Interest income after expenses	719	843	2,652	3,634
Percent earned on average investments (annualized)	2.0	1.8 %	2.3	2.3 %
Net realized gains	1,962	333	2,813	688
Total investment income	2,681	1,176	5,465	4,322
Total realized yield (annualized)	7.5	2.5 %	4.7	2.8 %

Investment income (excluding net realized gains) decreased by 14.7% to \$719 in the third quarter of 2011, compared to \$843 in the third 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. However, the average yield on invested assets (including net realized gains of \$1,962) in the third quarter increased substantially to 7.5% as compared with 2.5% in the third quarter 2010 and 3.6% in the second quarter 2011. Excluding capital gains, the investment yield in the third quarter was 2.0% (annualized).

i) Net Realized Investment Gains (Losses)

Net realized investment gains in the third quarter of 2011 were \$1,962 compared to \$333 and \$417 in third quarter 2010 and second quarter 2011, respectively.

j) Miscellaneous Income (Loss)

Atlas recorded miscellaneous income in the third quarter 2011 of \$55 compared to income of \$213 for third quarter 2010 and income of \$62 in second quarter 2011. Miscellaneous income in third quarter is primarily comprised of rental income, offset by interest expense associated with the accretion of the liability component of Atlas' preferred shares.

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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.

Table 6 Combined Ratios

Quarter Ended	September 30, 2011		June 30, 2011		September 30, 2010	
Net premium earned	\$	8,797	\$	9,062	\$	10,192
Underwriting expenses *		10,549		10,362		12,585
Combined ratio		120.0%		114.4%		123.4%

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

l) Income (Loss) before Income Taxes

Atlas generated income before tax of \$984 in the third quarter 2011 as compared to a loss before income taxes of \$1,004 and income of \$112 for the third quarter 2010 and second 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 \$340 recognized in the third quarter of 2010. The following table reconciles tax benefit from applying the statutory U.S. Federal tax rate of 34% to the actual percentage of pre-tax losses provided for the nine month periods ended September 30, 2011 and 2010.

Table 7 Income tax benefit reconciliation

Nine months ended September 30,	2011			2010		
	Amount	%		Amount	%	
Expected income tax benefit at statutory rate	\$	70	34.0 %	\$	(5,345)	(34.0) %
Nondeductible expenses		65	31.2		7	0.0
Provision for deferred tax assets deemed unrealizable		(135)	(65.2)		-	-
Total	\$	-	0.0 %	\$	(5,338)	(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. The operating subsidiaries' prior parent retained those tax assets previously attributed to the operating 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 \$984 during the third quarter 2011 compared to net losses of \$664 and income of \$112 for the third quarter 2010 and second quarter 2011, respectively. After taking the impact of the liquidation preference of the preferred shares into consideration, the basic and diluted earnings per common share in the third quarter was \$0.05 versus a loss per common share of \$0.04 and earnings of \$0.01 for third quarter 2010 computed under continuation accounting rules and second quarter 2011 respectively.

There were 18,374,955 weighted average common shares outstanding during the third quarter of 2011 and 18,415,493 after the dilutive effect of share-based activity. For the comparable 2010 quarter, 18,358,363 common 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 \$2.18 at third quarter 2011 as compared to \$2.18 at third quarter 2010 and \$2.21 at second 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:	Q3 2011	Q2 2011	Q1 2011
Gross premium written	\$ 10,928	\$ 7,856	\$ 14,166
Net premium earned	8,797	9,062	8,809
Net income (loss) before tax	984	112	(889)
Net income (loss)	984	112	(889)
Earnings (loss) per common share, basic and diluted	\$ 0.05	\$ 0.01	\$ (0.05)
Book value per common share diluted	2.18	2.21	2.19
Ending Trading Share Price	C\$ 2.00	C\$ 1.50	C\$ 1.86
Combined Ratio	120.0 %	114.4 %	123.1 %

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V. FINANCIAL CONDITION

Table 9 Condensed Interim Consolidated Balance Sheet

As at	September 30, 2011	December 31, 2010
Assets		
Investments		
Cash and cash equivalents	\$ 30,127	\$ 19,037
Securities	113,245	154,011
	143,372	173,048
Accrued investment income	947	1,293
Accounts receivable and other assets	12,805	13,340
Due from reinsurers and other insurers	12,268	11,276
Deferred policy acquisition costs	3,572	3,804
Deferred tax asset	6,399	6,399
Office equipment	353	1,274
Assets held for sale	13,930	15,004
Total assets	\$ 193,646	\$ 225,438
Liabilities		
Claims liabilities	\$ 101,457	\$ 132,579
Unearned premiums	17,444	17,061
Due to reinsurers and other insurers	6,961	9,614
Preferred shares dividend liability	2,821	2,647
Accounts payable and other liabilities	9,003	6,015
Total liabilities	137,686	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 September 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 September 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 September 30, 2011 and December 31, 2010	14	14
Contributed surplus	152,743	152,466
Retained deficit	(113,164)	(113,371)
Accumulated other comprehensive income, net of tax	1,010	3,056
Total shareholders' equity	55,960	57,522
Total liabilities and shareholders' equity	\$ 193,646	\$ 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. A third-party investment management firm manages Atlas' investment portfolio pursuant to the company's 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 September 30, 2011, Atlas held securities with a fair value of \$113,245, 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 1.36 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 September 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits	\$ 2,000	\$ --	\$ --	\$ 2,000
Bonds:				
U.S.				
-Government	52,878	1,613	--	54,491
- Corporate	37,044	1,463	(6)	38,501
- Commercial mortgage backed	14,762	283	(26)	15,019
- Other asset backed	2,402	38	(2)	2,438
Total Fixed Income	109,086	3,397	(34)	112,449
Equities	725	71	--	796
Totals	\$ 109,811	\$ 3,468	\$ (34)	\$ 113,245

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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
Total Fixed Income	\$ 148,531	\$ 5,480	--	\$ 154,011
Equities	--	--	--	--
Totals	\$ 148,531	\$ 5,480	--	\$ 154,011

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

As at:	Sept. 30, 2011	June 30, 2011	Sept. 30 QTD Change	Dec. 31, 2010	Sept. 30 YTD Change
Term deposits	\$ --	\$ 3	\$ (3)	\$ 3	\$ (3)
Bonds					
U.S. -Government	1,613	1,917	(304)	2,117	(504)
-Corporate	1,457	2,518	(1,061)	3,011	(1,554)
-Commercial mortgage backed	257	232	25	270	(13)
-Other asset backed	36	46	(10)	79	(43)
Equities	71	--	71	--	71
Total	\$ 3,434	\$ 4,716	\$ (1,282)	\$ 5,480	\$ (2,046)

For the three and nine months ended September 30, 2011, Atlas recognized \$1,962 and \$2,813 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:	September 30, 2011			December 31, 2010		
	Amount	%		Amount	%	
Due in less than one year	\$ 27,136	24.1	%	\$ 21,555	14.0	%
Due in one through five years	57,306	51.0		88,564	57.5	
Due after five through ten years	2,736	2.4		24,026	15.6	
Due after ten years	25,271	22.5		19,866	12.9	
Total	\$ 112,449	100.0	%	\$ 154,011	100.0	%

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At September 30, 2011, 77.5% 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, 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 a weighted average duration of 1.36 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 September 30, 2011 compared to 97.4% as at December 31, 2010.

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Table 13 Credit ratings of fixed income securities portfolio

Rating as at	September 30, 2011	December 31, 2010
AAA/Aaa	40.8 %	57.6 %
AA/Aa	35.2	17.1
A/A	23.4	22.7
Percentage rated A/A or better	99.4 %	97.4 %
BBB/Baa	0.6	2.5
Not rated		0.1
Total	100.0 %	100.0 %

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 September 30, 2011 and September 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 September 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' available-for-sale fixed income securities held as of September 30, 2011, a 100 basis point increase in interest rates on such held fixed income securities would have increased third quarter net investment income and income before taxes by approximately \$216. Conversely, a 100 basis point decrease in interest rates on such held fixed income securities would decrease net investment income and income before taxes by \$216.

A 100 basis point increase would have also decreased other comprehensive income by approximately \$1,921 due to "mark-to-market" requirement; however, holding investments to maturity would mitigate this impact. Conversely, a 100 basis point decrease would increase other comprehensive income by the same amount. The impacts described here are approximately linear to the change in interest rates.

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 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.

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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, Atlas primarily operates in geographic regions with less exposure to natural disasters; therefore management determined that catastrophe reinsurance was not required in 2011 and 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 September 30, 2011, Atlas had \$12,268 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.

Atlas' largest reinsurance partners are Great American Insurance Company ("Great American"), a subsidiary of American Financial Group, Inc and Gen Re, a subsidiary of Berkshire Hathaway, Inc. Great American has a financial strength rating of A+ from Standard & Poor's, while Gen Re has a financial strength rating of Aa1 from Moody's.

b) 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	September 30, 2011	December 31, 2010
Deferred tax assets:		
Unpaid claims and unearned premiums	\$ 3,441	\$ 4,218
Loss carry-forwards	2,223	1,964
Pension expense	841	841
Bad debts	1,303	1,356
Other	1,361	1,394
Total gross deferred tax assets	9,169	9,773
Deferred tax liabilities:		
Investment securities	1,168	1,863
Deferred policy acquisition costs	1,215	1,293
Other	387	218
Total gross deferred tax liabilities	2,770	3,374
Net deferred tax assets	\$ 6,399	\$ 6,399

A deferred tax asset of \$2,223 has been recognized for \$6,538 of loss carry-forwards (on a tax-effected basis) at September 30, 2011. Conversely, Atlas has a provision against its deferred tax asset of \$11,848 for \$34,846 of loss carry-forwards at September 30, 2011, 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' provision against deferred tax currently deemed unrealizable is \$0.64 per common share diluted at September 30, 2011, as compared to \$0.61 per common share diluted at December 31, 2010.

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

Table 15 Net operating loss carry-forward by expiry

Year of Occurrence	Year of Expiration	Amount
2001	2021	14,750
2002	2022	4,317
2006	2026	7,825
2007	2027	5,131
2008	2028	1,949
2009	2029	1,949
2010	2030	1,949
2011	2031	3,514
Total		\$ 41,384

c) Assets Held for Sale

As at September 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 September 30, 2011. Atlas expects to re-invest the proceeds from the sale of real estate in its investment portfolio which will support strategic growth initiatives.

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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.

On November 2, 2011, the land in Saraland, Alabama held for sale as of September 30, 2011 was sold for \$336. Its carrying value as of September 30, 2011 is \$296.

d) Claims Liabilities

The table below shows the amounts of total case reserves and incurred but not reported (“IBNR”) claims provision as of September 30, 2011 and December 31, 2010. The provision for unpaid claims decreased by 23.5% to \$101,457 at the end of the third quarter of 2011 compared to \$132,579 at the end of 2010. During 2011, case reserves decreased by 24.5% compared to December 31, 2010, while IBNR reserves decreased by 21.5% 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 third quarter 2011.

Table 16 Provision for unpaid claims by type - gross

As at:	September 30, 2011	December 31, 2010	YTD % Change
Case reserves	\$ 65,786	\$ 87,119	(24.5) %
IBNR	35,671	45,460	(21.5)
Total	\$ 101,457	\$ 132,579	(23.5) %

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

As at:	September 30, 2011	December 31, 2010	YTD % Change
Non-standard auto	\$ 21,970	\$ 28,897	(24.0) %
Commercial auto	68,230	92,669	(26.4)
Other	11,257	11,013	2.2
Total	\$ 101,457	\$ 132,579	(23.5) %

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

As at:	September 30, 2011	December 31, 2010	YTD % Change
Non-standard Auto	\$ 21,970	\$ 28,897	(24.0) %
Commercial Auto	66,497	92,102	(27.8)
Other	3,616	5,102	(29.1)
Total	\$ 92,083	\$ 126,101	(27.0) %

The reduction of the provision for unpaid claims is consistent with the change in written premium in prior years. 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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e) Due to Reinsurers

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

f) Shareholders' Equity

The table below identifies changes in shareholders' equity for the nine months ended September 30, 2011 and September 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 income					207		207
Other comprehensive loss for the period						(2,046)	(2,046)
Total comprehensive income (loss) for the period					207	(2,046)	(1,839)
Share-based compensation				258			258
Stock options exercised				19			19
Balance as at September 30, 2011	\$ 15,353	\$ 4	\$ 14	\$ 152,743	\$ (113,164)	\$ 1,010	\$ 55,960
Balance as at January 1, 2010	\$ 15,353	\$ 4	\$ 14	\$ 82,675	\$ (47,714)	\$ (433)	\$ 49,899
Net loss					(10,383)		(10,383)
Other comprehensive income for the period						3,797	3,797
Total comprehensive income (loss) for the period					(10,383)	3,797	(6,586)
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 September 30, 2010	\$ 15,353	\$ 4	\$ 14	\$ 138,289	\$ (101,942)	\$ 3,695	\$ 55,413

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As of November 28, 2011, there are 4,572,026 ordinary voting common shares, 13,804,861 restricted voting common shares and 18,000,000 preferred shares issued and outstanding.

The restricted voting common shares are convertible into 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.

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.

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 ceased to be beneficially owned or controlled by KFSI or its affiliated entities, the restricted voting common shares shall be converted into fully paid and non-assessable ordinary voting shares on a one-to-one basis.

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 International Accounting Standard ("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 voting common shares, at the option of the holder. The liability component, classified as preferred shares dividend liability is \$2,821 at September 30, 2011 and \$2,647 at December 31, 2011, and the preferred share equity component, classified in shareholders' equity, is \$15,353 at both September 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 nine months ended September 30, 2011 was \$174.

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	September 30, 2010	January 1, 2010
Shareholders' equity based on US GAAP	\$ 60,169	\$ 58,061	\$ 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	\$ 55,414	\$ 49,899

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g) 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 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. The operating subsidiaries fund their obligations primarily through premium and investment income and maturities in their securities portfolio. Refer also to the discussion "*Investments Overview and Strategy*" on page 18. 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 September 30, 2011, Atlas did not have any outstanding debt, and therefore, no near term debt service obligations.

In 2010 the insurance subsidiaries each paid dividends of \$16,700 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 operations. 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.

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 September 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.

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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 September 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 IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The accounting policies followed in the condensed interim financial statements are identical as those applied in Atlas' interim financial statements for the period ended June 30, 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 impacts to Atlas' consolidated statement of comprehensive income, or statement of changes in shareholders' equity for the nine months ended September 30, 2010 and the year ended December 31, 2010. Refer to note 3 of the consolidated financial statements for a discussion of the application of new accounting standards to Atlas.

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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 September 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, as at	September 30, 2011	December 31, 2010
Kingsway America Inc.	\$ 777	\$ 2,058
Universal Casualty Company	(600)	--
Kingsway Amigo Insurance Company	(1)	(13)
Avalon Risk Management, Inc.	22	--
Hamilton Risk Management Inc.	--	(1)
Total	\$ 198	\$ 2,044

In 2010, prior to the Atlas transaction, the 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 \$1,982 for the nine months ended September 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. The management agreement and the mortgage loan agreement have been terminated.

For the nine months ended September 30, 2011 and 2010, Atlas incurred \$1,743 and \$3,335, respectively, in commissions to Avalon Risk Management, Inc. ("Avalon"). In the nine months ended September 30, 2011 and 2010, Atlas also incurred expenses of \$105 and \$94 respectively, for marketing services performed by Avalon. Avalon was a KFSI subsidiary through October 2009, and has investors and directors in common with Atlas.

VIII. RISK MANAGEMENT

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

IX. SUBSEQUENT EVENTS

On November 2, 2011, the land in Saraland, Alabama held for sale as of September 30, 2011 was sold for \$336. Its carrying value as of September 30, 2011 is \$296.

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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.