

Atlas Financial Holdings, Inc.
Form 10-Q
August 13, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period year ended:
June 30, 2012

COMMISSION FILE NUMBER:
000-54627

ATLAS FINANCIAL HOLDINGS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CAYMAN ISLANDS 27-5466079

(State or other jurisdiction of
incorporation or organization) (I.R.S. Employer
Identification No.)

150 NW POINT BOULEVARD 60007
Elk Grove Village, IL (Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code: (847) 472-6700

Securities registered pursuant to Section 12(b) of the Act:

| TITLE OF EACH CLASS: | NAME OF EACH EXCHANGE ON WHICH REGISTERED: |
|-------------------------------------|--|
| Common, \$0.001 par value per share | TSX Venture Exchange |

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| | |
|--|---|
| Large Accelerated Filer <input type="checkbox"/> | Accelerated Filer <input type="checkbox"/> |
| Non-Accelerated Filer <input type="checkbox"/> | Smaller Reporting Company <input checked="" type="checkbox"/> |

(do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

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There were 18,433,153 shares of the Registrant's common stock outstanding as of August 1, 2012 of which 4,628,292 shares as of August 1, 2012 were held by non-affiliates of the Registrant.

For purposes of the foregoing calculation only, the Registrant has included in the shares owned by affiliates, and those shares owned by directors and officers of the Registrant, and such inclusion shall not be construed as an admission that any such person is an affiliate for any purpose.

ATLAS FINANCIAL HOLDINGS, INC. INDEX TO QUARTERLY REPORT ON FORM 10-Q June 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ATLAS FINANCIAL HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$ in thousands, except par values)

| | June 30, 2012 (unaudited) | December 31, 2011 |
|--|------------------------------|----------------------|
| Assets | | |
| Investments, available for sale | | |
| Fixed income securities, at fair value (Amortized cost \$102,109 and \$101,473) | \$ 104,622 | \$ 103,491 |
| Equity securities, at fair value (cost \$994) | 1,327 | 1,141 |
| Total Investments | 105,949 | 104,632 |
| Cash and cash equivalents | 17,592 | 23,249 |
| Accrued investment income | 626 | 586 |
| Accounts receivable and other assets (Net of allowance of \$606 and \$4,254) | 14,764 | 9,579 |
| Reinsurance recoverables, net | 8,545 | 8,044 |
| Prepaid reinsurance premiums | 1,961 | 2,214 |
| Deferred policy acquisition costs | 2,781 | 3,020 |
| Deferred tax asset, net | 6,544 | 6,775 |
| Software and office equipment, net | 1,008 | 440 |
| Assets held for sale | 166 | 13,634 |
| Total Assets | \$ 159,936 | \$ 172,173 |
| Liabilities | | |
| Claims liabilities | \$ 77,350 | \$ 91,643 |
| Unearned premiums | 17,612 | 15,691 |
| Due to reinsurers and other insurers | 4,843 | 5,701 |
| Other liabilities and accrued expenses | 3,100 | 2,884 |
| Total Liabilities | \$ 102,905 | \$ 115,919 |
| 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, 2012 and December 31, 2011. | \$ 18,000 | \$ 18,000 |
| Liquidation value \$1.00 per share | | |
| Ordinary voting common shares, par value per share \$0.001, 800,000,000 shares authorized, 4,628,292 shares issued and outstanding at June 30, 2012 and 4,625,526 at December 31, 2011 | 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, 2012 and December 31, 2011 | 14 | 14 |
| Additional paid-in capital | 152,713 | 152,652 |
| Retained deficit | (115,576) | (115,841) |
| Accumulated other comprehensive income, net of tax | 1,876 | 1,425 |
| Total Shareholders' Equity | \$ 57,031 | \$ 56,254 |
| Total Liabilities and Shareholders' Equity | \$ 159,936 | \$ 172,173 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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ATLAS FINANCIAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

(\$ in thousands, except per share data)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|---------------|------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Net premiums earned | \$7,552 | \$9,062 | \$15,861 | \$17,871 |
| Net claims incurred | 5,408 | 6,723 | 11,312 | 13,612 |
| Acquisition costs | 1,395 | 1,844 | 2,768 | 3,623 |
| Other underwriting expenses | 1,617 | 1,773 | 3,267 | 3,821 |
| Underwriting loss | (868 |) (1,278 |)(1,486 |) (3,185 |
| Net investment income | 657 | 934 | 1,265 | 1,933 |
| Net investment gains | 291 | 417 | 319 | 850 |
| Other income (expense), net | 50 | 120 | 167 | (110 |
| Income (loss) from operations before income tax (benefit)/expense | \$130 | \$193 | \$265 | \$(512 |
| Income tax expense | — | — | — | — |
| Net income (loss) attributable to Atlas | \$130 | \$193 | \$265 | \$(512 |
| Other comprehensive loss related to Available for Sale Securities: | | | | |
| Changes in net unrealized gains (losses) | \$798 | \$520 | \$1,024 | \$139 |
| Reclassification to income of net gains | (174 |) (368 |)(344 |) (903 |
| Effect of income tax | (210 |) — | (229 |) — |
| Other comprehensive income/(loss) for the period | \$414 | \$152 | \$451 | \$(764 |
| Total comprehensive income/(loss) | \$544 | \$345 | \$716 | \$(1,276 |
| Basic weighted average common shares outstanding | 18,433,153 | 18,374,066 | 18,435,296 | 18,371,386 |
| Loss per common share, basic | \$— | \$— | \$(0.01 |) \$(0.05 |
| Diluted weighted average common shares outstanding | 18,433,153 | 18,374,066 | 18,435,296 | 18,371,386 |
| Loss per common share, diluted | \$— | \$— | \$(0.01 |) \$(0.05 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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ATLAS FINANCIAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(\$ in thousands)

| | Six Month Periods Ended | |
|---|-------------------------|---------------|
| | June 30, 2012 | June 30, 2011 |
| Operating Activities | | |
| Net income/(loss) | \$265 | \$(512) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Adjustments for non-cash items | 315 | 581 |
| Changes in other operating assets and liabilities | (4,162) | (456) |
| Changes in net claims liabilities | (14,293) | (20,568) |
| Net cash flows used in operating activities | (17,875) | (20,955) |
| Investing activities | | |
| Proceeds from sale and maturity of investments | 31,031 | 28,937 |
| Purchases of investments | (31,814) | (23,367) |
| Purchases of property and equipment and other | (345) | (111) |
| Proceeds from sale of property and equipment | 13,342 | 1,983 |
| Net cash flows provided by investing activities | 12,214 | 7,442 |
| Financing activities | | |
| Options Exercised | 4 | 16 |
| Net cash flows provided by financing activities | 4 | 16 |
| Net decrease in cash and cash equivalents | (5,657) | (13,497) |
| Cash and cash equivalents, beginning of period | 23,249 | 19,037 |
| Cash and cash equivalents, end of period | \$17,592 | \$5,540 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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ATLAS FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (Unaudited)
(\$ in thousands)

| | Preferred Shares | Ordinary Voting Common Shares | Restricted Voting Common Shares | Additional Paid-in Capital | Retained Deficit | Accumulated Other Comprehensive Income (loss) | Total |
|----------------------------|---------------------|--|--|----------------------------------|---------------------|--|----------|
| Balance December 31, 2010 | \$18,000 | \$4 | \$14 | \$152,466 | \$(113,371) | \$ 3,056 | \$60,169 |
| Net loss | | | | | (512) | | (512) |
| Other comprehensive loss | | | | | | (764) | (764) |
| Share-based compensation | | | | 57 | | | 57 |
| Stock options exercised | | | | 16 | | | 16 |
| Balance June 30, 2011 | \$18,000 | \$4 | \$14 | \$152,539 | \$(113,883) | \$ 2,292 | \$58,966 |
| Balance December 31, 2011 | \$18,000 | \$4 | \$14 | \$152,652 | \$(115,841) | \$ 1,425 | \$56,254 |
| Net income | | | | | 265 | | 265 |
| Other Comprehensive Income | | | | | | 451 | 451 |
| Share-based compensation | | | | 57 | | | 57 |
| Stock options exercised | | | | 4 | | | 4 |
| Balance June 30, 2012 | \$18,000 | \$4 | \$14 | \$152,713 | \$(115,576) | \$ 1,876 | \$57,031 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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ATLAS FINANCIAL HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of Atlas Financial Holdings, Inc. ("Atlas", or "The Company") and its insurance subsidiaries, American Service Insurance Company, Inc. ("American Service") and American Country Insurance Company ("American Country"), have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and do not include all the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and the results of operations. It is recommended that these unaudited condensed consolidated financial statements be read in conjunction with the audited financial statements and the footnotes thereto included in the Company's latest Annual Report on Form 10-K (as amended).

The primary business of Atlas, which is carried out through its insurance subsidiaries, is the underwriting of commercial automobile insurance policies in the United States, with a niche market orientation and focus on insurance in the "light" commercial automobile sector. This sector includes taxi cabs, non-emergency para-transit, limousine, livery and business autos. Automobile insurance products provide insurance coverage in three major areas: liability, accident benefits and physical damage. Liability insurance provides coverage where the insured is responsible for an automobile accident, for the payment for injuries and property damage to third parties. Accident benefit policies or personal injury protection policies provide coverage for loss of income, medical and rehabilitation expenses for insured persons who are injured in an automobile accident, regardless of fault. Physical damage coverage provides for the payment of damages to an insured automobile arising from a collision with another object or from other risks such as fire or theft. In the short run, automobile physical damage and liability coverage generally provides more predictable results than automobile accident benefit or personal injury insurance.

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

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

The accounting policies followed in these unaudited condensed consolidated financial statements are identical as those applied in Atlas' audited annual consolidated financial statements on Form 10-K for the period ended December 31, 2011. Atlas has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

2. NEW ACCOUNTING STANDARDS

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts - In October 2010, the Financial Accounting Standards Board ("FASB") issued guidance modifying the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal insurance contracts. The guidance specifies that the costs must be directly related to the successful acquisition of insurance contracts. The guidance also specifies that advertising costs should be included as deferred acquisition costs only when the direct-response advertising accounting criteria are met. The new guidance became effective for reporting periods beginning after December 15, 2011. Atlas' previous policy for accounting for acquisition costs was already consistent with this

guidance. Therefore the adoption of this guidance in the three and six month periods ended June 30, 2012 did not have an impact on our financial statements.

Amendments to Fair Value Measurement and Disclosure Requirements - In May 2011, the FASB issued guidance that clarifies the application of existing fair value measurement and disclosure requirements and amends certain fair value measurement principles, requirements and disclosures. Changes were made to improve consistency in global application. The guidance is to be applied prospectively for reporting periods beginning after December 15, 2011. Early adoption was not permitted. The impact of adoption was not material to the Company's results of operations or financial position.

Presentation of Comprehensive Income - In June and December 2011, the FASB issued guidance amending the presentation of comprehensive income and its components. Under the new guidance, a reporting entity has the option to present comprehensive income in a single continuous statement or in two separate but consecutive statements. The guidance is effective for reporting periods beginning after December 15, 2011 and is to be applied retrospectively. The new guidance affected presentation only and had no material impact on the Company's results of operations or financial position.

3. EARNINGS PER SHARE

Earnings per ordinary and restricted voting common share for the three and six month periods ended June 30, 2012 and June 30, 2011 is as follows:

| | Three Month Periods Ended | | Six Month Periods Ended | |
|--|---------------------------|---------------|-------------------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Net income/(loss) attributable to Atlas | \$130 | \$193 | \$265 | \$(512) |
| Less: Preferred share dividends | 202 | 202 | 402 | 402 |
| Net loss attributable to common shareholders | (72) | (9) | (137) | (914) |
| Basic: | | | | |
| Weighted average common shares outstanding | 18,433,153 | 18,374,066 | 18,435,296 | 18,371,386 |
| Basic loss per common share | \$— | \$— | \$(0.01) | \$(0.05) |
| Diluted: | | | | |
| Weighted average common shares outstanding | 18,433,153 | 18,374,066 | 18,435,296 | 18,371,386 |
| Dilutive potential ordinary shares | — | — | — | — |
| Dilutive average common shares outstanding | 18,433,153 | 18,374,066 | 18,435,296 | 18,371,386 |
| Dilutive loss per common share | \$— | \$— | \$(0.01) | \$(0.05) |

For 2012 and 2011, basic loss per common share has been computed by dividing net loss attributable to common shareholders for the period by the weighted average number of common shares outstanding during the period. Diluted loss per share is computed by dividing net loss attributable to common shareholders by the weighted average number of common shares outstanding each period plus the incremental number of shares added as a result of converting dilutive potential ordinary shares, calculated using the treasury stock method. Atlas' dilutive potential common shares consist of outstanding stock options and warrants to purchase ordinary voting common shares. The effects of options and warrants to issue ordinary voting common shares are excluded from the computation of diluted loss per share in periods in which the effect would be anti-dilutive. For both the three and six month periods ended June 30, 2012 and June 30, 2011, potential ordinary voting common shares were anti-dilutive due to the net loss attributable to common shareholders.

4. INVESTMENTS

The amortized cost, gross unrealized gains and losses and fair value for Atlas' investments are as follows:

| | | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---------------|--------------|-------------------|------------------------------|-------------------------------|------------|
| June 30, 2012 | | | | | |
| Fixed Income: | | | | | |
| U.S. | - Government | \$36,213 | \$955 | \$2 | \$37,166 |
| | - Corporate | 40,690 | 1,115 | — | 41,805 |

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| | | | | | |
|--------------------|------------------------------|-----------|---------|------|-----------|
| | - Commercial mortgage backed | 20,710 | 346 | 15 | 21,041 |
| | - Other asset backed | 4,496 | 117 | 3 | 4,610 |
| Total Fixed Income | | \$102,109 | \$2,533 | \$20 | \$104,622 |
| Equities | | 994 | 333 | — | 1,327 |
| Totals | | \$103,103 | \$2,866 | \$20 | \$105,949 |

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| December 31, 2011 | | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------|------------------------------|-------------------|------------------------------|-------------------------------|------------|
| Fixed Income: | | | | | |
| U.S. | - Government | \$44,835 | \$911 | \$— | \$45,746 |
| | - Corporate | 35,572 | 825 | 24 | 36,373 |
| | - Commercial mortgage backed | 17,493 | 208 | — | 17,701 |
| | - Other asset backed | 3,573 | 99 | 1 | 3,671 |
| Total Fixed Income | | \$101,473 | \$2,043 | \$25 | \$103,491 |
| Equities | | 994 | 147 | — | 1,141 |
| Totals | | \$102,467 | \$2,190 | \$25 | \$104,632 |

The following tables summarize carrying amounts of fixed income securities by contractual maturity. As certain securities and debentures have the right to call or prepay obligations, the actual settlement dates may differ from contractual maturity.

| As at the period ended June 30, 2012 | One year or less | One to five years | Five to ten years | More than ten years | Total | |
|--|---------------------|----------------------|----------------------|------------------------|-----------|---|
| Fixed Income Securities | \$20,359 | \$22,035 | \$18,177 | \$44,051 | \$104,622 | |
| Percentage of total | 19.5 | % 21.1 | % 17.4 | % 42.0 | % 100.0 | % |
| As at the year ended December 31, 2011 | One year or less | One to five years | Five to ten years | More than ten years | Total | |
| Fixed Income Securities | \$29,407 | \$27,317 | \$10,242 | \$36,525 | \$103,491 | |
| Percentage of total | 28.4 | % 26.4 | % 9.9 | % 35.3 | % 100.0 | % |

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

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

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

There were no impairments recorded in the three month period ended June 30, 2012 or the year ended December 31, 2011 as a result of the above analysis performed by management to determine declines in fair value that may be other than temporary. All securities in an unrealized loss position as at the period ended June 30, 2012 and as at the year ended December 31, 2011 have been in said position for less than 12 months.

The following table summarizes the components of net investment income for the three month periods ended June 30, 2012 and 2011:

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| | June 30, 2012 | June 30, 2011 |
|---|---------------|---------------|
| Total investment income | | |
| Interest (from fixed income securities) | \$744 | \$1,038 |
| Investment expenses | (87) | (104) |
| Net investment income | \$657 | \$934 |

Collateral pledged:

As at the period ended June 30, 2012, bonds and term deposits with a fair value of \$9,783 were on deposit with state and provincial regulatory authorities, versus \$11,843 as at the year ended December 31, 2011. Also, from time to time, the Company pledges securities to third parties to collateralize liabilities incurred under its policies of insurance. As at the period ended June 30, 2012, the amount of such pledged securities was \$11,596 versus \$10,396 at December 31, 2011. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's standard risk management controls. These assets and investment income related thereto remain the property of the Company while pledged. Neither the state and/or provincial regulatory authorities nor any other third party has the right to re-pledge or sell said securities held on deposit.

5. FINANCIAL AND CREDIT RISK MANAGEMENT

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

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

Atlas' allowance for bad debt as at the year ended December 31, 2011 primarily related to a single agent. Settlement proceedings with this agent were executed in April 2012, and resulted in a minor recovery of previously fully reserved amounts. As a result, in the three month periods ended June 30, 2012 and 2011, Atlas recognized \$79 in income from the settlement of bad debts (substantially related to the aforementioned agent) and \$35 of bad debt expense, respectively.

Equity price risk - This is the risk of loss due to adverse movements in equity prices. Atlas' investment in equity securities comprises a small percentage of its total portfolio, and as a result, the exposure to this type of risk is minimal.

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

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

inherently unpredictable and may create increased liquidity requirements.

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

Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate the fair value. These valuation models may use

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multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, corresponding market volatility levels and option volatilities. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Atlas records the available for sale securities held in its securities portfolio at their fair value. Atlas primarily uses the services of external securities pricing vendors to obtain these values. The securities are valued using quoted market prices or prices established using observable market inputs. In volatile market conditions, these quoted market prices or observable market inputs can change rapidly causing a significant impact on fair value and financial results recorded.

Atlas employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The hierarchy is comprised of quoted market prices (Level 1), third party models using observable market information (Level 2) and internal models without observable market information (Level 3). The following table summarizes Atlas' investments at fair value as at the three month period ended June 30, 2012 and as at the year ended December 31, 2011:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------|----------|----------|---------|-----------|
| June 30, 2012 | | | | |
| Fixed Income Securities | \$9,727 | \$94,895 | \$— | \$104,622 |
| Equities | 1,327 | — | — | 1,327 |
| Totals | \$11,054 | \$94,895 | \$— | \$105,949 |
| December 31, 2011 | | | | |
| Fixed Income Securities | \$13,363 | \$90,128 | \$— | \$103,491 |
| Equities | 1,141 | — | — | 1,141 |
| Totals | \$14,504 | \$90,128 | \$— | \$104,632 |

Of the total portfolio of fixed income securities, only holdings of U.S. Treasury Securities are classified within Level 1. There were no transfers in or out of Level 2 during either period.

Capital Management - The Company manages capital using both regulatory capital measures and internal metrics. The Company's capital is primarily derived from common shareholders' equity, retained deficit and accumulated other comprehensive income (loss).

As a holding company, Atlas could derive cash from its insurance subsidiaries generally in the form of dividends to meet its obligations, which will primarily consist of operating expense payments. Atlas' insurance subsidiaries fund their obligations primarily through premium and investment income and maturities in the securities portfolio. The insurance subsidiaries require regulatory approval for the return of capital and, in certain circumstances, prior to the payment of dividends. In the event that dividends available to the holding company are inadequate to cover its operating expenses, the holding company would need to raise capital, sell assets or incur future debt.

The insurance subsidiaries must each maintain a minimum statutory capital and surplus of \$1,500 under the provisions of the Illinois Insurance Code. Dividends may only be paid from statutory unassigned surplus, and payments may not be made if such surplus is less than a stipulated amount. The dividend restriction is the greater of statutory net income or 10% of total statutory capital and surplus.

Net loss computed under statutory-basis accounting for American Country and American Service were \$(2,328) and \$(497) respectively for the year ended December 31, 2011, versus \$(1,451) and \$(5,351) for the year ended December 31, 2010. Statutory capital and surplus of the insurance subsidiaries was \$49,954 and \$45,560 at December 31, 2011 and 2010, respectively.

Atlas did not pay any dividends to its common shareholders during the three month period ended June 30, 2012 or in the year ended December 31, 2011, and has no current plans to pay dividends to its common shareholders.

6. INCOME TAXES

The effective tax rate was 0.0% for both of the three month periods ended June 30, 2012 and 2011, respectively, compared to the U.S. statutory income tax rate of 34% as shown below:

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| | 3 months ended | | | 6 months ended | | |
|---|----------------|--------|---------------|----------------|---------------|---|
| | June 30, 2012 | | June 30, 2011 | | June 30, 2012 | |
| | Amount | % | Amount | % | Amount | % |
| Expected income tax benefit at statutory rate | \$44 | 34.0 | % | \$66 | 34.0 | % |
| Valuation allowance | (44) | (34.0) | % | (108) | (56.0) | % |
| Nondeductible expenses | 1 | 0.8 | % | 42 | 22.0 | % |
| Other | (1) | (0.8) | % | — | — | % |
| Total | \$— | — | % | \$— | — | % |

Upon the transaction forming 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 insurance subsidiaries' prior parent retained those tax assets previously attributed to the insurance 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, after consideration of valuation allowance.

Income tax expense consists of the following for the six month period ended June 30, 2012:

| | 2012 | 2011 |
|--------------------------------|------|------|
| Current tax expense/(benefit) | \$— | \$— |
| Deferred tax (benefit)/expense | — | — |
| Total | \$— | \$— |

The components of deferred income tax assets and liabilities as of June 30, 2012 and December 31, 2011 are as follows:

| | June 30, 2012 | December 31, 2011 |
|---|---------------|-------------------|
| Deferred tax assets: | | |
| Unpaid claims and unearned premiums | \$2,822 | \$3,004 |
| Loss carry-forwards | 16,520 | 15,558 |
| Bad debts | 101 | 1,297 |
| Other | 1,480 | 1,338 |
| Valuation Allowance | (12,269) | (12,361) |
| Total deferred tax assets, net of allowance | \$8,654 | \$8,836 |
| Deferred tax liabilities: | | |
| Investment securities | 967 | 740 |
| Deferred policy acquisition costs | 946 | 1,027 |
| Other | 197 | 294 |
| Total gross deferred tax liabilities | \$2,110 | \$2,061 |
| Net deferred tax assets | \$6,544 | \$6,775 |

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Amounts and expiration dates of the operating loss carry forwards as of June 30, 2012 are as follows:

| 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 | 7,762 |
| 2012 | 2032 | 2,957 |
| Total | | \$48,589 |

Atlas established a valuation allowance of \$12,269 and \$12,361 for its gross deferred tax assets as at the period ended June 30, 2012 and as at the year ended December 31, 2011, respectively.

Atlas accounts for uncertain tax positions in accordance with the income taxes accounting guidance. Atlas has analyzed filing positions in the federal and state jurisdiction where it is required to file tax returns, as well as the open tax years in these jurisdictions. Atlas believes that its federal and state income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain federal and state income tax positions have been recorded. Atlas would recognize interest and penalties related to unrecognized tax benefits as a component of the provision for federal income taxes. Atlas did not incur any federal income tax related interest income, interest expense or penalties for the three month periods ended June 30, 2012 and 2011. Tax years 2006 through 2011 are subject to examination by the Internal Revenue Service.

7. ASSETS HELD FOR SALE

On May 22, 2012, Atlas closed the sale of the headquarters building to 150 Northwest Point, LLC, a Delaware limited liability company. Atlas also leased back one floor of the building after the sale for a 5 year term. As at the year ended December 31, 2011, the property was recorded as a component of assets held for sale on Atlas' statement of financial position.

The total sales price of the property, which was paid in cash, amounted to \$13,975, less closing costs and related expenses of approximately \$633. In connection with the sale, the Company also wrote down an accrual of approximately \$792 held for real-estate taxes. Approximately \$830 of the sales price was held in escrow for real-estate taxes.

Atlas recognized a gain on the sale of the property of \$213, which will be deferred and recognized over the 5 year lease term. In the three month period ended June 30, 2012, Atlas recognized \$5 as income.

There are two properties located in Alabama which remain for sale. These properties are listed for amounts greater than carried values. Both were assets of Southern United Fire Insurance Company, which was merged into American Service in February 2010.

8. UNDERWRITING POLICY AND REINSURANCE CEDED

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

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

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

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a danger to financial strength. To date, the Company has not experienced any material difficulties in collecting reinsurance recoverables.

Gross premiums written and ceded premiums, losses and commissions as of and for the three and six month periods ended June 30, 2012 and June 30, 2011 are as follows:

| | 3 months ended | | 6 months ended | |
|--|----------------|---------------|----------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Gross premiums written | \$9,242 | \$7,856 | \$20,996 | \$22,022 |
| Ceded premiums written | 1,427 | 1,455 | 2,960 | 3,206 |
| Net premiums written | 7,815 | 6,401 | 18,036 | 18,816 |
| Ceded premiums earned | \$1,570 | \$1,844 | \$3,213 | \$4,166 |
| Ceded losses and loss adjustment expenses | 605 | 787 | 1,410 | 202 |
| Ceded commissions | 484 | 685 | 1,053 | 1,360 |
| Ceded unpaid losses and loss adjustment expenses | 8,153 | 7,968 | | |
| Ceded unearned premiums | 1,961 | 2,734 | | |
| Other amounts due from reinsurers | 393 | 618 | | |

9. UNPAID CLAIMS

Claims liabilities - The changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the three and six month periods ended June 30, 2012 and June 30, 2011 were as follows:

| | Three Months Ended | | Six Months Ended | | |
|--------------------------------------|--------------------|---------------|------------------|---------------|---|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 | |
| Unpaid claims, beginning of period | \$83,902 | \$119,604 | \$91,643 | \$132,579 | |
| Less: reinsurance recoverable | 8,081 | 7,077 | 7,825 | 6,477 | |
| Net beginning unpaid claims reserves | 75,821 | 112,527 | 83,818 | 126,102 | |
| Incurred related to: | | | | | |
| Current year | 5,367 | 6,731 | 11,165 | 13,635 | |
| Prior years | 41 | (8 |) 147 | (23 |) |
| | 5,408 | 6,723 | 11,312 | 13,612 | |
| Paid related to: | | | | | |
| Current year | 2,264 | 2,335 | 3,921 | 4,173 | |
| Prior years | 9,768 | 12,872 | 22,012 | 31,498 | |
| | 12,032 | 15,207 | 25,933 | 35,671 | |
| Net unpaid claims, end of period | \$69,197 | \$104,043 | \$69,197 | \$104,043 | |
| Add: reinsurance recoverable | 8,153 | 7,968 | 8,153 | 7,968 | |
| Unpaid claims, end of period | \$77,350 | \$112,011 | \$77,350 | \$112,011 | |

The process of establishing the estimated provision for unpaid claims is complex and imprecise as it relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

10. STOCK OPTIONS AND WARRANTS

Stock options - Stock option activity for the three month periods ended June 30, 2012 and 2011 follows (all prices in Canadian dollars):

| | June 30, 2012 | | June 30, 2011 | |
|----------------------------------|---------------|------------|---------------|------------|
| | Number | Avg. Price | Number | Avg. Price |
| Outstanding, beginning of period | 408,325 | \$1.90 | 110,600 | \$1.00 |
| Granted | — | — | 369,749 | 2.00 |
| Exercised | (2,766 |) 1.00 | (15,703 |) 1.00 |

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| | | | | |
|----------------------------|---------|---------|---------|---------|
| Expired | (3,710 |) 1.00 | — | — |
| Outstanding, end of period | 401,849 | \$ 1.92 | 464,646 | \$ 1.80 |

Information about options outstanding at June 30, 2012 is as follows:

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| Grant Date | Expiration Date | Number Outstanding | Number Exercisable |
|------------------|------------------|--------------------|--------------------|
| January 18, 2011 | January 18, 2021 | 369,749 | 184,874 |
| March 18, 2010 | March 18, 2020 | 32,100 | 32,100 |
| Total | | 401,849 | 216,974 |

On January 18, 2011, Atlas granted options to purchase 369,749 ordinary shares of Atlas stock to officers and directors at an exercise price of C\$2.00 per share. The options vest 25% at date of grant and 25% on each of the next three anniversary dates and expire on January 18, 2021. The weighted average grant date fair value of the options is C\$1.24 per share.

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

In accordance with Accounting Standard Codification 718 (Stock-Based Compensation), Atlas has recognized stock compensation expense on a straight-line basis over the requisite service period of the last separately vesting portion of the award. In the six month periods ended June 30, 2012 and June 30, 2011 respectively, Atlas recognized \$57 and \$57 in expense, which is a component of other underwriting expenses on the income statement. Total unrecognized stock compensation expense associated with the January 18, 2011 grant is \$281 as at the period ended June 30, 2012 which will be recognized ratably through the next 2.5 years.

The weighted average exercise price of all the shares exercisable at June 30, 2012 and December 31, 2011 was C\$1.85 and the grants have a weighted average remaining life of 8.8 years. The stock options granted on January 18, 2011 have an intrinsic value of \$0 as at the period ended June 30, 2012.

Warrants - On November 1, 2010, American Acquisition closed a private placement where it issued 3,983,502 subscription receipts for ordinary voting common shares of Atlas and warrants to purchase 3,983,502 ordinary voting common shares of Atlas for C\$2.00 per share in connection with the merger. The subscription receipts were converted to Atlas ordinary voting shares in connection with the merger. All the warrants were still outstanding at June 30, 2012 and expire on December 31, 2013.

Atlas' closing stock price on June 29, 2012 (the last trading day of the quarter) was C\$1.50.

11. OTHER EMPLOYEE BENEFIT PLANS

Defined Benefit Plan – Prior to December 31, 1997, substantially all salaried employees of American Country were covered by a defined benefit pension plan known as the American Country Pension Plan (the “pension plan”). Benefits were based on the employee’s length of service and wages and benefits, as defined by the pension plan. The funding policy of the pension plan was generally to contribute amounts required to maintain minimum funding standards in accordance with the Employee Retirement Income Security Act. Effective December 31, 1997, upon resolution by the board of directors, the pension plan was frozen. During 2010, American Country made an application to the U.S. Internal Revenue Service to dissolve the pension plan and distribute the net plan assets to the beneficiaries. In the fourth quarter of 2011, the plan assets were fully distributed. As a result of the plan liquidation, the Company recognized a settlement charge of \$2,544 within other underwriting expenses in the fourth quarter of 2011. The settlement impact was previously reflected as an unrecognized adjustment to other comprehensive income and therefore, had created a nil impact to shareholders' equity.

Defined Contribution Plan - In January 2011, Atlas formed a defined contribution 401(k) plan covering all qualified employees of Atlas and its subsidiaries. Employees can choose to contribute up to 60% of their annual earnings but not more than \$17,000 for 2011 to the plan. Qualifying employees age 50 and older can contribute an additional \$5,500 in 2012. Atlas matches 50% of the employee contribution up to 5% of annual earnings for a total maximum expense of 2.5% of annual earnings per participant. Atlas contributions are discretionary. Employees are 100% vested in their own contributions and vest in Atlas contributions based on years of service with 100% vested after five years. Company contributions were \$57 and \$51 for the six months ended June 30, 2012 and 2011, respectively.

Employee Stock Purchase Plan - In the second quarter of 2011, Atlas initiated the Atlas Employee Stock Purchase Plan (the “ESPP”) to encourage continued employee interest in the operation, growth and development of Atlas and to provide an additional investment opportunity to employees. Beginning in June 2011, full time and permanent part time employees working more than 30 hours per week are allowed to invest up to 5% of adjusted salary in Atlas

ordinary voting common shares. Atlas matches 50% of the employee contribution up to 5% of annual earnings for a total maximum expense of 2.5% of annual earnings per participant. Employees who signed up for the ESPP by May 30, 2011 each received an additional 100 ordinary voting common shares as an initial participation incentive. Atlas will also pay administrative costs related to this plan. In the six month periods ended June 30, 2012 and June 30, 2011, Atlas incurred costs related to the plan of \$26 and \$10, respectively.

12. SHARE CAPITAL

The share capital for the common shares:

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| As at: | | June 30, 2012 | | December 31, 2011 | |
|---------------------|----------------------|-------------------------------------|--------|-------------------------------------|--------|
| | Shares Authorized | Shares Issued and Outstanding | Amount | Shares Issued and Outstanding | Amount |
| Ordinary | 800,000,000 | 4,628,292 | \$4 | 4,625,526 | \$4 |
| Restricted | 100,000,000 | 13,804,861 | 14 | 13,804,861 | 14 |
| Total common shares | 900,000,000 | 18,433,153 | \$18 | 18,430,387 | \$18 |

All of the issued and outstanding restricted voting common shares are beneficially owned or controlled by Kingsway America Inc., ("Kingsway") a wholly owned subsidiary of Kingsway Financial Services Inc. or other Kingsway subsidiaries. In the event that such shares are disposed of such that Kingsway's beneficial interest is less than 10% of the issued and outstanding restricted voting common shares, the restricted voting common shares shall be converted into fully paid and non-assessable ordinary voting common shares.

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

The restricted voting common shares will convert to ordinary voting common shares in the event that these Kingsway owned shares are sold to non-affiliates of the Company.

Preferred shares are not entitled to vote and are beneficially owned or controlled by Kingsway. Preferred shareholders are entitled to dividends on a cumulative basis whether or not declared by the Board of Directors at the rate of U.S. \$0.045 per share per year (4.5%) and may be paid in cash or in additional preferred shares at the option of Atlas. In liquidation, dissolution or winding-up of Atlas, preferred shareholders receive the greater of US\$1.00 per share plus all declared and unpaid dividends or the amount it would receive in liquidation if the preferred shares had been converted to restricted voting common shares or ordinary voting common shares immediately prior to liquidation. Preferred shares are convertible into ordinary voting shares at the option of the holder at any date after the fifth year of issuance at the rate of 0.3808 ordinary voting common shares for each preferred share. The conversion rate is subject to change if the number of ordinary voting common shares or restricted voting common shares changes. The preferred shares are redeemable at the option of Atlas at a price of US\$1.00 per share plus accrued and unpaid dividends commencing at the earlier of two years from issuance date (December 31, 2012) of the preferred shares or the date the preferred shares are transferred to a party other than Kingsway or its subsidiaries or entities in which Kingsway holds a 10% or greater interest.

The cumulative amount of dividends to which the preferred shareholders are entitled upon liquidation or sooner, if Atlas declares dividends, is \$1,212 as at the period ended June 30, 2012.

13. DEFERRED POLICY ACQUISITION COSTS

Deferred policy acquisition costs for the six month periods ended June 30, 2012 and June 30, 2011:

| | June 30, 2012 | June 30, 2011 |
|--------------------------------|---------------|---------------|
| Balance, beginning of period | \$3,020 | \$3,804 |
| Acquisition costs deferred | 2,529 | 3,325 |
| Amortization charged to income | 2,768 | 3,623 |
| Balance, end of period | \$2,781 | \$3,506 |

14. RELATED PARTY TRANSACTIONS

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

For the six month periods ended June 30, 2012 and June 30, 2011, Atlas incurred \$1,031 and \$1,255, respectively, in commissions to Avalon Risk Management, Inc. ("Avalon"). In the six month periods ended June 30, 2012 and June 30, 2011, Atlas also incurred expenses of \$0 and \$48 respectively, for marketing services performed by Avalon. Avalon was a KFSI subsidiary through October 2009, and has certain investors and directors in common with Atlas. Avalon acts as a program manager for a surety program primarily consisting of U.S. Customs bonds. In this capacity they are responsible for coordinating marketing, customer service

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and claim handling for the surety bonds written under this agreement. This program is 100% reinsured by an unrelated third party.

As at June 30, 2012 and December 31, 2011, Atlas reported net amounts receivable from (payable to) affiliates as follows which are included within other assets and accounts payable and accrued expenses on the balance sheets:

| As at: | June 30, 2012 | December 31, 2011 |
|----------------------------------|---------------|-------------------|
| Kingsway America, Inc. | \$86 | \$291 |
| Universal Casualty Company | (117 |)(500 |
| Kingsway Amigo Insurance Company | 9 | (1 |
| Total | \$(22 |)\$ (210 |

15. SUBSEQUENT EVENTS

Through August 13, 2012, no material reportable subsequent events have occurred.

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Item 2. Management's Discussion and Analysis (MD&A) of Financial Condition and Results of Operations

| Section | Description | Page |
|---------|--|-----------|
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| II. | Application of Critical Accounting Estimates | <u>18</u> |
| III. | Operating Results | <u>19</u> |
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Overview

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 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.

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(All amounts in thousands of US dollars, except for amounts preceded by “C” as Canadian dollars, share and per share amounts)

I. CONSOLIDATED PERFORMANCE

Second Quarter 2012 Highlights (Comparisons are to second quarter 2011 unless otherwise noted):

• Gross written premium increased by 17.6%, which included an increase of 222.6% in our core commercial auto business.

• Underwriting results improved by \$410.

• The combined ratio improved by 2.6%

• Net income for the three month period ended June 30, 2012 was \$130

• Basic and diluted loss per common share was \$0.00, net of accounting treatment for preferred shares

• We actively distributed our core products in thirty states during the three month period ended June 30, 2012.

• Book value per common share diluted on June 30, 2012 was \$2.05, compared to \$2.03 at March 31, 2012.

The following financial data is derived from Atlas’ unaudited condensed consolidated financial statements for the for the three and six month periods ended June 30, 2012 and June 30, 2011:

Table 1 Selected financial information

| | 3 months ended | | 6 months ended | |
|--|------------------|------------------|----------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Gross premium written | \$9,242 | \$7,856 | \$20,996 | \$22,022 |
| Net premium earned | 7,552 | 9,062 | 15,861 | 17,871 |
| Losses on claims | 5,408 | 6,723 | 11,312 | 13,612 |
| Acquisition costs | 1,395 | 1,844 | 2,768 | 3,623 |
| Other underwriting expenses | 1,617 | 1,773 | 3,267 | 3,821 |
| Net underwriting loss | (868 |) (1,278 |) (1,486 |) (3,185 |
| Net investment and other income | 998 | 1,471 | 1,751 | 2,673 |
| Net income/(loss) before tax | 130 | 193 | 265 | (512 |
| Income tax (benefit) expense | — | — | — | — |
| Net income/(loss) | \$130 | \$193 | \$265 | \$(512 |
| Key Financial Ratios: | | | | |
| Loss ratio | 71.6 | % 74.2 | % 71.3 | % 76.2 |
| Acquisition cost ratio | 18.5 | % 20.3 | % 17.5 | % 20.3 |
| Other underwriting expense ratio | 21.4 | % 19.6 | % 20.6 | % 21.4 |
| Combined ratio (see Table 6) | 111.5 | % 114.1 | % 109.4 | % 117.9 |
| Return on equity | 0.5 | % 0.7 | % 0.5 | % (0.9 |
| Loss per common share, basic and diluted | \$— | \$— | \$(0.01 |) \$(0.05 |
| Book value per common share, basic and diluted | \$2.05 | \$2.21 | \$2.05 | \$2.21 |

Second Quarter 2012:

Atlas’ combined ratio for the three month period ended June 30, 2012 was 111.5%, compared to 114.1% for the three month period ended June 30, 2011 and 107.4% for the three month period ended March 31, 2012.

As planned, core commercial automobile lines continues to be the most 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 222.6% for the three month period ended June 30, 2012 as compared to three month period ended June 30, 2011. As a result, the overall loss ratio for the three month period ended June 30, 2012 improved to 71.6% compared to 74.2% in the three month period ended June 30, 2011 and 71.0% for the three month period ended March 31, 2012.

Investment performance and other income generated \$998 of income for the three month period ended June 30, 2012, of which \$291 are realized gains. This resulted in a 2.6% annualized yield for the three month period ended June 30,

2012. Cash and invested assets were \$123,541 as at the period ended June 30, 2012 and were \$4,340 lower than December 31, 2011, resulting primarily from the payment of claim settlements. This reduction in cash and invested assets is in line with expectations.

Overall, Atlas generated net income of \$130 for the three month period ended June 30, 2012. After taking the impact of the liquidation preference of the preferred shares into consideration, the basic and diluted loss per common share in the three month period ended June 30, 2012 was \$0.00. This compares to net income of \$193 or a loss of \$0.00 per common share diluted in the three month period ended June 30, 2011 and income of \$135 or a loss per share of \$0.00 per common share diluted in the three month period ended March 31, 2012.

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Year to Date June 30, 2012:

Atlas' combined ratio for the six month period ended June 30, 2012 was 109.4%, compared to 117.9% for the six month period ended June 30, 2011. This improvement in the combined ratio was mostly attributable to the loss ratio reduction, from 76.2% to 71.3%, as a result of the exiting of the non-standard automobile lines. Our core commercial lines of business grew 106.8% during the six month period ended June 30, 2012 versus the six month period ended June 30, 2011.

Investment performance and other income generated \$1,751 of income for the six month period ended June 30, 2012, of which \$319 are realized gains. This resulted in a 2.6% annualized yield for the six month period ended June 30, 2012.

Overall, Atlas generated net income of \$265 for the six month period ended June 30, 2012. After taking the impact of the liquidation preference of the preferred shares into consideration, the basic and diluted loss per common share in the six month period ended June 30, 2012 was \$0.01. This compares to a net loss of \$512 or a loss of \$0.05 per common share diluted in the six month period ended June 30, 2011.

Book value per common share diluted as at the period ended June 30, 2012 was \$2.05, compared to \$2.21 as at the period ended June 30, 2011 and \$2.03 as at the three month period ended March 31, 2012.

II. APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to adopt accounting policies and make estimates and assumptions that affect amounts reported in the consolidated financial statements.

The most critical estimates include those used in determining:

Fair value and impairment of financial assets

Deferred policy acquisition costs recoverability

Reserve for property-liability insurance claims and claims expense estimation

Deferred tax asset valuation

In making these determinations, management makes subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in the insurance and financial services industries; others are specific to our businesses and operations. It is reasonably likely that changes in these estimates could occur from period to period and result in a material impact on our consolidated financial statements.

A brief summary of each of these critical accounting estimates follows. For a more detailed discussion of the effect of these estimates on our consolidated financial statements, and the judgments and assumptions related to these estimates, see the referenced sections of this document. For a complete summary of our significant accounting policies, see the notes to the consolidated financial statements.

Fair values of financial instruments - Atlas has used the following methods and assumptions in estimating its fair value disclosures:

Fair values for bonds and equity securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services through a bank trustee.

Atlas' fixed income portfolio is managed by Asset Allocation Management ("AAM"), an SEC registered investment advisor specializing in the management of insurance company portfolios. Management works directly with AAM to ensure that Atlas benefits from their expertise and also evaluates investments as well as specific positions independently using internal resources. AAM has a team of credit analysts for all investment grade fixed income sectors. The investment process begins with an independent analyst review of each security's credit worthiness using both quantitative tools and qualitative review. At the issuer level, this includes reviews of past financial data, trends in financial stability, projections for the future, reliability of the management team in place, market data (credit spread, equity prices, trends in this data for the issuer and the issuer's industry). Reviews also consider industry trends and the macro-economic environment. This analysis is continuous, integrating new information as it becomes available. In

short, Atlas does not rely on rating agency ratings to make investment decisions, but instead with the support of its independent investment advisors, does independent fundamental credit analysis to find the best securities possible. AAM has found that over time this process creates an ability to sell securities prior to rating agency downgrades or to buy securities before upgrades. As at the period ended June 30, 2012, this process did not generate any significant difference in the rating assessment between Atlas' review and the rating agencies.

Atlas employs specific control processes to determine the reasonableness of the fair value of its financial assets. These processes are designed to supplement those performed by AAM to ensure that the values received from them are accurately recorded and

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that the data inputs and the valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. For example, on a continuing basis, Atlas assesses the reasonableness of individual security values which have stale prices or whose changes exceed certain thresholds as compared to previous values received from AAM or to expected prices. The portfolio is reviewed routinely for transaction volumes, new issuances, any changes in spreads, as well as the overall movement of interest rates along the yield curve to determine if sufficient activity and liquidity exists to provide a credible source for market valuations. When fair value determinations are expected to be more variable, they are validated through reviews by members of management or the Board of Directors who have relevant expertise and who are independent of those charged with executing investment transactions.

Impairment of financial assets - Atlas assesses, on a quarterly basis, whether there is objective evidence that a financial asset or group of financial assets is impaired. An investment is considered impaired when the fair value of the investment is less than its cost or amortized cost. When an investment is impaired, the Company must make a determination as to whether the impairment is other-than-temporary.

Under U.S. GAAP, with respect to an investment in an impaired debt security, other-than temporary impairment (OTTI) occurs if (a) there is intent to sell the debt security, (b) it is more likely than not it will be required to sell the debt security before its anticipated recovery, or (c) it is probable that all amounts due will be unable to be collected such that the entire cost basis of the security will not be recovered. If Atlas intends to sell the debt security, or will more likely than not be required to sell the debt security before the anticipated recovery, a loss in the entire amount of the impairment is reflected in net realized gains (losses) on investments in the consolidated statements of comprehensive income. If Atlas determines that it is probable it will be unable to collect all amounts and Atlas has no intent to sell the debt security, a credit loss is recognized in net realized gains (losses) on investments in the consolidated statements of comprehensive income to the extent that the present value of expected cash flows is less than the amortized cost basis; any difference between fair value and the new amortized cost basis (net of the credit loss) is reflected in other comprehensive income (losses), net of applicable income taxes.

Deferred policy acquisition costs - Atlas defers brokers' commissions, premium taxes and other underwriting and marketing costs directly relating to the successful acquisition of premiums written to the extent they are considered recoverable. These costs are then expensed as the related premiums are earned. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future claims and expenses to be incurred as premiums are earned. Changes in estimates, if any, are recorded in the accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs. Atlas' deferred policy acquisition costs are reported net of deferred ceding commissions.

Valuation of deferred tax assets - Deferred taxes are recognized using the asset and liability method of accounting. Under this method the future tax consequences attributable to temporary differences in the tax basis of assets, liabilities and items recognized directly in equity and the financial reporting basis of such items are recognized in the financial statements by recording deferred tax liabilities or deferred tax assets.

Deferred tax assets related to the carry-forward of unused tax losses and credits and those arising from temporary differences are recognized only to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

In assessing the need for a valuation allowance, Atlas considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets. If, based on the weight of available evidence, it is more likely than not the deferred tax assets will not be realized or if it is deemed premature to conclude that these assets will be realized in the near future, a valuation allowance is recorded.

Claims liabilities - The provision for unpaid claims represent the estimated liabilities for reported claims, plus those incurred but not yet reported and the related estimated loss adjustment expenses. Unpaid claims expenses are determined using case-basis evaluations and statistical analyses, including insurance industry loss data, and represent

estimates of the ultimate cost of all claims incurred. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims is adequate. The estimates are continually reviewed and adjusted as necessary; such adjustments are included in current operations and are accounted for as changes in estimates.

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III. OPERATING RESULTS

Gross Premium Written

Table 2 Gross premium written by line of business

| | 3 months ended | | | | 6 months ended | | | |
|-------------------------|----------------|---------------|--------|----|----------------|---------------|----------|----|
| | June 30, 2012 | June 30, 2011 | % | | June 30, 2012 | June 30, 2011 | % Change | |
| Commercial automobile | 8,209 | 2,545 | 222.6 | % | 18,927 | 9,154 | 106.8 | % |
| Non-standard automobile | (143) |) 3,709 | (103.9 |)% | (509) |) 9,669 | (105.3 |)% |
| Other | 1,176 | 1,602 | (26.6 |)% | 2,578 | 3,199 | (19.4 |)% |
| | \$9,242 | \$7,856 | 17.6 | % | \$20,996 | \$22,022 | (4.7 |)% |

Table 2 above summarizes gross premium written by line of business.

Second Quarter 2012:

For the three month period ended June 30, 2012, gross premium written was \$9,242 compared to \$7,856 in the three month period ended June 30, 2011, and \$11,754 in the three month period ended March 31, 2012, representing a 17.6% increase and 21.4% decrease, respectively. The increase relative to the three month period ended June 30, 2011 is due primarily to the substantial growth of the core commercial auto business, which offset the exit of the non-standard auto line of business. The decrease relative to three month period ended March 31, 2012 is primarily the result of seasonality.

Commercial Automobile

The commercial automobile policies we underwrite provide coverage for light weight commercial vehicles typically with the minimum limits prescribed by statute, municipal or other regulatory requirements. The majority of our policy holders are individual owner or small fleet operators. In the three month period ended June 30, 2012, gross premium written from commercial automobile was \$8,209, representing a 222.6% increase relative to the three month period ended June 30, 2011 and a 23.4% decrease compared to the three month period ended March 31, 2012. The cessation of non-standard auto written premium allowed Atlas to focus its resources on its core line of business. As a percentage of the insurance subsidiaries' overall book of business, commercial auto gross premium written represented 88.8% of gross premium written in the three month period ended June 30, 2012 compared to 32.4% during the three month period ended June 30, 2011 and 91.2% in the three month period ended March 31, 2012.

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 segment.

Because there are a limited number of competitors specializing in these lines of business, management believes a strong value proposition is very important to attract new business 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 has transitioned away from the non-standard auto line in 2012. Atlas ceased renewals of policies of this type in 2011, allowing surplus and resources to be devoted to the expected growth of the commercial automobile business. The negative written premium within the non-standard auto line reflects policies canceled mid-term.

Other

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

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Year to Date June 30, 2012:

For the six month period ended June 30, 2012, gross premium written was \$20,996 compared to \$22,022 in the six month period ended June 30, 2011, representing a 4.7% decrease. While we saw significant gains in commercial automobile premium, there was still a small decrease relative to the six month period ended June 30, 2011. This is due primarily to our exit from the non-standard auto line of business, which had strong premium written in the first quarter of 2011.

Commercial Automobile

In the six month period ended June 30, 2012, gross premium written from commercial automobile was \$18,927, representing a 106.8% increase relative to six month period ended June 30, 2011. As a percentage of the insurance subsidiaries' overall book of business, commercial auto gross premium written represented 90.1% of gross premium written in the six month period ended June 30, 2012 compared to 41.6% during the six month period ended June 30, 2011.

Geographic Concentration

Table 3 Gross premium written by state

| | 3 months ended | | | 6 months ended | | |
|-----------|----------------|---------|-----------------|------------------|------------------|---------------|
| | June 30, 2012 | | June 30, 2011 | June 30, 2012 | | June 30, 2011 |
| Michigan | \$1,833 | 19.8 % | \$772 9.8 % | \$3,724 17.7 % | \$1,718 7.8 % | |
| Illinois | 1,448 | 15.7 % | 5,092 64.8 % | 7,012 33.4 % | 15,315 69.5 % | |
| Minnesota | 1,139 | 12.3 % | 546 7.0 % | 1,595 7.6 % | 1,082 5.1 % | |
| New York | 817 | 8.8 % | 364 4.6 % | 2,333 11.1 % | 1,165 5.4 % | |
| Texas | 654 | 7.1 % | 129 1.6 % | 856 4.1 % | 341 1.5 % | |
| Nevada | 478 | 5.2 % | — — | 478 2.3 % | — — | |
| Virginia | 311 | 3.4 % | 18 0.2 % | 661 3.1 % | (16) (0.1) % | |
| Georgia | 107 | 1.2 % | — — | 602 2.9 % | — — | |
| Indiana | 103 | 1.1 % | 431 5.5 % | 115 0.5 % | 1,620 7.4 % | |
| Other | 2,352 | 25.4 % | 504 6.6 % | 3,620 17.3 % | 797 3.6 % | |
| Total | \$9,242 | 100.0 % | \$7,856 100.1 % | \$20,996 100.0 % | \$22,022 100.0 % | |

Second Quarter 2012:

As illustrated by the data in Table 3 above, 19.8% of Atlas' gross premium written three month period ended June 30, 2012 came from Michigan and 47.8% came from the three states currently producing the most premium volume (Michigan, Illinois and Minnesota), as compared to 81.6% in the three month period ended June 30, 2011 (Illinois, Michigan, Minnesota) and 76.3% in the three month period ended March 31, 2012 (Illinois, New York and Michigan). This is also the first quarter where Atlas' largest state by premium volume was a state besides Illinois. Further, in the three month period ended June 30, 2012, Atlas also made significant inroads in states such as Nevada, where Atlas had no presence in 2011. Atlas is seeing the results of its commitment to diversifying geographically by expanding in new areas of the country, leveraging experience, historical data and research. This commitment resulted in written premium in a total of 13 states during the three month period ended June 30, 2012 in which we had no presence in the three month period ended June 30, 2011.

Year to Date June 30, 2012:

Atlas saw similar geographic diversification in the six month period ended June 30, 2012 compared to the six month period ended June 30, 2011. 62.2% of our premium volume came from the top three states (Michigan, Illinois, New York) in 2012, compared to 84.7% in 2011.

The decline of written premiums for the six month period ended June 30, 2012 versus the six month period ended June 30, 2011 in Illinois and Indiana is primarily attributable to Atlas' exiting the non-standard automobile insurance lines. The majority of the 2011 non-standard automobile written premiums came from those two states. This was mostly offset by gains in commercial auto premiums in other states, both in established markets such as Michigan and New York and new states like Georgia and Nevada.

Ceded Premium Written

Ceded premium written is equal to premium ceded under the terms of Atlas' inforce reinsurance treaties. Ceded premium written decreased 2.0% to \$1,427 for the three month period ended June 30, 2012 compared with \$1,456 for the three month period ended June 30, 2011, and decreased 6.9% from \$1,533 for the three month period ended March 31, 2012.

In the six month period ended June 30, 2012, ceded premium written was \$2,960, a reduction of 7.7% from \$3,207 for the six month period ended June 30, 2011. The reduction of Atlas' surety gross premium written is the main cause of this decline.

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Net Premium Written

Net premium written is equal to gross premium written less the ceded premium written under the terms of Atlas' inforce reinsurance treaties. Net premium written increased 22.1% to \$7,815 for the three month period ended June 30, 2012 compared with \$6,400 for the three month period ended June 30, 2011 but decreased 23.5% versus the three month period ended March 31, 2012. These changes are attributed to the combined effects of the issues cited in the 'Gross Premium Written' and 'Ceded Premium Written' sections above.

The success of our focus on commercial auto insurance in 2012 is more pronounced when viewed in terms of net premium written. As a percentage of the total net premium written, commercial auto represented 101.5% for the three month period ended June 30, 2012 and 102.7% for the three month period ended March 31, 2012, versus only 39.3% in the three month period ended June 30, 2011. Premium credits in the non-standard personal lines caused the percentage of core commercial auto premium to exceed 100% of the total net written premium for the three month period ended June 30, 2012.

Similarly, in the six month period ended June 30, 2012, commercial auto insurance comprised 102.2% of the total net premium written versus just 47.5% in the six month period ended June 30, 2011. As indicated above, premium credits in the non-standard personal lines caused the percentage of core commercial auto premium to exceed 100% of the total net written premium for the six month period ended June 30, 2012.

Net Premium Earned

Premiums are earned ratably over the term of the underlying policy. Net premium earned was \$7,552 in the three month period ended June 30, 2012, a 16.7% decrease compared with \$9,062 in the three month period ended June 30, 2011 and an 9.1% decrease versus the three month period ended March 31, 2012.

In the six month period ended June 30, 2012, net premium earned was \$15,861, an 11.2% decrease compared to \$17,871 for the six month period ended June 30, 2011.

The decrease in net premiums earned is attributable to the written premium decline related to the transition away from non-standard automobile insurance and other non-core lines of business in early 2012. Policy periods in Atlas' core lines of business are typically twelve months. Net earned premiums on our core lines were \$6,225 in the three month period ended June 30, 2012, a 67.5% increase compared with \$3,716 in the three month period ended June 30, 2011 and a 21.3% increase versus the three month period ended March 31, 2012. Similarly, net earned premiums on our core lines for the six month period ended June 30, 2012 were \$11,356, a 53.7% increase compared to the six month period ended June 30, 2011.

Claims Incurred

The loss ratio relating to the claims incurred in the three month period ended June 30, 2012 was 71.6% compared to 74.2% in the three month period ended June 30, 2011 and 71.0% for the three month period ended March 31, 2012. For the six month period ended June 30, 2012, the loss ratio was 71.3%, compared to 76.2% for the six month period ended June 30, 2011.

The favorable trend in loss ratios in 2012 is attributable to the increased composition of commercial auto as a percentage of the total written premium. 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 continue decreasing. The Company is committed to retain this claim handling expertise as a core competency as the volume of business increases.

Acquisition Costs

Acquisition costs represent commissions and taxes incurred on net premium earned. Acquisition costs were \$1,395 in the three month period ended June 30, 2012 or 18.5% of net premium earned, as compared to 20.3% in the three month period ended June 30, 2011 and 16.5% in the three month period ended March 31, 2012.

For the six month period ended June 30, 2012, the ratio was 17.5% as compared to 20.3% in the six month period ended June 30, 2011.

The favorable trend in acquisition costs is primarily due to the shift away from non-standard automobile insurance which carries higher commission rates.

Other Underwriting Expenses

The other underwriting expense ratio was 21.4% in the three month period ended June 30, 2012 compared to 19.6% in the three month period ended June 30, 2011 and 19.9% in the three month period ended March 31, 2012. Although the

other underwriting expense ratio has increased, nominally other underwriting expenses have decreased by \$156 in the three month period ended June 30, 2012 compared to the three month period ended June 30, 2011, the result of several recent cost saving initiatives.

For the six month period ended June 30, 2012, this ratio was 20.6%, as compared to 21.4% for the six month period ended June 30, 2011. However, 2011 includes \$627 in non-recurring expenses (detailed below) which unfavorably impacted the year-to-date

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ratio by 3.5%. After adjustment for these non-recurring expenses, nominally other underwriting expenses remained static year over year.

Table 4 First Quarter 2011 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 |

Net Investment Income

Table 5 Investment Results

| | 3 months ended | | 6 months ended | |
|--|----------------|---------------|----------------|---------------|
| | June 30, 2012 | June 30, 2011 | June 30, 2012 | June 30, 2011 |
| Average securities at cost (including cash) | \$ 118,482 | \$ 150,781 | \$ 123,206 | \$ 157,843 |
| Interest income after expenses | 657 | 934 | 1,265 | 1,933 |
| Percent earned on average investments (annualized) | 2.2 | % 2.5 | % 2.1 | % 2.4 |
| Net realized gains | \$ 291 | \$ 417 | \$ 319 | \$ 850 |
| Total investment income | 948 | 1,351 | 1,584 | 2,783 |
| Total realized yield (annualized) | 3.2 | % 3.6 | % 2.6 | % 3.5 |

Investment income (excluding net realized gains) decreased by 29.6% to \$657 in the three month period ended June 30, 2012, compared to \$934 in the three month period ended June 30, 2011, and increased by 8.2% from \$607 for the three month period ended March 31, 2012. These amounts are primarily comprised of interest income. This decrease correlates with a similar decline in the average securities held. The annualized realized yield on invested assets (including net realized gains of \$291) in the three month period ended June 30, 2012 decreased to 3.2% as compared with 3.6% in the three month period ended June 30, 2011 and increased compared to 2.1% for the three month period ended March 31, 2012. This is primarily due to the relative absence of realized gains during the three month period ended June 30, 2012 versus those periods.

On a year-to-date basis, investment income decreased by 34.6% to \$1,265 from \$1,933 for the six month period ended June 30, 2011. This decrease correlates with a similar decline in the average securities held. The annualized realized yield on invested assets (including realized gains) decreased to 2.6% from 3.5%, due primarily to a reduction in realized gains year over year.

Net Realized Investment Gains (Losses)

Net realized investment gains in the three month period ended June 30, 2012 were \$291 compared to \$417 in the three month period ended June 30, 2011 and \$28 during the three month period ended March 31, 2012. On a year-to-date basis, there was a similar decline from \$850 in the six month period ended June 30, 2011 compared to \$319 for the six month period ended June 30, 2012. The gains in 2011 were the result of management's decision to sell certain securities consistent with the Company's liquidity needs and expected duration of claim payment triangles during favorable market conditions.

Miscellaneous Income (Loss)

Atlas recorded miscellaneous income in the three month period ended June 30, 2012 of \$50 compared to \$120 for the three month period ended June 30, 2011 and \$117 in the three month period ended March 31, 2012. Miscellaneous income in 2012 is primarily comprised of rental income received prior to the sale of the corporate headquarters in Elk Grove Village, Illinois.

Combined Ratio

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Atlas' combined ratio for the three month periods ended June 30, 2012 and 2011 are 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

| 3 month period ended | June 30, 2012 | June 30, 2011 | March 31, 2012 | |
|-------------------------|---------------|---------------|----------------|---|
| Net premium earned | \$7,552 | \$9,062 | \$8,309 | |
| Underwriting expenses * | 8,420 | 10,341 | 8,927 | |
| Combined ratio | 111.5 | % 114.1 | % 107.4 | % |

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| | | | |
|-------------------------|---------------|---------------|---|
| 6 month period ended | June 30, 2012 | June 30, 2011 | |
| Net premium earned | \$15,861 | \$17,871 | |
| Underwriting expenses * | 17,347 | 21,056 | |
| Combined ratio | 109.4 | % 117.8 | % |

*Underwriting expenses are the combination of claims incurred, acquisition costs, and other underwriting expenses
Income/Loss before Income Taxes

Atlas generated pre-tax income of \$130 in the three month period ended June 30, 2012, compared to income before tax of \$193 in three month period ended June 30, 2011 and income before income taxes of \$135 in the three month period ended March 31, 2012.

In the six month period ended June 30, 2012, Atlas generated pre-tax income of \$265 compared to a loss of \$512 in the six month period ended June 30, 2011.

Income Tax Benefit

Atlas recognized no tax expense in the three month period ended June 30, 2012, nor during the three month period ended June 30, 2011 or three month period ended March 31, 2012. The following table reconciles tax benefit from applying the statutory U.S. Federal tax rate of 34.0% to the actual percentage of pre-tax losses provided for the three month periods ended June 30, 2012 and 2011:

Table 7 - Tax Rate Reconciliation

| | 3 months ended | | | | 6 months ended | | | |
|---|----------------|--------|---------------|--------|----------------|--------|---------------|--------|
| | June 30, 2012 | | June 30, 2011 | | June 30, 2012 | | June 30, 2011 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| Expected income tax benefit at statutory rate | \$44 | 34.0 | % \$66 | 34.0 | % \$90 | 34.0 | % \$(174) | 34.0 |
| Valuation allowance | (44) | (34.0) |)(108) | (56.0) |)(92) | (34.8) |)(131) | (25.6) |
| Nondeductible expenses | 1 | 0.8 | % 42 | 22.0 | % 5 | 1.9 | % 43 | (8.4) |
| Other | (1) | (0.8) |)(— | — | % (3) | (1.1) |)(— | — |
| Total | \$— | — | % \$— | — | % \$— | — | % \$— | — |

Upon the transaction forming 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 insurance subsidiaries' prior parent retained those tax assets previously attributed to the insurance 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, after consideration of valuation allowance.

Net Income/Loss and Earnings/Loss per Common Share

Atlas earned \$130 during the three month period ended June 30, 2012 compared to income of \$193 during the three month period ended June 30, 2011 and \$135 for the three month period ended March 31, 2012. After taking the impact of the liquidation preference of the preferred shares into consideration, the basic and diluted loss per common share in the three month period ended June 30, 2012 was \$0.00 versus a loss per common share of \$0.00 in three month period ended June 30, 2011 and a loss per common share of \$0.00 in the three month period ended March 31, 2012.

There were 18,433,153 weighted average common shares outstanding for the three month period ended June 30, 2012 used to compute basic and diluted loss per share. There were 18,374,066 weighted average common shares outstanding for the three month period ended June 30, 2011 used to compute both basic and dilutive loss per common share, and 18,432,758 common shares used to compute basic and diluted loss per common share for the three month period ended March 31, 2012.

Atlas earned \$265 during the six month period ended June 30, 2012 compared to a loss of \$512 during the six month period ended June 30, 2011. The basic and diluted loss per common share in the six month period ended June 30, 2012 was \$0.01 compared to \$0.05 in the six month period ended June 30, 2011.

Book Value per Ordinary Share

Book value per ordinary share was \$2.05 as at the period ended June 30, 2012, \$2.21 as at the period ended June 30, 2011, and \$2.03 as at the year ended December 31, 2011.

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IV. FINANCIAL CONDITION

Table 8 Consolidated Statements of Financial Condition

(\$ in thousands, except par values)

| | June 30, 2012 (unaudited) | December 31, 2011 |
|--|------------------------------|----------------------|
| Assets | | |
| Investments, available for sale | | |
| Fixed income securities, at fair value (Amortized cost \$102,109 and \$101,473) | \$ 104,622 | \$ 103,491 |
| Equity securities, at fair value (cost \$994) | 1,327 | 1,141 |
| Total Investments | 105,949 | 104,632 |
| Cash and cash equivalents | 17,592 | 23,249 |
| Accrued investment income | 626 | 586 |
| Accounts receivable and other assets (Net of allowance of \$606 and \$4,254) | 14,764 | 9,579 |
| Reinsurance recoverables, net | 8,545 | 8,044 |
| Prepaid reinsurance premiums | 1,961 | 2,214 |
| Deferred policy acquisition costs | 2,781 | 3,020 |
| Deferred tax asset, net | 6,544 | 6,775 |
| Software and office equipment, net | 1,008 | 440 |
| Assets held for sale | 166 | 13,634 |
| Total Assets | \$ 159,936 | \$ 172,173 |
| Liabilities | | |
| Claims liabilities | \$ 77,350 | \$ 91,643 |
| Unearned premiums | 17,612 | 15,691 |
| Due to reinsurers and other insurers | 4,843 | 5,701 |
| Other liabilities and accrued expenses | 3,100 | 2,884 |
| Total Liabilities | \$ 102,905 | \$ 115,919 |
| 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, 2012 and December 31, 2011. | \$ 18,000 | \$ 18,000 |
| Liquidation value \$1.00 per share | | |
| Ordinary voting common shares, par value per share \$0.001, 800,000,000 shares authorized, 4,628,292 shares issued and outstanding at June 30, 2012 and 4,625,526 at December 31, 2011 | 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, 2012 and December 14 31, 2011 | | 14 |
| Additional paid-in capital | 152,713 | 152,652 |
| Retained deficit | (115,576) | (115,841) |
| Accumulated other comprehensive income, net of tax | 1,876 | 1,425 |
| Total Shareholders' Equity | \$ 57,031 | \$ 56,254 |
| Total Liabilities and Shareholders' Equity | \$ 159,936 | \$ 172,173 |

Investments

Investments Overview and Strategy

Atlas aligns its securities portfolio to support the liabilities and operating cash needs 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

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them to their maturities; however, the securities are available for sale if liquidity needs arise.

Portfolio Composition

Atlas held securities with a fair value of \$105,949 as at the period ended June 30, 2012, which was comprised primarily of fixed income securities. The securities held by the insurance subsidiaries 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.

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

Table 9 Fair value of securities portfolio

| June 30, 2012 | | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------|------------------------------|-------------------|------------------------------|-------------------------------|------------|
| Fixed Income: | | | | | |
| U.S. | - Government | \$36,213 | \$ 955 | \$ 2 | \$37,166 |
| | - Corporate | 40,690 | 1,115 | — | 41,805 |
| | - Commercial mortgage backed | 20,710 | 346 | 15 | 21,041 |
| | - Other asset backed | 4,496 | 117 | 3 | 4,610 |
| Total Fixed Income | | \$102,109 | \$ 2,533 | \$ 20 | \$104,622 |
| Equities | | 994 | 333 | — | 1,327 |
| Totals | | \$103,103 | \$ 2,866 | \$ 20 | \$105,949 |

| December 31, 2011 | | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------|------------------------------|-------------------|------------------------------|-------------------------------|------------|
| Fixed Income: | | | | | |
| U.S. | - Government | \$44,835 | \$ 911 | \$ — | \$45,746 |
| | - Corporate | 35,572 | 825 | 24 | 36,373 |
| | - Commercial mortgage backed | 17,493 | 208 | — | 17,701 |
| | - Other asset backed | 3,573 | 99 | 1 | 3,671 |
| Total Fixed Income | | \$101,473 | \$ 2,043 | \$ 25 | \$103,491 |
| Equities | | 994 | 147 | — | 1,141 |
| Totals | | \$102,467 | \$ 2,190 | \$ 25 | \$104,632 |

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 10 Fair value of fixed income securities by contractual maturity date

| As at: | June 30, 2012 | | December 31, 2011 | |
|----------------------------------|---------------|-------|-------------------|-------|
| | Amount | % | Amount | % |
| Due in less than one year | \$20,359 | 19.5 | \$29,407 | 28.4 |
| Due in one through five years | 22,035 | 21.1 | 27,317 | 26.4 |
| Due after five through ten years | 18,177 | 17.4 | 10,242 | 9.9 |
| Due after ten years | 44,051 | 42.0 | 36,525 | 35.3 |
| Total | \$104,622 | 100.0 | \$103,491 | 100.0 |

As at the period ended June 30, 2012, 40.6% 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 high quality securities portfolio provides us with sufficient liquidity. With a weighted average duration of 3.2 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 the anticipated liquidity needs.

Table of Contents**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. 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. The Company's 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 92.4% rated 'A' or better as at the period ended June 30, 2012 compared to 95.3% as at the year ended December 31, 2011.

Table 11 Credit ratings of fixed income securities portfolio

| As at: | June 30, 2012 | | | December 31, 2011 | | |
|------------------|---------------|------------|---|-------------------|------------|---|
| | Amount | % of Total | | Amount | % of Total | |
| AAA/Aaa | \$56,854 | 54.4 | % | \$54,717 | 52.9 | % |
| AA/Aa | 14,983 | 14.3 | % | 21,567 | 20.8 | % |
| A/A | 24,786 | 23.7 | % | 22,380 | 21.6 | % |
| BBB/Baa | 7,999 | 7.6 | % | 4,827 | 4.7 | % |
| Total Securities | \$104,622 | 100.0 | % | \$103,491 | 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 three month period ended June 30, 2012, the three month period ended June 30, 2011 or the three month period ended March 31, 2012.

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. Atlas had no material gross unrealized losses in its portfolio as at the period ended June 30, 2012, as at the period ended June 30, 2011, or as at the year ended December 31, 2011.

Estimated impact of changes in interest rates and securities prices

For Atlas' available-for-sale fixed income securities held as at the period ended June 30, 2012, a 100 basis point increase in interest rates on such held fixed income securities would have increased net investment income and income before taxes by approximately \$172. 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 \$187.

A 100 basis point increase would have also decreased other comprehensive income by approximately \$3,779 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.

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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.

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. Atlas continually evaluates and adjusts 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 deemed to 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. Atlas had \$8,545 recoverable from third party reinsurers (exclusive of amounts prepaid) and other insurers as at the period ended June 30, 2012 as compared to \$8,044 as at the year ended December 31, 2011.

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.

Deferred Tax Asset

Table 12 Components of Deferred Tax

| As at period ended: | June 30, 2012 | December 31, 2011 |
|--------------------------------------|---------------|-------------------|
| Deferred tax assets: | | |
| Unpaid claims and unearned premiums | \$2,822 | \$3,004 |
| Loss carry-forwards | 16,520 | 15,558 |
| Bad debts | 101 | 1,297 |
| Other | 1,480 | 1,338 |
| Valuation Allowance | (12,269) | (12,361) |
| Total gross deferred tax assets | \$8,654 | \$8,836 |
| Deferred tax liabilities: | | |
| Investment securities | \$967 | \$740 |
| Deferred policy acquisition costs | 946 | 1,027 |
| Other | 197 | 294 |
| Total gross deferred tax liabilities | \$2,110 | \$2,061 |
| Net deferred tax assets | \$6,544 | \$6,775 |

Atlas established a valuation allowance of approximately \$12,269 and \$12,361 for its gross future deferred tax assets as at the period ended June 30, 2012 and as at the year ended December 31, 2011, respectively.

Based on Atlas' expectations of future taxable income, as well as the reversal of gross future deferred tax liabilities, management believes it is more likely than not that Atlas will fully realize the net future tax assets, with the exception of the aforementioned valuation allowance. Atlas has therefore established the valuation allowance as a result of the potential inability to utilize a portion of its net operation losses in the U.S. which are subject to a yearly limitation. The uncertainty over the Company's ability to utilize a portion of these losses over the short term has led to the recording of a valuation allowance.

Atlas has the following total net operating loss carry-forwards as at the period ended June 30, 2012:

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Table 13 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 | 7,762 |
| 2012 | 2032 | 2,957 |
| Total | | \$48,589 |

Assets Held for Sale

On May 22, 2012, Atlas closed the sale of the headquarters building to 150 Northwest Point, LLC, a Delaware limited liability company. As at the year ended December 31, 2011, the property was recorded as a component of assets held for sale on Atlas' statement of financial position.

The total sales price of the property, which was paid in cash, amounted to \$13,975, less closing costs and related expenses of approximately \$633. In connection with the sale, the Company also wrote down an accrual of approximately \$792 held for real-estate taxes. Approximately \$830 of the sales price was held in escrow for real-estate taxes. Atlas recognized a gain on the sale of this property of \$213, which will be deferred and recognized over the 5 year lease term. In the three month period ended June 30, 2012, Atlas recognized \$5 as income.

There are two properties located in Alabama which are still for sale. These properties are listed for sale for amounts greater than carried values. Both were assets of Southern United Fire Insurance Company, which was merged into American Service in February 2010.

Claims Liabilities

The table below shows the amounts of total case reserves and incurred but not reported ("IBNR") claims provision as at the period ended June 30, 2012 and as at the year ended December 31, 2011. The provision for unpaid claims decreased by 15.6% to \$77,350 as at the period ended June 30, 2012 compared to \$91,643 as at the year ended December 31, 2011. During the three month period ended June 30, 2012, case reserves decreased by 8.2% compared to December 31, 2011, while IBNR reserves decreased by 32.9% generally due to the reporting of claims related to prior accident years and case reserve changes, which are consistent with management's expectations.

Table 14 Provision for unpaid claims by type - gross

| As at: | June 30, 2012 | December 31, 2011 | YTD% Change |
|---------------|------------------|----------------------|----------------|
| Case reserves | \$58,991 | \$64,276 | (8.2)% |
| IBNR | 18,359 | 27,367 | (32.9)% |
| Total | \$77,350 | \$91,643 | (15.6)% |

Table 15 Provision for unpaid claims by line of business – gross

| As at: | June 30, 2012 | December 31, 2011 | YTD% Change |
|-------------------|------------------|----------------------|----------------|
| Non-standard auto | \$13,918 | \$18,175 | (23.4)% |
| Commercial auto | 54,638 | 64,881 | (15.8)% |
| Other | 8,794 | 8,587 | 2.4 % |
| Total | \$77,350 | \$91,643 | (15.6)% |

Table 16 Provision for unpaid claims by line of business - net of reinsurance recoverables

| As at: | June 30, 2012 | December 31, 2011 | YTD% Change |
|-------------------|------------------|----------------------|----------------|
| Non-standard Auto | \$13,918 | \$18,175 | (23.4)% |
| Commercial Auto | 52,369 | 62,497 | (16.2)% |

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| | | | | |
|-------|----------|----------|-------|----|
| Other | 2,910 | 3,146 | (7.5 |)% |
| Total | \$69,197 | \$83,818 | (17.4 |)% |

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.

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Adjustments to reserves, both positive and negative, are reflected quarterly in the statement of income as estimates are updated.

The financial statements are presented on a calendar year basis for all data. Claims payments and changes in reserves, however, may be made on accidents that occurred in prior years, not on business that is currently insured. Calendar year losses consist of payments and reserve changes that have been recorded in the financial statements during the applicable reporting period, without regard to the period in which the accident occurred. Calendar year results do not change after the end of the applicable reporting period, even as new claim information develops. Calendar year information is presented in Note 9 to the unaudited condensed consolidated financial statements and shows the claims activity and impact on income for changes in estimates of unpaid claims. Accident year losses consist of payments and reserve changes that are assigned to the period in which the accident occurred. Accident year results will change over time as the estimates of losses change due to payments and reserve changes for all accidents that occurred during that period.

Due to Reinsurers

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

Off-balance sheet arrangements

As of June 30, 2012, Atlas has the following cash obligations related to its operating leases:

Table 17 Operating Lease Commitments

| Year | 2012 | 2013 | 2014 | 2015 | 2016 and beyond | Total |
|--------|------|------|------|------|-----------------|-------|
| Amount | 184 | 776 | 683 | 693 | 995 | 3,331 |

Shareholders' Equity

The table below identifies changes in shareholders' equity for the six month periods ended June 30, 2012 and June 30, 2011:

Table 18 Changes in Shareholders' Equity

| | Preferred Shares | Ordinary Voting Common Shares | Restricted Voting Common Shares | Additional Paid-in Capital | Retained Deficit | Accumulated Other Comprehensive Income (loss) | Total |
|----------------------------|------------------|-------------------------------|---------------------------------|----------------------------|------------------|---|----------|
| Balance December 31, 2011 | \$ 18,000 | \$4 | \$14 | \$ 152,652 | \$(115,841) | \$ 1,425 | \$56,254 |
| Net income | | | | | 265 | | 265 |
| Other Comprehensive Income | | | | | | 451 | 451 |
| Share-based compensation | | | | 57 | | | 57 |
| Stock options exercised | | | | 4 | | | 4 |
| Balance June 30, 2012 | \$ 18,000 | \$4 | \$14 | \$ 152,713 | \$(115,576) | \$ 1,876 | \$57,031 |
| Balance December 31, 2010 | \$ 18,000 | \$4 | \$14 | \$ 152,466 | \$(113,371) | \$ 3,056 | \$60,169 |
| Net loss | | | | | (512) | | (512) |
| Other comprehensive loss | | | | | | (764) | (764) |
| Share-based compensation | | | | 57 | | | 57 |

| | | | | | | | |
|-------------------------|-----------|------|-------|------------|--------------|----------|-----------|
| Stock options exercised | | | | 16 | | | 16 |
| Balance June 30, 2011 | \$ 18,000 | \$ 4 | \$ 14 | \$ 152,539 | \$(113,883) | \$ 2,292 | \$ 58,966 |

As of August 1, 2012, there are 4,628,292 ordinary voting common shares, 13,804,861 restricted voting common shares and 18,000,000 preferred shares issued and outstanding.

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 Kingsway, or its affiliated entities. The restricted voting common shares will convert to ordinary voting common shares in the event that these Kingsway

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owned shares are sold to non-affiliates of the Company.

Preferred shares are not entitled to vote and are beneficially owned or controlled by Kingsway. 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 Kingsway's beneficial interest is less than 10%.

The cumulative amount of dividends to which the preferred shareholders are entitled upon liquidation or sooner, if Atlas declares dividends, is \$1,212 as at the period ended June 30, 2012. The accumulation of these dividends has an unfavorable impact on book value per share of \$0.07 as at the period ended June 30, 2012 and an unfavorable impact to earnings per share of \$0.02 for the three month period ended June 30, 2012.

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 insurance 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." The 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. As at June 30, 2012, Atlas did not have any outstanding debt, and therefore, no near term debt service obligations.

Atlas currently has no material commitments for capital expenditures.

Capital Requirements

In the United States, a RBC formula is used by the NAIC to identify P&C insurance companies that may not be adequately capitalized. The NAIC requires capital and surplus not fall below 200% of the authorized control level. As of December 31, 2011 (when the last annual calculation was performed), the insurance subsidiaries are well above the required risk based capital levels, with risk based capital ratios based on the statutory financial statements of 592.5% and 803.4% for American Country and American Service, respectively, and have estimated aggregate capital in excess of the 200% level of approximately \$36,402.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), as of the end of the period covered by this quarterly report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as at the period ended June 30, 2012 that our disclosure controls and procedures were effective such that the information required to be disclosed in our United States Securities and Exchange Commission (the "SEC") reports is recorded, processed, summarized and reported within the

time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings:

In connection with its operations, the Company and its insurance subsidiaries are, from time to time, named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expense in excess of amounts provided and the Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

Item 1A. Risk Factors:

Information regarding risk factors appears in our Annual Report on Form 10-K for the year ended December 31, 2011 in Part I, Item 1A. Risk Factors. There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K as amended.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of securities during the three month period ended June 30, 2012 or the year ended December 31, 2011.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Item 10 - Material Contracts

- 10.8 150 Northwest Point - Sale Agreement
- 10.9 150 Northwest Point - Sale Agreement, Amendment 1
- 10.10 150 Northwest Point - Sale Agreement, Amendment 2
- 10.11 150 Northwest Point - Lease Agreement

Item 31 – Rule 13a-14(a)/15d-14(a) Certifications

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Item 32 – Section 1350 Certifications

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Item 101 - Interactive Data Files

- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 13, 2012

Atlas Financial Holdings, Inc.
(Registrant)

By: /s/ Paul A. Romano
Paul A. Romano
Vice President and Chief Financial Officer