



2010 Annual Report

President's Letter

On December 31, 2010, the going public transaction resulting in American Country Insurance Company ("**American Country**") and American Service Insurance Company, Inc. ("**American Service**") becoming wholly owned subsidiaries of Atlas Financial Holdings, Inc. ("**Atlas**", together with its subsidiaries, the "**Company**") was successfully completed. Atlas' ordinary voting shares subsequently began trading under the symbol AFH on the TSX Venture Exchange on January 6, 2011.

In a public statement in 2010, I commented that "This is an exciting opportunity for American Country and American Service, as subsidiaries of Atlas, to build on the companies' significant heritage and expertise as specialty commercial auto insurers. Our outstanding team of employees is committed to working together with our agents and other business partners towards a successful future." On behalf of the Atlas team, I can confirm that we are already capitalizing on this opportunity to realize the organization's potential for the benefit of our stakeholders.

Our strategic business plan focuses on those lines of business that American Country and American Service managed with historic underwriting profitability. The lines of business we write are "light commercial" automobile lines where our insured are primarily public automobile operators such as taxi, limousine and non-emergency paratransit operators. This business is generated through a diverse channel of licensed insurance agents who we feel are best able to effectively distribute our products.

Atlas and its insurance subsidiaries are able to deliver a strong value proposition to our policyholders and agents by leveraging our expertise, strength and commitment. We have a deep understanding of the specialized markets we serve, allowing us to best support our clients in both the policy administration and claim handling arenas. Our service levels position Atlas to win business on relationship attributes rather than relying on price as a sole differentiating factor. The efficient operating platform we've implemented reduces the cost of doing business for both the Company and its distribution channel.

American Country and American Service are collectively licensed in forty-seven states. In 2010, we wrote business in less than half of the states in which our insurance subsidiaries are licensed. The largest volume of business was generated in only a handful of states. Our licensure positions us extremely well both for organic growth and bolt-on acquisitions, which we intend to pursue opportunistically.

Property & casualty insurers in the United States reported that their net premiums written increased 1% to approximately \$425 billion in 2010, a turnaround from three straight years of declining volume. The sector's policyholder surplus also increased 9% to \$565 billion, the highest level ever recorded, despite challenging industry-wide underwriting results in recent years. Provided the overall economy and insurance industry continue to show signs of improvement, the next few years will represent an excellent time to execute our strategic plans for growth.

Historically, pricing in specialized lines of insurance have improved more rapidly than more general lines when the broader insurance cycle shifted from "soft" to "hard". Larger, less specialized, competitors tend to concentrate their efforts on more general lines of business at these times as well. We are beginning to see signs of these market dynamics in certain of our segments and geographic areas. Understanding the markets in which we compete, we will be patient in terms of deployment of capital, waiting for clear signs that our value proposition coupled with the market environment will yield the desired underwriting result. We believe that focusing on underwriting profit, rather than top line growth, will deliver the greatest return for our shareholders over the long-term.

We believe that the new infrastructure provides a strong foundation for stable and profitable growth. While many aspects of our business are newly established, we also benefit from experiences of the past. The enormous pool of policy data, industry information and expertise accumulated during the many years in which American Country and American Service focused on our core lines of business will serve as valuable assets in support of Atlas underwriting, pricing and expansion activities going forward.

Success in 2011 and beyond will result from our effective execution of the Company's strategic business plan. Growth will be pursued at an appropriate time in the market cycle and fueled by Atlas' strong value proposition. Our entire organization is experienced, focused and excited about the opportunities that lie ahead.

On behalf of the Atlas team,
Scott D. Wollney
President & CEO

Vision

To be the preferred specialty commercial transportation insurer in any geographic areas where our value proposition delivers benefit to all stakeholders.

Mission

To develop and deliver superior specialty insurance products that are correctly priced to meet our customers' needs and deliver consistent underwriting profit for the insurance companies we own. These products will be distributed to the insured through independent retail agents utilizing Atlas' efficient operating platform.

We will achieve our Vision and Mission through the design, sophisticated pricing and efficient delivery of specialty transportation insurance products. Through constant interaction with our retail producers, we will strive to thoroughly understand each of the markets we serve. This knowledge will assist us in ensuring we deliver strategically priced product to the right market at the right time. Analysis of the substantial data available through our operating companies will drive product and pricing decisions. We will focus on our key strengths and expand our geographic footprint and products only to the extent that these activities support our Vision and Mission. We will target niche markets that support adequate pricing and will be best able to adapt to changing market needs ahead of our competitors due to our scale and strategic commitment.

Values

<i>Integrity:</i>	<i>We value honesty. We hold ourselves and each other accountable for meeting all commitments.</i>
<i>Trust:</i>	<i>As a team we rely on and trust one another. We encourage transparency and two-way communication to ensure understanding.</i>
<i>Teamwork:</i>	<i>We proactively collaborate with each other and with stakeholders to achieve mutually beneficial goals. We believe everyone has an important contribution to make.</i>
<i>Discipline:</i>	<i>We are committed to the disciplined execution of our business - delivering predictable operational and financial performance. Using fact based decision making, we refuse to knowingly sacrifice underwriting profit to increase volume.</i>
<i>Excellence:</i>	<i>We have a strong work ethic and positive attitude which drives us to continually improve performance and exceed expectations.</i>
<i>Meritocracy:</i>	<i>We are committed to rewarding and promoting our team members on the basis of each individual's contribution and future potential within our team.</i>
<i>Innovation:</i>	<i>We develop and implement innovative ways to anticipate customer needs, grasp local market opportunities, create global value, and exceed the expectations of all stakeholders.</i>
<i>Community:</i>	<i>We strive to keep a balance between taking care of business and taking care of our families, friends and the communities in which we live and work.</i>

Atlas Financial Holdings, Inc. is listed on the TSX Venture Exchange (TSXV) under the trading symbol "AFH". This annual report pertains to consolidated information of Atlas Financial Holdings, Inc. Throughout this annual report, "Atlas" refers to the holding company only, and the "Company" refers to Atlas Financial Holdings, Inc. on a consolidated basis including its subsidiaries. Additional information relating to Company is available on SEDAR at www.sedar.com which can also be accessed from our website at www.atlas-fin.com. The information contained on this website is not incorporated by reference in this annual report and should not be considered a part of this annual report.

Caution Regarding Forward Looking Statements

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

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 the Company 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; as well as those factors discussed in the section entitled "Risk Factors" in this annual report.

Although the Company 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 annual report and the Company 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.

Reporting Currency

As the majority of the Company's operations is in the United States and is conducted in U.S. dollars, the Company has prepared its consolidated financial statements and its Management Discussion and Analysis in U.S. dollars in order to provide more meaningful information to their users, except where otherwise indicated. References to "dollars" or "\$" are to U.S. dollars and any references to "C\$" are to Canadian dollars. To effect this conversion, figures contained in this annual report originating in Canadian dollars have been translated into U.S. dollars using the current rate method, pursuant to which the consolidated statements of operations and cash flows have been translated using the average rate of exchange for the relevant year (of C\$1.02, to \$1.00 for the year ended December 31, 2010 and of C\$1.42 to \$1.00 for the year ended December 31, 2009), all assets and liabilities have been converted using the relevant year end rate of exchange (of C\$0.99 to \$1.00 as at December 31, 2010 and of C\$1.05 to \$1.00 as at December 31, 2009) and share capital has been converted using the rates of exchange in effect as of the dates of various capital transactions. Foreign exchange differences arising from the translations as described above are included in shareholders' equity under the section entitled "Accumulated Other Comprehensive Income (Loss)". All relevant financial information has been restated to reflect the Company's results as if they had been historically reported in U.S. dollars.

The consolidated financial statements presented elsewhere in this annual report are presented in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") which forms the basis of accounting principles generally accepted in the United States of America ("U.S. GAAP"). As discussed in Note 21 of the consolidated

financial statements there are no significant differences between Canadian generally accepted accounting principles and U.S. GAAP. As discussed in the Management Discussion and Analysis, the Company is required to adopt International Financial Reporting Standards as a replacement for U.S. GAAP for its interim and annual reporting periods beginning January 1, 2011.

Overview of the Company

CORPORATE OVERVIEW

The primary business of the Company is commercial automobile insurance in the United States, with a niche market orientation and focus on insurance for the “light” commercial automobile sector including taxi cabs, non-emergency paratransit, limousine, livery and business auto. Automobile insurance products provide 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 of claims 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 provide more predictable results than automobile accident benefit or personal injury insurance. The distinct coverage types discussed in this section may or may not be provided in each of the various jurisdictions in which the Company operates, subject to the Company’s business strategy and any applicable statutory, legal or regulatory requirements.

Commercial automobile insurance is typically positively correlated with both the U.S. economy and the property and casualty (“P&C”) insurance market cycle. Premiums written experienced declines for the past few years due to weakness in both the U.S. economy and the P&C market generally. Management expects market conditions to result in a constriction of capacity deployed into the Company’s niche lines of business, reducing competition and allowing for rate increases. The business plan assumes flat to moderate “hardening” in the insurance sector within the next four years.

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

In the insurance business, premiums charged for various products are set without certainty of the benefit and claim costs that will be incurred, often many years after issuance or expiration of the related policies. Management therefore conducts the business with a primary focus on achieving favorable underwriting results over the long term. To achieve these objectives, adherence to insurance risk management principles is stressed, and asset diversification and quality are emphasized.

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

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

As the business is exclusively in the U.S. at this time, the Company’s operating headquarters is 150 Northwest Point Boulevard, Elk Grove Village, IL 60007. Atlas maintains a registered office at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Formation of the Company

The Company was formed on December 31, 2010 through a business combination structured as a reverse triangular merger (the “merger”) amongst:

- a) JJR VI Acquisition Corp. (“JJR VI”), a “Capital Pool Company” within the meaning of TSXV policies incorporated under the laws of the Province of Ontario, Canada, and continued under the laws of the Cayman Islands;
- b) American Insurance Acquisition Inc. (“American Acquisition”), a wholly-owned indirect subsidiary of Kingsway Financial Services Inc. incorporated under the laws of Delaware by Kingsway America Inc.; and,
- c) Atlas Acquisition Corp, a wholly-owned subsidiary of JJR VI incorporated under the laws of Delaware. Pursuant to which Atlas Acquisition Corp. (a wholly-owned subsidiary of JJR VI) merged with and into American Acquisition and American Acquisition as the surviving company became a wholly-owned subsidiary of JJR VI. The merger constituted the “Qualifying Transaction” for JJR VI pursuant to TSXV policies. Prior to closing, JJR VI was continued under the laws of the Cayman Islands and became subject to the Companies Law of the Cayman Islands (as amended) as if it had been originally incorporated as a corporation under the laws of the Cayman Islands, and was renamed Atlas Financial Holdings, Inc. on closing of the merger.

The Company commenced operations under its current structure on December 31, 2010. Atlas Financial Holdings, Inc. ordinary voting shares and restricted voting shares (inclusively the “voting shares”) began trading on the TSXV under the symbol “AFH” on January 6, 2011.

Prior to the merger Kingsway America Inc. transferred 100% of the capital stock of its insurance subsidiaries, American Service and American Country to American Acquisition in exchange for \$35.1 million of American Acquisition common shares, \$18.0 million of American Acquisition preferred shares and promissory notes aggregating C\$7.9 million payable by American Acquisition. In addition, American Acquisition raised C\$7.9 million through a private placement offering of subscription receipts to qualified investors at a price of C\$2.00 per subscription receipt. American Country and American Service are sometimes referred to in this document as the Company’s “Operating Insurance Subsidiaries”.

In the merger, Kingsway America Inc. received 13.8 million restricted voting shares valued at \$27.4 million, 18 million non-voting preferred shares valued at \$18.0 million, and C\$7.9 million in cash from the private placement in exchange for 100% of the outstanding shares of American Acquisition and full payment of the promissory notes. Investors in the American Acquisition subscription receipt private placement received approximately 4 million ordinary voting shares plus warrants to purchase one ordinary voting share for each subscription receipt at C\$2.00 at any time until December 31, 2013 (three years after the closing of the merger). As part of the merger, JJR VI common shares held by former shareholders of JJR VI were consolidated on the basis of one post-consolidation JJR VI common share for every ten pre-consolidation JJR VI common shares, which post-consolidation JJR VI common shares were then exchanged on a one-for-one basis for ordinary voting shares.

Pursuant to Atlas’ Articles of Association, if the number of outstanding restricted voting shares exceeds 30% of the total number of all issued and outstanding Voting Shares, the votes attached to each restricted voting share will decrease automatically without further act or formality to equal the maximum permitted vote per restricted voting share such that the restricted voting shares as a class shall not carry more than 30% of the votes eligible to be voted at a general meeting of Atlas shareholders.

Based on the foregoing limitation, voting rights of the remaining Atlas shareholders are leveraged up by 2.82X immediately following the merger. The approximate voting control is illustrated below:

Table 1(a) Voting Control

	Voting Shares Ownership	
	Economic Interest	Voting Interest
Kingsway America Inc.	75.2%	30.0%
Atlas Investors LLC	6.2%	17.6%
Other Investors (includes Atlas Management)*	15.5%	43.6%
Original JJR VI Acquisition Corporation Shareholders*	3.1%	8.8%
	100.0%	100.0%

*All individual investors in these groups control less than 10% of voting rights of the Company after applying the 2.82X multiple.

Stock Options

On March 18, 2010, prior to the merger, in connection with its initial public offering (“IPO”), JJR VI granted options to purchase 250,000 JJR VI common shares to its IPO agent at an exercise price of C\$0.10 per common share on a pre-consolidation basis. The options were fully vested at the date of grant and expire on March 18, 2012. The fair value of the options was estimated to be C\$13,166 (C\$0.053 per option) using the Black-Scholes option pricing model.

Also on March 18, 2010 pursuant to option agreements, JJR VI issued options to its directors and officers to purchase up to 1,070,000 JJR VI common shares at an exercise price of C\$0.10 per common share on a pre-consolidation basis. At the time of the merger, officers and directors held 856,000 options, all of which were fully vested, with 535,000 expiring on December 31, 2011 and 321,000 expiring 10 years from their respective grant dates. The fair value of the options held by JJR VI officers and directors was estimated to be C\$80,545 (C\$0.075 per option) using the Black-Scholes option pricing model. The fair value of the options was charged to income of JJR VI prior to the merger with a corresponding credit to additional paid in capital.

The JJR VI options issued to its IPO agent, officers and directors were exchanged for options of Atlas on the basis of one Atlas option for every ten JJR VI options and the exercise price was adjusted from C\$0.10 to C\$1.00 per Atlas share. As at December 31, 2010, there were 25,000 and 85,600 Atlas options outstanding held by the IPO agent and former JJR VI officers and directors respectively, on a post-merger basis. On February 1, 2011, 15,703 of the options held by the IPO agent were exercised.

On January 3, 2011, Atlas adopted a 10% rolling stock option plan (the “**Stock Option Plan**”) in order to advance the interests of the Company by providing eligible persons with incentives. The maximum number of shares reserved under the Stock Option Plan together with all other security-based compensation arrangements of the Company is equal to 10% of the issued and outstanding ordinary voting shares at the dates of grant. Options cancelled, expired or forfeited are available for grant.

On January 18, 2011 Atlas granted options to purchase 369,749 ordinary voting shares to directors and officers of the Company at an exercise price of C\$2.00 per share. The options vest 25% at the date of grant and 25% on each of the next three anniversary dates of the grant date and expire on January 18, 2021. These options will be accounted for under *International Financial Accounting Standard – 2 Share-based Payments*. The fair value of these options was \$450,389 using the Black-Scholes option pricing model. Compensation expense will be charged to income over the vesting period based on the estimated number of options expected to vest.

As at the date of this annual report, there are 464,646 Atlas options outstanding.

Outstanding Shares

Table 1(b) below illustrates the amount of outstanding share, options and warrant of the Company as of December 31, 2010:

Table 1(b) Outstanding shares at merger

	Outstanding As of December 31, 2010
Ordinary voting shares	4,553,502
Restricted voting shares	13,804,861
Preferred shares, par value \$1.00	18,000,000
Stock options	110,600
Warrants	3,983,502

Operating Insurance Subsidiaries

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

With roots dating back to 1925 selling insurance for taxi cabs, American Country is one of the oldest insurers of the U.S. taxi and livery business. For more than 75 years, American Country expanded its expertise in this and other areas of specialty insurance. American Country was a wholly-owned subsidiary of Kingsway America Inc. prior to the merger. Prior to September 30, 2009, American Country was a wholly-owned subsidiary of an intermediary holding company, American Country Holdings, Inc., which merged into Kingsway America Inc., its former owner, on that date.

For over 25 years, American Service developed expertise in the area of specialty auto insurance. It was incorporated under the laws of the state of Illinois on March 11, 1983 and commenced operations on April 18, 1983 as a non-standard personal and commercial auto insurer writing business in the Chicago, Illinois area. Prior to September 30, 2009, American Service was a wholly-owned subsidiary of an intermediary holding company, American Service Investment Corporation, Inc., which merged into Kingsway America Inc., its former owner, on September 30, 2009.

Effective January 1, 2009, American Service and American Country formed a statutory pool (the **"American Service Pool"**), pursuant to which American Country cedes 100% of its gross insurance premiums, related liabilities and certain operating expenses to American Service. American Service then retrocedes 30% of the pooled gross insurance premiums, related liabilities and certain operating expenses to American Country and retains 70% of the pool.

As a result of the successful completion of the merger, on January 6, 2011, A.M. Best Co. upgraded the Financial Strength Rating of the Operating Insurance Subsidiaries, American Country and American Service, to "B" from "B-". Both companies are members of the American Service Pool and had previously been downgraded from "B" to "B-" on November 24, 2009. Upon completion of the Atlas transaction, A.M. Best, assigned to the Operating Insurance Subsidiaries an outlook of "stable" to all Financial Strength Ratings and they are no longer "under review with developing implications". A.M. Best also upgraded the Issuer Credit Ratings of the Operating Insurance Subsidiaries to "bb" from "bb-", and issued an Issuer Credit Rating of "b-" to Atlas. The outlook assigned to the Issuer Credit Ratings was also "stable".

Government Regulation

The Operating Insurance Subsidiaries are regulated at the state level, with the Illinois Department of Insurance being the primary (domestic) regulator. American Service is also licensed by the U.S. Treasury to provide insurance/surety where the U.S.

Federal Government is the beneficiary.

The Operating Insurance Subsidiaries pay premium tax in all states where premium is written. On average, they pay tax equal to 2.1% of written premium. There are other non-material fees paid in the normal course of business which are contemplated in the Company's business plan.

A primary metric used by insurance regulators is the National Association of Insurance Commissioners ("NAIC") risk based capital ("RBC") ratio. The Operating Insurance Subsidiaries are required to maintain certain minimum RBC ratios as provided for by insurance statutes in the states in which they write business.

Changes to legislative or industry developments can lead to increased competition in the markets in which the Operating Insurance Subsidiaries operate or reduce their ability to price risks appropriately. New competition from these developments can cause the prices for insurance to fall, adversely affecting underwriting profitability or volume of business written.

Marketing Plans and Strategies

The underwriting philosophy of the Operating Insurance Subsidiaries stresses receiving an adequate premium and spread of risks for the business they accept. They seek to set premium rates at levels that should generate profitable underwriting results. They regularly monitor premium adequacy both by territory and class of business and make adjustments as required. Typically, they do not reduce their pricing when competitors offer to underwrite certain classes of business at premium rates that they believe are below acceptable levels. Instead, they focus on maintaining their premium per risk rather than write a large number of risks at premiums that they believe would be inadequate and thus unprofitable. As a result, their premium volumes may be impacted when market conditions do not support adequate pricing.

As a normal part of operations, the Operating Insurance Subsidiaries regularly consider and implement initiatives to address adverse profitability trends in their business. These initiatives vary by jurisdiction, but may include tightening of underwriting requirements, price increases, termination of underperforming programs, reduction in agent commissions, policy non-renewals (where permitted) and other administrative changes. In most U.S. jurisdictions premium rates must be approved by the applicable regulatory authority. Once approved, an insurance company is prohibited from altering rates without regulatory approval for changes, other than through the use of filed debits and credits where allowed and available. In the United States, the Operating Insurance Subsidiaries market and distribute their products through a network of independent agents. The Company's strategy focuses on developing and maintaining strong relationships with its distribution channel.

The Operating Insurance Subsidiaries continually strive to provide excellent service in the markets in which they operate, communicating through a variety of channels as they look for opportunities to increase efficiency and reduce operating costs with their agents. With the Company's approval, agents provide quotations for policies on the Company's behalf based on specified insurance coverages within their prescribed underwriting guidelines. These guidelines dictate the kinds and amounts of coverage that may be written and the premium rates that may be charged for specified categories of risk. Upon acceptance by the insured, the agent can bind coverage based on the terms provided by the Company. As a rule, the Company does not delegate authority to settle or adjust claims, establish underwriting guidelines, develop rates or enter into other transactions or commitments through their independent agents.

The growth strategy for the Operating Insurance Subsidiaries is divided into four stages as follows:

Stage I	Re-energize Distribution	The Company's agency force produced more than \$100 million of premium relating to specialty commercial auto business for the Operating Insurance Subsidiaries prior to their previous parent company's de-emphasis of commercial automobile business lines. Under the Company's structure, premium is expected to trend upwards based on Atlas' strategic focus on these lines of business and the Company's emphasis on recapturing profitable business successfully written in the past.
Stage II	Pricing Cycle "Hardens"	After several years of a soft market, pricing is expected to improve as the market

		cycle runs its course, providing for more premium with the same exposure. A shift in market cycle would also be expected to reduce competition in the specialty markets on which the Company focuses.
Stage III	Geographic Expansion	In 2010, the Operating Insurance Subsidiaries wrote more than \$100,000 in annual premium in less than half of the states where they are licensed. Expansion into underutilized markets will be pursued strategically based on the Company's pricing and competitive analysis in each state.
Stage IV	Bolt-on Acquisitions	Atlas will evaluate opportunities to strategically add books of business and renewal rights to jump start expansion plans in core lines of business located in geographic areas that are deemed favorable from a profit perspective.

The Operating Insurance Subsidiaries have a diversified network consisting of independent retail agents. Within this channel the Operating Insurance Subsidiaries have a committed, but relatively small group of cornerstone agents in each state in which the Company operates. Cornerstone agents are producers who focus on commercial automobile insurance and are considered strategic partners. Illinois is the most developed state in terms of current distribution with a large number of smaller agents located throughout the state in addition to Cornerstone agents who tend to focus on business in major metro areas

Going forward, the Operating Insurance Subsidiaries distribution strategy is to develop a producer network similar to the one in Illinois for all states in which they write. The Company will establish specific business objectives with each cornerstone agent, including an expectation that the Company will represent one of such agent's top three insurance markets and set minimum annual written premium targets. Underwriting profit will be measured as a primary metric of success with respect to each agent's book of business.

Competitive Conditions

The insurance industry is price competitive in all markets in which the Operating Insurance Subsidiaries operate. The Company strives to employ disciplined underwriting practices with the objective of not writing under-priced risks. Based on the current size of the commercial automobile insurance industry, the Company requires only a relatively small market share to achieve its business plan.

The Operating Insurance Subsidiaries compete on a number of factors such as distribution strength, pricing and agency relationships, policy support and claim service, and market reputation. In their core commercial automobile lines in the United States, the Operating Insurance Subsidiaries, primary offerings are policies at the minimum prescribed limits in each state as established by statutory, municipal and other regulations. Many larger companies compete for this specialty business without the committed focus of Atlas. The Operating Insurance Subsidiaries also compete with numerous smaller insurance companies in regional markets, many of which have limited capital resources causing them to have traditionally relied upon the support of reinsurers to supplement their capital.

Like many of their competitors, the Operating Insurance Subsidiaries serve the independent agency market and in some cases sell insurance directly to customers when the policyholder also operates a licensed insurance agency. Direct underwriters typically operate in broader lines of business where they have certain competitive advantages over agency underwriters, and are less commonly found in specialty business. These advantages include increased name recognition obtained through extensive media advertising, loyalty of the customer base to the insurer rather than to an independent agency and, potentially, reduced policy acquisition costs and increased customer retention.

From time-to-time, the niche commercial market attracts competition from new entrants. In many cases due to their lack of experience, these entrants price their insurance below the rates that are necessary to support an underwriting profit. The Operating Insurance Subsidiaries believe in providing an acceptable premium for each related risk. As a result of their underwriting philosophy that it is not in their best interests to compete solely on price, the Operating Insurance Subsidiaries may experience a loss of market share during periods of intense price competition or "soft" market conditions.

The Operating Insurance Subsidiaries business plan is prepared in the context of the existing and anticipated competitive environment. They will leverage existing knowledge of the markets, historic underwriting data and expected efficiencies to

compete effectively. Their business plan focuses on achieving underwriting profit through the analysis of underwriting data and the use of sophisticated pricing as opposed to a “top line” approach to writing business. The Operating Insurance Subsidiaries will compete on their value proposition as opposed to on price alone.

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

Some of the Operating Insurance Subsidiaries competitive advantages are:

- American Country is one of the oldest taxi insurers in the U.S.;
- American Service is well known in its target markets;
- The Operating Insurance Subsidiaries employ experienced underwriters, each with more than 15 years of experience, who are committed to the commercial automobile insurance market and are able to more accurately identify profitable risks than competitors;
- Substantial universe of data from a much larger book of business enables accurate pricing in target markets and in the case of entry into new markets;
- Deep understanding of complex business processes related to our niche including local protocols required by municipalities as well as state or federal regulations;
- Development of predictive underwriting model will enhance risk selection and underwriting results;
- Customized, user-friendly web-enabled system adds value by reducing the need for agents to contact the Operating Insurance Subsidiaries and increases throughput;
- Systems and workflows designed to support specialized products;
- Knowledgeable group of adjusters including local facilities in key markets and a large network of independent adjusters in smaller markets;
- Process oriented around customer priorities with a focus on returning vehicles back into service quickly;
- In-depth understanding of equipment in specialized industries;
- Existing infrastructure and longstanding relationships allow for increased control over loss adjustment costs and fraud avoidance;
- Distribution channel cultivated over many years with longstanding relationships in key niche markets;
- Strong brand recognition in target markets; and
- Low initial asset leverage will allow for growth in premium written.

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This Management Discussion and Analysis ("MD&A") should be read in conjunction with our consolidated financial statements for the years ended December 31, 2010 and 2009 and related notes appearing elsewhere in this annual report. Unless otherwise noted, the information contained in this MD&A is based on information available to management as of April 15, 2011.

In the insurance business, premiums charged for various products are set without certainty of the benefit and claim costs that will be incurred, often many years after issuance or expiration of the related policies. Management therefore conducts the business with a primary focus on achieving favorable underwriting results over the long term. To achieve these objectives, adherence to insurance risk management principles is stressed, and asset diversification and quality are emphasized.

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

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

The consolidated financial statements are presented in conformity with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") which forms the basis of accounting principles generally accepted in the United States of America ("US GAAP"). As discussed in Note 21 of the consolidated financial statements there are no significant differences between Canadian generally accepted accounting principles and US GAAP. As further discussed later in this Management Discussion and Analysis, the Company is required to adopt International Financial Reporting Standards as a replacement for US GAAP for its interim and annual reporting periods beginning January 1, 2011.

Atlas Financial Holdings, Inc. is listed on the TSX Venture Exchange (TSXV) under the trading symbol AFH. Additional information relating to Company is available on SEDAR at www.sedar.com which can also be accessed from our website at www.atlas-fin.com. The information contained on this website is not incorporated by reference in this MD&A and should not be considered a part of this MD&A.

NON-GAAP MEASURES

The Company utilizes both U.S. GAAP and certain non-U.S. GAAP measures to assess performance. Securities regulators require that companies caution readers about non-U.S. GAAP measures that do not have a standardized meaning under U.S. GAAP and are unlikely to be comparable to similar measures used by other companies. The Company, like many insurance organizations, analyzes performance based on underwriting ratios such as combined, expense and loss ratios. The loss ratio is derived by dividing the amount of net claims incurred by net premiums earned. The expense ratio is derived by dividing the sum of commissions and premium taxes and general and administrative expenses by net premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio below 100% demonstrates underwriting profit whereas a combined ratio over 100% demonstrates an underwriting loss. Gains or losses from the Company's investment portfolio are not included in the combined ratio. Management believes that consistently delivering an underwriting profit is a key measure of performance of the underwriting business of a P&C insurance company. The Company includes all corporate overhead in the calculation of expense ratios and combined ratios, a practice that may vary from the practices of other insurance companies.

OVERVIEW

Atlas was formed by way of a going public transaction structured as a reverse triangular merger with JJR VI, a wholly-owned subsidiary of JJR VI, and American Insurance Acquisition, Inc. ("American Acquisition"), effective December 31, 2010. The merger resulted in American Country and American Service becoming wholly owned subsidiaries of Atlas. Atlas' ordinary voting shares and restricted voting shares began trading on the TSXV on January 6, 2011 under the symbol "AFH".

On February 25, 2010, Southern United Fire Insurance Company (Southern United) merged into American Service. The transaction was accounted for as a merger of companies under common control with the Southern United assets and liabilities included at their carrying values and its results of operations included in the financial statements from the date of the merger.

On July 1, 2009, American Service and American Country terminated and commuted (the "Commutation") all existing reinsurance agreements with a then affiliated reinsurer, Kingsway Reinsurance Corporation of Barbados ("Kingsway Reinsurance"). As a result of the Commutation, certain loss and unearned premium reserves that were previously ceded under the terms of the contract to Kingsway Reinsurance were returned to American Service and American Country and ceding commissions that were previously paid to American Service and American Country were returned to Kingsway Reinsurance. In addition, risk premiums were paid to American Service and American Country by Kingsway Reinsurance in exchange for commuting these balances. As part of the overall Commutation process, Kingsway also contributed capital to American Service and American Country by way of surplus notes to support surplus requirements of the two statutory insurance entities. Under U.S. GAAP, the notes are classified as notes payable under the liabilities section of the balance sheet. These surplus notes carried a 30 year term and a variable interest rate which began accruing in the fourth quarter of 2009 (see "Notes Payable" section below for more details). The impacts of the Commutation and Surplus Notes are included in the financial statements and discussions.

CONTINUATION ACCOUNTING

The Company was formed through a reverse triangular merger and the consolidated financial statements are those of Atlas and the Operating Insurance Subsidiaries, which have been prepared in accordance FASB ACS Section 805.40 Reverse Acquisitions. Atlas has been identified as the legal acquirer and ultimate parent. American Acquisition has been identified as the legal acquiree and subsidiary of Atlas. However, for reverse merger accounting purposes, Atlas is the accounting acquiree and American Acquisition is the accounting acquirer. Under this standard the financial statements prepared following the reverse merger are presented in the name of the legal acquirer and ultimate parent, Atlas, but are a continuation of the financial statements of the accounting acquirer, American Acquisition, with an adjustment for the capital structure (that is the number

and type of equity interests, including equity instruments issued to effect the merger) of Atlas, as the legal *acquirer* and ultimate parent and accounting acquiree. Accordingly, and as a result of the December 31, 2010 merger date, shareholders' equity as at December 31, 2010 and 2009 each reflects the Ordinary Voting Shares outstanding as at the date of the merger as well as the ordinary voting shares, restricted voting shares and preferred shares that were issued to effect the merger.

These financial statements reflect the consolidated results of Atlas for the periods ended December 31, 2010 and 2009 based on historical financial statements of the accounting acquirer, given that the merger occurred in December 2010. These financial statements and the results reflected contain certain expenses and fees that were required to support the infrastructure of its previous parent. The Company would not expect to incur similar levels of expenses, such as management fees, allocated overhead cost, and shared infrastructure expenses, after the date of the merger. For more information with respect to the impact of these expenses on the Company, see the Filing Statement to the qualifying transaction as filed on SEDAR including the pro forma financial statements.

Merger Impact on Income Taxes

The change in ownership from the merger has triggered certain considerations with respect to the U.S. tax laws and their impact to the Company. First the US tax laws allow the selling company, in this case Kingsway, to retain certain tax assets of the departing company. In addition, to discourage the sale of a company with tax losses solely due to value of the future tax deduction for the tax loss, US tax law generally provides for limits on the amounts of tax losses that can be utilized after such a sale. These tax law limitations, and related provisions within the merger agreement executed as part of the merger, limit the amount of the Company's prior tax losses that can be used after the merger. As a result of the two aforementioned US tax laws, the Company has written down its deferred tax asset related to loss carryforwards to the amount it anticipates it will retain and be available after the transaction. Prior to the merger and while under the management of its prior ownership, the Company had partially reduced the value of tax assets related to loss carryforwards to their anticipated realizable value through the establishment of a valuation allowance. Since the Company no longer has these tax assets available to it as of the date of the Qualifying Transaction, it has reduced both its deferred tax assets and the related valuation allowance accordingly resulting in two largely offsetting changes in the Company's deferred tax asset. Along with these offsetting adjustments, the Company has reassessed its future utilization of the remaining deferred tax assets and has established a valuation allowance for certain items thereon, and, correspondingly has recorded this adjustment through income.

Consumer Trends

The U.S. commercial automobile industry can be divided into the passenger transportation business line and the business automobile business line. The passenger transportation business line can be further divided into distinct groups including: (i) taxi cab operators, (ii) limousine operators, including sedans, limousines, chartered buses, airport shuttles and NY car service, and (iii) non-emergency paratransit and contracting. The business automobile business line is comprised of light vehicle weight, including cars, vans and pick-up trucks, owner operation or small fleet (1 – 5 vehicles), and local driving radius. Each of these groups has many similarities, but each business line has its own set of determining factors. The following information is based on the Company's market knowledge coupled with information and publications of the Taxi, Limousine and Paratransit Association and the New York City Taxi and Limousine Commission.

Taxi cab

The taxi cab business line is shifting with large dispatchers acquiring mid-sized companies resulting in an increased number of very large and very small insureds. Increased costs in fuel, insurance and depreciation have contributed to reduced revenues for the industry. Municipal and state regulation has increased the cost of doing business. Nationwide, the number of taxi permits or medallions has decreased almost 10% in the past ten years. Despite this trend, the available market is estimated at minimum \$350 million in written premium. While the overall taxi cab business line is shrinking, the owner operations and small fleets business line is expanding on a relative basis.

Limousine

There are over 13,000 chauffeur or limousine companies, with an estimated 125,000 limousines operating in the U.S. Industry growth has been stable to positive, with the average hourly rate charged for sedans increasing 54% over the last 16 years and the average hourly rate charged for a limousine increasing 75% over the last 16 years. Geographic distribution of operators shows the largest concentration in the Mid-Atlantic States (25%), followed by the South (23%), Midwest (15%) and Pacific (13%). The limousine business line is not experiencing the consolidation seen in the taxi cab business line. There are relatively few very large accounts.

NY Car Service

Car service vehicles are defined as for hire vehicles other than a black car, New York City Medallion taxi cab or New York City limousine, operating from an authorized New York City Taxi and Limousine Commission radio base station. The vehicles are older model sedans and vans which are not in the pristine condition of a black car.

There are approximately 20,000 car service vehicles in New York City, approximately 9,000 of these are black car vehicles and the business line is growing. The main writers for this business line are New York- based insurance companies.

Paratransit and contracting

The paratransit (non-emergency) business line is an emerging and expanding market with many experienced taxi cab operators and drivers converting to this business. Contracting revenue sources are Medicaid compliant transit agencies, school districts, private health care, local social service agencies and doctors' offices. Issues facing this business line are contract insurance requirements and increases in costs, labor issues and regulatory controls. There is also a concern regarding operators who are not being regulated by municipal, state or federal government. As the U.S. population ages, this business line is expected to grow. The expansion of special needs programs in schools also creates increased demand for paratransit operators. Understanding exposure related to geographic areas of operation and risks relating to the use of special equipment, customarily used in this business line, are critical to underwriting success in this area.

Business automobiles

This is an expansion line which includes businesses of many types that utilize light vehicles such as cars, vans or pick-up trucks in the course of their business. As with other classes of business on which the Company focuses, these vehicles often have special equipment. The Company has access to a large network of non-metro personal line agents to approach in connection with marketing efforts relating to this line. These agents tend not to be specialized in a particular area and often have limited markets to write commercial auto. As with any expansion line, research will be necessary to understand specific markets. Growth will be deliberate with underwriting profit in mind.

Government Regulation

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

The Operating Insurance Subsidiaries pay premium tax in all states where premium is written. On average, they pay tax equal to 2.1% of written premium. There are other non-material fees paid in the normal course of business which are contemplated in the Company's business plan.

A primary metric used by insurance regulators is the NAIC risk based capital ratio. The Operating Insurance Subsidiaries are required to maintain certain minimum risk based capital ratios as provided for by insurance statutes in the states in which they write business.

Changes to legislative or industry developments can lead to increased competition in the markets in which the Operating Insurance Subsidiaries operate or reduce their ability to price risks appropriately. New competition from these developments can cause the prices for insurance to fall, adversely affecting underwriting profitability or volume of business written.

OVERALL PERFORMANCE

SELECTED ANNUAL INFORMATION

The following financial data is derived from the Company's audited consolidated financial statements for the years ended December 31, 2010 and 2009:

Table 1 Selected annual information

Year ended December 31 (\$'000s)	2010	2009
Total revenue	59,973	81,406
Net (loss) in total	(21,812)	(13,235)
Total assets	225,438	277,601
Total long-term financial liabilities	132,579	183,015
Cash dividends declared for Ordinary Voting Shares	-	-
Cash dividends declared for Restricted Voting Shares	-	-
Cash dividends declared for Preferred Shares	-	-

The Operating Insurance Subsidiaries have a diversified network consisting of independent retail agents. Within this channel the Operating Insurance Subsidiaries have a committed, but relatively small group of cornerstone agents in each state in which the Company operates. Cornerstone agents are producers who focus on commercial automobile insurance and are considered strategic partners. Illinois is the most developed state in terms of current distribution with a large number of smaller agents located throughout the state in addition to Cornerstone agents who tend to focus on business in major metro areas

Going forward, the Operating Insurance Subsidiaries distribution strategy is to develop a producer network similar to the one in Illinois for all states in which they write. The Company will establish specific business objectives with each cornerstone agent, including an expectation that the Company will represent one of such agent's top three insurance markets and set minimum annual written premium targets. Underwriting profit will be measured as a primary metric of success with respect to each agent's book of business.

REVENUES

Premium Income and Competitive Factors

Revenues reported in our consolidated financial statements are derived from net premiums earned, insurance investment income, net realized gains (losses), and miscellaneous income. Total revenue from operations in 2010 was \$60.0 million, a decrease of 26% over the \$81.4 million in revenue from operations in 2009.

Table 2 and Table 3 below set forth our gross premiums written by line of business and by state, respectively, for the periods indicated.

TABLE 2 Gross premiums written by line of business

For the year ended December 31 (in millions of dollars, except for percentages)

	2010			2009		
	Amount		%	Amount		%
Personal Non-Standard Automobile	\$ 23.0		49.3 %	\$ 46.9		43.6 %
Commercial Automobile	13.7		29.3	52.6		48.9
Other	10.0		21.4	8.1		7.5
Total Commercial	\$ 23.7		50.7 %	\$ 60.7		56.4 %
Total Gross Premiums Written	\$ 46.7		100.0 %	\$ 107.6		100.0 %

Commercial Automobile

Commercial automobile policies provide coverage for light weight, individual unit or small fleet commercial vehicles typically with the minimum limits prescribed by statute, municipal or other regulatory requirements. In the year ended December 31, 2010, gross premiums written from commercial automobile decreased by 74% to \$13.7 million compared to \$52.6 million in 2009. This decrease was primarily as result of the actions related to the Operating Subsidiaries' former parent company's strategy which focused on private passenger automobile insurance. This downward trend began to reverse in mid 2010 as plans for Atlas' going forward strategy were communicated publicly.

Commercial automobile insurance has outperformed the overall P&C industry in each of the past ten years based on data compiled by the National Association of Insurance Commissioners ("NAIC"). Each of the specialty business lines on which the Company's strategy is focused is a subset of this historically profitable industry subset.

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

There is a positive correlation between the economy and commercial automobile insurance in general. However, public automobile operators may be less likely than other business lines of 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 our target policyholders' businesses.

Non-Standard Automobile

Consistent with Atlas' focus on commercial automobile insurance, the Company is transitioning away from the non-standard auto line. 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.

Non-standard automobile insurance is generally accompanied by increased loss exposure, higher claims experience and a higher incidence of consumer and service provider fraud. In addition, policy renewal rates tend to be low for non-standard automobile policies as policyholders often lapse their policies because of non-payment of premiums and subsequently reapply as new policyholders. This creates an on-going requirement to replace non-renewing policyholders with new policyholders and to react promptly to issue cancellation notices for non-payment of premiums to mitigate potential bad debt write-offs. These

factors, however, are mitigated to some extent by higher premium rates, the tendency of high-risk individuals to own low value automobiles, and generally lower limits of insurance coverage as insureds tend to purchase coverage at the minimum prescribed limits. This line of business is not consistent with the Company's strategic focus going forward. Written premiums from non-standard auto represented 49.3% of the Companies' business in 2010.

The insuring of non-standard drivers is often transitory. When their driving records improve, insureds may qualify to obtain insurance in the standard market at lower premium rates. We often cancel policies for non-payment of premium and, following a period of lapse in coverage, insureds frequently return to purchase a new policy at a later date. As a result, our non-standard automobile insurance policies experience a retention rate that is lower than that experienced for standard market risks. Most of our insureds pay their premiums on a monthly installment basis and we typically limit our risk of non-payment of premiums by requiring a deposit for future insurance premiums and the prepayment of subsequent installments.

In the United States, the Operating subsidiaries wrote non-standard automobile insurance in various states, predominantly Illinois and Indiana in 2010. These non-standard automobile insurance policies generally have lower limits of insurance commensurate with the minimum coverage requirement under the statute of the state in which we write the business. These limits of liability are typically not greater than \$50,000 per occurrence.

In the year ended December 31, 2010, gross premiums written from non-standard automobile insurance decreased 51% from the year ended December 31, 2009 to \$23.0 million. This reduction in premium is consistent with Atlas' strategic objective of transitioning away from this line of business. The significant decrease in gross premiums written is due to the various steps taken to discontinue unprofitable lines, discontinuation of the managing general agent distribution channel, and the run-off of Southern United. Also contributing to the reduction in non-standard automobile premium volumes is the continuing poor economic conditions in much of the U.S. The non-standard automobile insurance market tends to contract during periods of high unemployment as is currently being experienced in the U.S. Non-standard automobile insurance accounted for 49% and 44% of our gross premiums written for the years ended December 31, 2010 and 2009, respectively.

Assigned Risk

In the United States, automobile insurers are generally required to participate in various involuntary residual market pools and assigned risk plans that provide automobile insurance coverage to individuals or other entities that are unable to purchase such coverage in the voluntary market. Participation in these pools in most jurisdictions is in proportion to voluntary writings of selected lines of business in that jurisdiction.

Geographic Concentration

TABLE 3 Gross premiums written by state

For the year ended December 31 (in millions of dollars, except for percentages)

	2010			2009		
	Amount	%		Amount	%	
Illinois	\$ 28.2	60.4	%	\$ 53.2	49.4	%
Indiana	4.8	10.3		7.9	7.3	
Virginia	3.7	7.9		13.7	12.7	
New York	2.8	6.0		10.7	10.0	
Michigan	2.0	4.3		2.8	2.6	
Minnesota	1.5	3.2		2.2	2.0	
Ohio	1.5	3.2		7.1	6.7	
Texas	0.5	1.1		2.8	2.6	
Other	1.7	3.6		7.2	6.7	
Total Gross Premium Written	46.7	100.0		107.6	100.0	

As evidenced by the data in the table above, 60% of the Company's 2010 gross written premiums came from the state of Illinois and 79% came from the top 3 states (factoring in Indiana and Virginia). The Company's future business success is primarily

dependent upon the health of the economy and business climate in those areas coupled with opportunities in areas where the Company is licensed but not actively writing.

As described earlier, a significant aspect of the Company's business plan is to increase business writings in both states where 2010 written premiums were below target levels and in states where the Operating Insurance Subsidiaries have licenses which were not utilized. The pace and focus of these expansion plans will be driven by pricing and competitive analyses performed by the Company.

INVESTMENT SECURITIES AND INVESTMENT INCOME

Overview and Strategy

We manage our securities portfolio to support the liabilities of the Operating Insurance Subsidiaries, to preserve capital and to generate investment returns. We invest predominantly in corporate and government bonds with relatively short durations. The securities are managed by a third-party investment management firm pursuant to the Company's investment policies and guidelines as approved by its Board of Directors. The Company monitors the third-party investment managers' performance and their compliance with both their individual mandate and the Company's investment policies and guidelines.

Our investment guidelines stress the preservation of capital, market liquidity to support payment of our liabilities and the diversification of risk. With respect to fixed income securities, we generally purchase securities with the expectation of holding them to their maturities.

In accordance with the preservation of capital as a key component of the investment policy, the Company undertook the strategy in early 2009 of liquidating substantially all of the common share equity portfolio with the objectives of reducing the volatility of the balance sheet and protecting the Company's capital. The proceeds from the disposal were reinvested in high quality fixed income securities.

Portfolio Composition

At December 31, 2010, the Company held cash and securities with a fair value of \$173.0 million. As of December 31, 2010, the securities portfolio was comprised primarily of fixed income securities. Insurance subsidiaries' securities must comply with applicable regulations that prescribe the type, quality and concentration of securities. These regulations in the various jurisdictions in which our insurance subsidiaries are domiciled permit investments in government, state, municipal and corporate bonds, and preferred and common equities, within specified limits and subject to certain qualifications. Our U.S. operations typically invest in U.S. dollar denominated securities to mitigate their exposure to currency rate fluctuations.

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

TABLE 4 Fair value of securities portfolio

As of December 31 (in millions of dollars)

	2010	2009
Type of security		
Term deposits	\$ 7.9	\$ 12.4
Government bonds	69.5	109.0
Corporate debt securities	76.6	93.5
Subtotal	\$ 154.0	\$ 214.9
Cash and cash equivalents	19.0	6.7
Total	\$ 173.0	\$ 221.6

A summary of investment results before the effect of income taxes are reflected in the following table.

TABLE 5 Investment results before the effect of income taxes

For the year ended December 31 (in millions of dollars)

	2010		2009	
Average securities at cost	\$	197.3	\$	155.6
Investment income after expenses	\$	6.0	\$	3.9
Percent earned on average investments (annualized)		3.0 %		2.5 %
Net realized gains (losses)	\$	0.9	\$	(0.7)
Total investment income	\$	6.9	\$	3.2
Total realized yield		3.5 %		2.1 %

Investment income excluding net realized gains increased by 54% to \$6.0 million in 2010 compared to \$3.9 million in 2009. The increase is primarily due to the Commutation of the affiliated reinsurance contracts which increased the amount of invested assets held by the Company by \$134.6 million at the date of Commutation.

Commutation is an agreement between the ceding insurer and the reinsurer that provides for the valuation, payment and complete discharge of some or all current and future obligations between the parties under particular reinsurance contracts.

The Company incurred net realized gains in 2010 of \$0.9 million compared to net realized losses of \$0.7 million in 2009. The net realized gains in 2010 are due to rebalancing of the portfolio.

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 6 Fair value by contractual maturity date

As of December 31 (in millions of dollars)

	2010			2009		
	Amount	%		Amount	%	
Due in less than one year	\$ 21.6	14.0 %		\$ 23.3	10.8 %	
Due in one through five years	88.6	57.5		127.7	59.4	
Due after five through ten years	24.0	15.6		39.5	18.4	
Due after ten years	19.8	12.9		24.4	11.4	
Total	\$ 154.0	100.0 %		\$ 214.9	100.0 %	

At December 31, 2010, 72% 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. The Company 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 our policyholders, we believe that the high quality, liquid securities portfolio provides us with sufficient liquidity.

Market Risk

Market risk is the risk that the Company 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 the Company's securities portfolio is comprised of primarily fixed income securities that are usually held to maturity, periodic changes in interest rate levels generally impact its financial results to the extent that the securities in its available-for-sale portfolio are recorded at market value. Also, reinvestment yields on maturing securities are different than the original yields. During periods of rising interest rates, the market value of the existing fixed income securities will generally decrease and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

Credit Risk

Credit risk is defined as the risk of financial loss due to failure of the other party to a financial instrument to discharge an obligation. The Company is exposed to credit risk principally through its investments and balances receivable from policyholders and reinsurers. It monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of U.S. government bonds) as well as through ongoing review of the credit ratings of issuers in the securities portfolio. Credit exposure to any one individual policyholder is not material. Its policies, however, are distributed by agents who may manage cash collection on its behalf pursuant to the terms of their agency agreement. The Company 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 reinsurer's 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 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 greater than 97% rated 'A' or better as December 31, 2010 compared to 93% as of December 31, 2009.

TABLE 7 Credit ratings of fixed income securities portfolio

As of December 31	2010	2009
Rating		
AAA/Aaa	57.6 %	57.3 %
AA/Aa	17.1	12.1
A/A	22.7	23.1
Percentage rates A/A2 or better	97.4 %	92.5 %
BBB/Baa	2.6	1.7
Not rated	-	5.8
Total	100.0 %	100.0 %

Other than temporary impairment

The Company recognizes losses on securities for which a decline in market value was deemed to be other than temporary. The Company did not recognize charges for securities impairments that were considered other than temporary for the years ended December 31, 2010 and 2009.

Management performs a quarterly analysis of our securities holdings to determine if declines in market value are other-than-temporary. Further information regarding our detailed analysis and factors considered in establishing an other-than-temporary impairment on an investment security is discussed within the 'Critical Accounting Estimates' section of this MD&A.

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, we 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, the Company may elect to sell securities at a loss.

As of December 31, 2010, the Company had no material gross unrealized losses in its portfolio.

As of December 31, 2009, unrealized losses related to government bonds and term deposits were considered temporary as

there was no evidence of default risk. Corporate bonds, even those below investment grade, in a material unrealized loss position, continued to pay interest and were not subject to material changes in their respective debt ratings. We concluded that a default risk did not exist at the time and, therefore, the decline in value was considered temporary. As we have the capacity to hold these securities to maturity, no impairment provision was considered necessary. In making the impairment decisions, we utilized the professional expertise of the investment advisors, analyzed independent economic indicators and reviewed stock market trends. In deciding whether to reduce the carrying value of common and preferred shares, we take into account a number of factors, including whether the decline in market value is more than 20% and has persisted for a period exceeding six months. In the case of fixed income securities, we also take into account whether the issuer is in financial distress (unable to pay interest or some other situation that would put in question the issuer's ability to satisfy its debt obligations).

PROVISION FOR UNPAID CLAIMS

Overview

Claims management is the procedure by which an insurance company determines the validity and amount of a claim. An important part of claims management is verifying the accuracy of the information provided to the insurance company at the time the policy is underwritten. The nature of the insurance the Company writes typically requires more specialized claims management and in particular, more thorough investigative procedures, greater defense costs than many other types of insurance and thorough understanding of the vehicles, usage and equipment insured. Insurance claims on our policies are investigated and settled by our local claims adjusters, and we may also employ independent adjusters, private investigators, various experts and legal counsel to adjust claims. We believe that claims management is fundamental to our operations.

Reserving

A provision for unpaid claims includes several components: a provision for unpaid claims based on estimated liability on individual reported claims (more commonly known as case reserves), an estimated provision for claims that have not yet been reported and expected future development on case reserves, collectively known as the incurred but not reported claims provision ("IBNR"). The provision for unpaid claims also includes an estimate of allocated loss adjustment expenses (primarily defense costs) and unallocated loss adjustment expenses (primarily the adjustment handling costs by claims personnel) which we expect to incur in the future.

The establishment of a provision for unpaid claims represents management's best estimate of the ultimate cost of both reported but unsettled claims and unreported claims. The provision for unpaid claims does not represent an exact calculation of the liability but instead represents management's best estimate at a given date utilizing actuarial and statistical procedures. The provision for unpaid claims represents the undiscounted estimates of the ultimate net cost of all unpaid claims and loss adjustment expenses. Management continually reviews its estimates and adjusts as experience develops and new information becomes available. In establishing the provision for unpaid claims, the Company also takes into account estimated recoveries, reinsurance, salvage and subrogation.

The process for establishing the provision for unpaid claims reflects the uncertainties and significant judgmental factors inherent in predicting future results of both known and unknown claims. As such, the process is inherently complex and imprecise and estimates are constantly refined. The process of establishing the provision for unpaid claims relies on the judgment and opinions of a large number of individuals, including the opinions of the independent appointed actuary.

Factors affecting the provision for unpaid claims include the continually evolving and changing regulatory and legal environments, actuarial studies, professional experience and the expertise of our claims personnel and independent adjusters retained to handle individual claims. A change in claims handling procedures and changes in individuals involved in the reserving process can also affect the provision for unpaid claims. The quality of the data used for projection purposes, existing claims management practices, including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes, all affect the provision for unpaid claims.

In addition, time can be a critical part of the provision's determination, because the longer the span between the incidence of a loss and the payment or claim settlement, the more variable the ultimate settlement amount can be. Accordingly, short-tailed claims, such as property claims, tend to be more predictable than long-tailed claims such as general liability and automobile accident benefit claims. Short-tail claims are reported and settled quickly, resulting in less estimation variability. Our provision for unpaid claims is not discounted to reflect the time value of expected future payouts of claims.

The table below shows the amounts of total case reserves and incurred but not reported ("IBNR") claims provision as of December 31, 2010 and 2009. The provision for unpaid claims decreased by 22% to \$132.6 million at the end of 2010 compared to \$169.5 million at the end of 2009. During 2010, case reserves decreased by 24% compared to December 31, 2009, while IBNR reserves decreased by 18% generally due to the premium reductions and the pattern of claims payment during 2010.

TABLE 8 Total case reserves and incurred but not reported claims provision (IBNR)

As of December 31 (in millions of dollars)

	2010		2009		% Change
Case Reserves	\$	87.1	\$	114.1	(24%)
IBNR		45.5		55.4	(18%)
Total	\$	132.6	\$	169.5	(22%)

Impact of Changes in Provision for Unpaid Claims

Any adjustments are reflected in the consolidated statement of operations in the period in which they become known and are accounted for as changes in estimates. Even after such adjustments, ultimate liability or recovery may exceed or be less than the revised estimates. A change that increases the provision for unpaid claims is known as an unfavorable development and will reduce net income. A change that decreases the provision for unpaid claims is known as a favorable development and will increase net income.

Management Process

During 2010, reserves were reviewed on a quarterly basis and rolled forward based on ultimate loss ratios determined by management in conjunction with the Operating Insurance Subsidiaries' outside independent actuary's full annual review as completed on February 25, 2011.

In the full actuarial review process, a loss and loss adjustment expense reserve analysis is completed for each Operating Insurance Subsidiary. Unpaid claims reserves, allocated loss adjustment expense reserves and unallocated loss adjustment expense reserves are separately analyzed by line of business or coverage by accident year. A wide range of actuarial methods are utilized in order to appropriately measure ultimate loss and loss adjustment expense costs. Many of these methods are designed to properly address changes in claims settlement rate, changes in case reserve adequacy and other operational changes. These methods include Paid Loss Development, Incurred Loss Development, Paid Bornhuetter-Ferguson, Incurred Bornhuetter-Ferguson, Berquist-Sherman Paid Method, Adjusted Incurred Method, Case Reserve Development Method and Closure-Based Regression Method. Reasonability tests such as average outstanding reserves, ultimate loss trends and ultimate allocated loss adjustment expense to ultimate loss are also performed prior to selection of ultimate losses. Reserves are indicated by line of business or coverage and are separated into case reserves, IBNR reserves and unallocated loss adjustment expense reserves.

External Actuarial Process

An independent actuary is appointed for each Operating Insurance Subsidiary to ascertain whether the provision for unpaid claims as established by management is reasonably stated and within the independent appointed actuary's range of reasonable reserve estimates.

In accordance with actuarial standards for 2010 and 2009, the independent appointed actuary develops a variability of the

reserve estimates, more commonly known as a range of reasonable reserve estimates, and a recommended actuarial central estimate of reserves. The actuarial central estimate is intended to represent the independent appointed actuary's best estimate and will not necessarily be at the mid-point of the high and low estimates of the range. The range of reasonable reserve estimates reflects the uncertainties associated with analyzing the reserves, and includes estimates that could be produced by appropriate actuarial methods and assumptions. This range does not reflect the range of all possible outcomes. Actual results outside of this range are possible.

Actuaries have to exercise a considerable degree of judgment when evaluating the factors and assumptions in analyzing the reserves. Different actuaries may choose different assumptions when faced with uncertainty, based on their individual backgrounds, professional experiences and areas of focus. As a result, the estimate selected by one actuary may differ significantly from that of another actuary.

As the processes of management and the independent appointed actuary are undertaken separately, the provision for unpaid claims recorded by management can differ from the independent appointed actuary's central estimate. Comparing management's selected reserve estimate to the actuarial central estimate and range of reasonable reserves determined by the independent appointed actuary continues to be an important step in the reserving process, however, where differences exist and the Company believes the internally developed reserve estimate to be more accurate, management's estimates are not changed. We believe this to be consistent with industry practice for companies with an appropriate reserving process in place. As of December 31, 2010, the independent appointed actuary's central estimate exceeded management's selected reserve estimate by \$1.3 million, or less than 1% of the Company's total unpaid claims provision.

The Company's total unpaid claims provision was \$132.6 million and \$169.5 million at December 31, 2010 and 2009, respectively.

The range of reasonable reserve estimates for gross unpaid claims for the Company estimated by the independent appointed actuary, the actuarial central estimate and the actual carrying amount for unpaid claims are shown in the following table.

TABLE 9 Comparison of actuarial ranges for gross unpaid claims

	Low	High	Actuarial Central Estimate	Carrying Amount
As December 31, 2010	\$ 124.2	\$ 145.4	\$ 133.9	\$ 132.6
As December 31, 2009	160.3	187.7	172.8	169.5

The following table summarizes the provision for unpaid claims, net of recoveries from reinsurers, established as of the end of each of the years ended December 31, 2000 through 2010 and compares the re-estimation of those liabilities as of December 31, 2010. This table presents the development of unpaid claims liabilities reflected on the balance sheets as of each year ended. The top line of the table presents the estimated provision for unpaid claims recorded at the balance sheet date for each of the indicated years. This provision represents the estimated amount of losses and loss adjustment expenses for claims unpaid at the balance sheet date, including the incurred but not reported claims provision. The table also presents the re-estimated provision for unpaid claims on a gross basis, with separate disclosure of the re-estimated reinsurance recoverables on unpaid claims.

The development of the provision for unpaid claims is shown by the difference between estimates of claims as of the initial year end and the re-estimated liability at each subsequent year end. This is based on actual payments in full or partial settlement of claims, plus re-estimates of the payments required for claims still open or claims still unreported. Favorable development (reserve redundancy) means that the original claim estimates were higher than subsequently determined. Unfavorable development (reserve deficiency) means that the original claim estimates were lower than subsequently determined.

The table presents the cumulative amount paid with respect to the previously recorded provision as of the end of each succeeding year and the re-estimated amount of the previously recorded provision based on experience as of the end of the succeeding year. The estimate is increased or decreased as more information about the claims becomes known for individual years. For example, as of December 31, 2010, we had paid \$93.1 million of the currently estimated \$99.2 million of claims expected to be incurred for in-force policies in 2003; thus an estimated \$6.1 million of losses for in-force policies from 2003 remain unpaid as of December 31, 2010.

The cumulative development represents the aggregate change in the estimates over all prior years. For example, unpaid claims at December 31, 2000 have developed adversely by \$17.7 million over the subsequent ten years and unpaid claims at December 31, 2001 have developed favorably by \$9.1 million over the subsequent nine years. The effect on income during the past two years due to changes in estimates of unpaid claims is shown in Note 11 to the consolidated financial statements as the “prior years” contribution to incurred losses.

Each cumulative development amount includes the effects of all changes in amounts during the current year for prior periods. For example, the amount of the development related to losses settled in 2010, but incurred in 2002, will be included in the cumulative development amounts for years 2003 through 2009. The deficiency identified during 2010 of \$5.3 million was attributable to unpaid claims as of December 31, 2009 for unpaid claims for 2009 and all prior years.

TABLE 10 Provision for unpaid claims, net of recoveries from reinsurers

As of December 31, 2010 (in millions of dollars, except percentages)

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Unpaid claims originally established – end of year ; gross	132.6	179.1	173.7	183.6	191.2	202.7	195.4	189.3	193.9	175.1	145.4
Less:	6.5	5.2	103.6	107.8	111.9	95.2	90.6	91.1	94.5	38.8	28.1
Reinsurance recoverable on unpaid losses											
Unpaid claims originally established – end of the year ; net	126.1	173.9	70.0	75.8	79.3	107.5	104.8	98.2	99.4	136.3	117.3
Cumulative paid as of:											
One year later		76.8	(38.0)	29.8	29.9	30.6	37.2	41.4	46.1	51.3	53.3
Two years later			13.6	2.8	49.8	52.2	56.1	66.4	75.7	84.2	88.9
Three years later				38.6	33.7	66.8	69.8	77.9	91.8	104.4	110.7
Four years later					57.9	60.9	78.0	85.6	97.8	114.6	121.1
Five years later						75.9	76.2	89.4	101.7	118.3	126.3
Six years later							85.1	88.8	103.9	120.4	128.1
Seven years later								93.1	104.5	122.0	129.3
Eight years later									106.6	123.2	130.3
Nine years later										124.0	131.7
Ten years later											132.2
Re-estimated liability as of:											
One year later		179.2	75.9	76.1	80.7	107.0	100.1	99.3	107.8	116.6	140.1
Two years later			78.7	78.1	81.1	108.6	102.2	101.9	109.6	123.6	130.0
Three years later				82.0	79.9	109.8	103.9	103.4	112.5	126.1	133.1
Four years later					83.4	87.6	104.9	104.8	112.5	127.2	132.9
Five years later						91.3	91.0	105.6	114.0	127.6	133.4
Six years later							94.5	97.5	114.7	130.0	134.0
Seven years later								99.2	110.0	130.4	136.6
Eight years later									110.7	126.9	137.1
Nine years later										127.2	134.7

Ten years later										135.0
As of December 31, 2010: Cumulative (redundancy) deficiency	5.3	8.6	6.2	4.1	(16.2)	(10.3)	1.0	11.3	(9.1)	17.7
Cumulative (redundancy) deficiency as a % of reserves originally established- net	3%	12%	8%	5%	(15%)	(10%)	1%	11%	(7%)	15%
Re-estimated liability- gross	184.8	194.0	197.6	203.3	215.7	210.9	211.9	227.3	235.0	224.9
Less: Re-established reinsurance recoverable	5.6	115.3	115.6	119.9	124.4	116.4	112.7	116.6	107.8	89.9
Re-estimated provision-net	179.2	78.7	82.0	83.4	91.3	94.5	99.2	110.7	127.2	135.0
Cumulative deficiency -gross	5.7	20.3	14.0	12.1	13.0	15.5	22.6	33.4	59.9	79.5
% of reserves originally established -gross	3%	12%	8%	6%	6%	8%	12%	17%	34%	55%

Accident Year

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 11 to the 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.

The following table includes a segmentation of the provision for gross unpaid claims by line of business and the next table includes similar data net of their respective external reinsurance bases.

TABLE 11 Provision for unpaid claims - gross

As of December 31 (in millions of dollars)

Line of Business	2010	2009
Non-Standard Auto	28.9	37.6
Commercial Auto	92.7	120.4
Other	11.0	11.5
Total	\$ 132.6	\$ 169.5

TABLE 12 Provision for unpaid claims - net of reinsurance recoverables

As of December 31 (in millions of dollars)

Line of Business	2010	2009
Non-Standard Auto	28.9	37.5
Commercial Auto	92.1	119.8
Other	5.1	7.0
Total	\$ 126.1	\$ 164.3

Information with respect to our liability for unpaid claims and the subsequent development of those claims is presented in the following table.

TABLE 13 Net increase in prior years' incurred claims estimates by line of business and accident year

Year Ended December 31, 2010 (in millions of dollars)

Accident year		Non- standard Auto	Commercial Auto	Other	Total
2005 & prior	\$	(0.1)	\$ 4.1	\$ (0.3)	\$ 3.7
2006		(0.4)	0.4	(0.2)	(0.2)
2007		(1.2)	1.7	(0.1)	0.4
2008		(1.0)	(0.1)	-	(1.1)
2009		1.2	1.6	(0.3)	2.5
Total	\$	(1.5)	\$ 7.7	\$ (0.9)	\$ 5.3

Year Ended December 31, 2009 (in millions of dollars)

Accident year		Non- standard Auto	Commercial Auto	Other	Total
2004 & prior	\$	(0.6)	\$ 0.8	\$ (0.2)	\$ -
2005		(0.2)	0.2	-	-
2006		-	(1.3)	-	(1.3)
2007		2.0	1.1	-	3.1
2008		4.9	(0.8)	-	4.1
Total	\$	6.1	\$ -	\$ (0.2)	\$ 5.9

The net movement in prior years' incurred claims, net of reinsurance, for the years ended December 31, 2010, and 2009 were increases of \$5.3 million and \$5.9 million, respectively. Table 13 identifies the relative contribution of the increases or (decreases) in incurred claims attributable to the respective products and incurred loss years.

At the Operating Insurance Subsidiaries a detailed review of claim payment and reserving practices performed during 2010 led to significant changes in both practices, increasing ultimate loss estimates and accelerating claim payments. Reserves were adjusted to account for these changes, primarily during the second and third quarters of 2010. Consistent claim handling and reserving processes are now in place across both Operating Insurance Subsidiaries. These processes will continue to be monitored and reviewed from a continuous improvement perspective.

Commercial Auto

At December 31, 2010 and 2009 the provisions for unpaid claims for commercial auto business were \$92 million and \$120 million, respectively. The primary reason for the decrease is reduced premium volume during 2010 and the claim payment patterns during 2010.

Non-Standard Automobile

At December 31, 2010 and 2009 the provisions for unpaid claims for our non-standard automobile business were \$28.9 million and \$37.6 million, respectively. The decrease is due to the reduction in the volume of non-standard premium written and an acceleration of claim payments, partially offset by the reserve strengthening described above.

REINSURANCE

We purchase reinsurance from third parties in order to reduce our liability on individual risks and our exposure to catastrophic

events. 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.

We generally purchase reinsurance to limit our net exposure to a maximum amount on any one loss of \$0.5 million with respect to commercial automobile liability claims. The Company also purchases reinsurance to protect against awards in excess of its policy limits. In addition, in 2009 the Operating Insurance Subsidiaries were part of a larger group of insurance companies that purchased catastrophe reinsurance providing coverage in the event of a series of claims arising out of a single occurrence, carrying limits of exposure to \$2.0 million per occurrence to a maximum coverage of \$38.0 million. This catastrophic coverage was deemed appropriate based on the insurance subsidiaries being part of a larger group of companies. However, this exposure is much more limited due to the Operating Insurance Subsidiaries' relatively low limits of first party physical damage coverage and the geographic regions in which we operate on a go forward basis resulting in the determination that catastrophe reinsurance is not required and therefore was not renewed for the Company in 2010.

Reinsurance ceded does not relieve us of our ultimate liability to our insureds in the event that any reinsurer is unable to meet its obligations under its reinsurance contracts. We therefore enter into reinsurance contracts with only those reinsurers who we believe have sufficient financial resources to provide the requested coverage. Reinsurance treaties are generally subject to cancellation by our reinsurers or us on the anniversary date and are subject to renegotiation annually. We regularly evaluate the financial condition of our reinsurers and monitor the concentrations of credit risk to minimize our exposure to significant losses as a result of the insolvency of a reinsurer. We believe that the amounts we have recorded as reinsurance recoverables are appropriately established. Estimating amounts of reinsurance recoverables, however, is subject to various uncertainties and the amounts ultimately recoverable may vary from amounts currently recorded. As of December 31, 2010, we had \$11.3 million recoverable from third party reinsurers and other insurers. In the past year the Company has been able to reduce the risk of repayment from third party reinsurers. At December 31, 2010 approximately 87% of the amounts recoverable from third party reinsurers were due from reinsurers rated "A-" or higher compared to 71% at December 31, 2009.

Estimating amounts of reinsurance recoverables is also impacted by the uncertainties involved in the establishment of provisions for unpaid claims. As our underlying reserves continue to develop, the amounts ultimately recoverable may vary from amounts currently recorded. Our reinsurance recoverables are generally unsecured. We regularly evaluate our reinsurers, and the respective amounts recoverable, and an allowance for uncollectible reinsurance is provided for, if needed. Table 15 below summarizes the composition of the amounts due from reinsurers at December 31, 2010, by the rating as assigned by A.M. Best to the applicable reinsurers.

TABLE 15 Composition of amounts due from reinsurers by rating

As of December 31 2010

A.M. Best	2010	2009
A++	19.1%	57.7%
A+	-	0.3%
A	67.7%	9.3%
A-	0.1%	3.6%
	86.9%	70.9%
B++ and below	5.6%	13.5%
Not rated	7.5%	15.6%
Total	100.0%	100.0%

RESULTS OF OPERATIONS

For the years ended December 31, 2010 and 2009

Gross Premiums Written

During the year ended December 31, 2010, gross premiums written were \$46.7 million compared to \$107.6 million in 2009 representing a 57% decrease.

Written and earned premiums were reduced substantially in 2010 as compared to 2009 and prior years as a result of the changes in the business, described below, coupled with the overall reduction in premium seen industry-wide as a result of the economic conditions and insurance cycle. Approximately 10% - 15% of the reduction in business is estimated to be attributable to industry-wide issues with the balance being a direct result of the companies' business decisions.

Termination of Program Business (American Country and American Service)

In 2008 and early 2009, all programs written through general and managing general agents were terminated. The contracts relating to these programs generally required 180 day cancellation terms. As a result, the most significant impact on both written and earned premium was seen in 2010. To the extent that claims for any of these programs were handled by a managing general agent or third party administrator, the claims were brought "in house" immediately following the termination of the program.

Elimination of unprofitable Non Standard Auto Business (American Service only)

In late 2009 and early 2010 all of American Service's non-standard auto programs were evaluated with respect to underwriting profitability. It was determined that all programs other than Illinois and northwest Indiana business should be discontinued subject to contractual and statutory requirements. The majority of the reduction in written premium eliminated as a result of this initiative was seen in 2010. As non-standard auto business tends to have a less than annual average policy term, the reduction in earned premium was also most substantial in 2010 as well.

Temporary Discontinuation of Commercial Lines (American Country and American Service)

Due to American Country and American Service's former parent company's strategic focus on private passenger non-standard auto in 2010, commercial lines agents were advised in January 2010 that no new business would be accepted by American Country and American Service. At that time, it was also communicated that in-force business was to be non-renewed beginning in the second quarter of 2010. As a result of the decision to pursue the Atlas transaction, these directives were reversed mid-year and new business applications were once again accepted beginning in June 2010. Only policies with effective dates in April and May were non-renewed. This temporary discontinuation of business affected written premium most dramatically in the first half of the year with a less dramatic effect in the second half as business activity began to ramp up in anticipation of the Atlas transaction. Earned premium was most affected in the second half of 2010 and will continue to some extent in 2011 as the Company's commercial policies are annual in nature and have varied effective dates.

Net Premiums Written

Net premiums written are equal to gross written premiums less the premiums ceded under the terms of the Company's in force reinsurance treaties. Net premiums written decreased 66% to \$32.5 million for the year ended December 31, 2010 compared with \$94.6 million for the year ended December 31, 2009. This decrease is attributed to the same factors as described in the 'Gross Premiums Written' section above.

Net Premiums Earned

Premiums are earned ratably over the term of the underlying policy. Net premiums earned decreased 30% to \$53.6 million for the year ended December 31, 2010, compared with \$76.2 million for 2009. This decrease is attributed to the same factors as described in the 'Gross Premiums Written' section above. The extent of the decrease is mitigated by the larger volume of

business written in 2009 which was partially earned in 2010.

Net Investment Income

Investment income, excluding net realized gains, increased by 54% to \$6.0 million in 2010, compared to \$3.9 million in 2009. The increase is primarily due to the Commutation of the affiliated reinsurance contracts which increased the amount of invested assets held by the Company by \$134.6 million at the date of commutation.

Net Realized Investment Gains (Losses)

The Company incurred net realized gains in 2010 of \$0.9 million compared to net losses of \$0.7 million in 2009. The net realized gains in 2010 are due to rebalancing investments within the portfolio.

Miscellaneous (Loss) Income

Miscellaneous (loss) income was a net loss of \$0.6 million for 2010 and net income of \$2.0 million for 2009, respectively.

In 2010 the Company wrote off a mortgage receivable from Kingsway for a loss of \$1.7 million and booked an impairment on a Mobile, Alabama property held for sale of \$0.4 million. For further information on these items see Related Party Transactions and Assets Held for Sale later in this MD&A

Also included in this category was policy fee income of \$1.6 million for 2010 and \$2.1 million for 2009, respectively. These fees include installment payment fees, non-sufficient funds fees and certain required regulatory report filing and preparation fees received from insurance customers.

Claims Incurred

The loss ratio for 2010 was 90% compared to 85% for 2009 due to increasing ultimate loss estimates for current and prior accident years. The results for 2010 reflected an increase in the provision for unpaid claims occurring prior to December 31, 2010. This increase was approximately \$4.0 million, of which \$2.2 million is related to discontinued and non-core lines of business, increasing the ratio by 7.4 percentage points for 2010. The claims results included strengthening of prior years' loss reserves. This movement in incurred claims, net of reinsurance, for the years 2010, and 2009 were increases of \$5.3 million and \$5.9 million, respectively. Also factoring into the percentage increase in the claims incurred ratio were the impacts of the decreasing gross written premium volume and corresponding decrease in net earned premiums on the Company's internal claims adjusting costs or unallocated loss adjustment expenses ("ULAE").

Underwriting Expenses

The expense ratio was 55% in 2010 and 43% in 2009. The higher ratio in 2010 is due to net premium earned decreasing at a greater rate than expense reductions. This is primarily due to timing of costs associated with the Company's strategic change program and management fees and costs allocated from the Company's previous parent, Kingsway America Inc.

Combined Ratio

The combined ratio was 145% in 2010 compared with 128% in 2009, which produced an underwriting loss of \$25.6 million in 2010 compared with a loss of \$23.4 million in 2009. The underwriting loss is attributable to the factors described in the 'Claims Incurred' and 'Underwriting Expenses' sections above.

Net Loss before Income Taxes

The Company generated net losses before income taxes of \$19.2 and \$18.3 for the years ended December 31, 2010 and December 31, 2009, respectively, the components of which are discussed above. The pre-tax diluted loss per share computed

under continuation accounting rules was \$1.05 for 2010 compared to \$0.99 for 2009.

Income Tax Expense (Benefit)

The Company recorded income tax expense of \$2.6 million in 2010 compared to a tax benefit of \$5.0 million in 2009, for an effective tax rate of (13.4%) and 27.5% respectively. The Company's statutory tax rate is 34% for both 2010 and 2009 and would have resulted in tax benefits of \$6.5 million and \$6.2 million, respectively, absent the effects of the other factors discussed below.

The following table reconciles tax expense from the statutory U.S. tax rate of 34% to the actual percentage of pre-tax losses incurred for 2010 and 2009.

TABLE 16 Income tax expense (benefit) reconciliation
(in thousands of dollars)

	2010			2009		
	Tax expense (benefit)	% of Pre-tax Income		Tax expense (benefit)	% of Pre-tax Income	
Provision for taxes at U.S. statutory marginal income tax rate of 34% in 2010 and 2009	\$ (6,541)	(34.0)	%	\$ (6,208)	(34.0)	%
Valuation allowance	(9,476)	(49.3)		1,184	6.5	
Non-deductible expense	183	1.0		28	-	
Tax implications of going public transaction (excluding valuation allowance)	18,412	95.7		-	-	
Other	(3)	-		(28)	-	
Income tax expense (benefit)	\$ 2,575	13.4	%	\$ (5,025)	(27.5)	%

The primary factors resulting in the deviation from the statutory tax rates are the tax implications of the Qualifying Transaction in 2010 and the changes in valuation allowance in both 2010 and 2009.

In 2010 the Qualifying Transaction resulted in a yearly limitation (the U.S. tax law Section 382 limitation that applies to changes in ownership) on the future utilization of the Company's net operating loss carryforwards. Furthermore as part of the Qualifying Transaction, the Company's prior Parent, Kingsway, is anticipated to retain certain tax assets of the Company previously reported as part of the Company's deferred tax asset. Due to these aspects of the Qualifying Transaction, the Company's 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. These limitations resulted in a maximum expected net deferred tax asset the Company would have available after the Qualifying Transaction and which would more-likely-than-not be utilized in the future. The result was a permanent write-down of the deferred tax asset by \$18.4 million before consideration of the valuation allowance maintained by the Company. As the Company maintained a valuation allowance against a portion of the affected deferred tax assets, the Company reported a net \$9.5 million deferred tax benefit associated with the decrease in the valuation allowance necessary at the end of the year related to the permanent write downs as well as increases to the valuation allowance as a result of current year activities. Due to the size of the write-down of deferred tax assets, the Company reported a tax expense for 2010 of \$2.6 million despite the fact that the Company had a pre-tax loss for the year.

The 2009 \$1.2 million increase in the valuation allowance and related reduction in tax benefit were due to the Company's determination that certain deferred tax assets as of December 31, 2009 related to net operating loss carryforwards that similarly may not be utilized in the future.

Net Loss and Loss Per Share

In 2010 the Company incurred a loss of \$21.8 million compared to a loss of \$13.2 million in 2009. The losses in both 2010 and

2009 were largely due to underwriting losses.

The diluted loss per share computed under continuation accounting rules was \$1.19 for 2010 compared to \$0.72 for 2009

Book Value Per Share

Book value per share was \$2.30 at December 31, 2010 and \$1.88 at December 31, 2009.

FINANCIAL CONDITION

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 the Company's 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 derives cash from its subsidiaries generally in the form of dividends and in the future may charge management fees to the extent allowed by statute or other regulatory approval requirements to meet its obligations. Atlas' Operating Insurance Subsidiaries fund their obligations primarily through premium and investment income and maturities in the securities portfolio. These Operating 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, Atlas would need to raise capital, sell assets or incur debt obligations. At December 31, 2010, the Company did not have any outstanding debt, and therefore, no near term debt service obligations.

In 2010 and 2009 the Operating Insurance Subsidiaries paid dividends of \$16.7 million and nil, respectively, to their parent during that time period, Kingsway America, Inc.

In 2010 the Operating Insurance Subsidiaries incurred losses, as did Atlas. The result of the losses by the Operating Insurance Subsidiaries reduces Atlas's capital flexibility by limiting the dividend capacity of the Operating Insurance Subsidiaries.

For further details on the capital adequacy of the Operating Insurance Subsidiaries, see the 'Capital Requirements' narrative in this 'Financial Conditions' section of this MD&A.

ASSETS HELD FOR SALE

As of December 31, 2010 the Company had five properties held for sale with an aggregate book value of \$15.0 million. All of the properties individual book values were below their respective appraised amounts less reasonably estimated selling costs the last time appraisals were received in 2010. All were listed for sale through brokers at those appraised values as of December 31, 2010.

The two largest properties held for sale, representing 97% of the total book value of assets held for sale, were the Company's headquarters building in Elk Grove Village, Illinois with a book value of \$12.5 million and an office building in Mobile, Alabama with a book value of \$2.0 million. The remaining three properties are vacant land parcels in areas surrounding Mobile, Alabama with an aggregate book value of \$0.5 million.

The Elk Grove Village building is in a major office park in a good location and includes approximately 176,848 square feet of net rentable area and 7.2 acres of land. This building and property were previously owned by Kingsway and were contributed to American Service as a capital contribution in June 2010. See— Related Party Transactions later in this MDA.

The Mobile, Alabama office building has approximately 29,386 square feet of usable office space, 23.1 acres of land, and was written down by \$0.4 million on December 31, 2010 to an estimated selling price less costs to sell. A contract for the sale of this property at \$2.1 million was executed on January 24, 2011. The sale is expected to be consummated in the second quarter of 2011.

INDEBTEDNESS

Notes Payable

As of December 31, 2010, the Company did not have any outstanding debt. American Country and American Service had surplus notes payable issued to Kingsway America Inc., their former parent, as of December 31, 2009. The par and carrying values of the notes totaled \$13.5 million, maturing on September 30, 2039 with interest at 2% over prime and accrued interest at December 31, 2009 of \$0.2 million.

Each payment of interest on and/or repayment of principal of the surplus notes may be made only with the prior approval of the Illinois Director of Insurance, which approval will only be granted if, in the judgment of the Illinois Director of Insurance, the financial condition of the insurance subsidiary warrants the making of such payments and their statutory surplus reflects sufficient funds to cover the amount of such payment.

As it relates to the surplus notes, the Operating Insurance Subsidiaries were not restricted from incurring any future indebtedness, policy claims, or prior claims.

Southern United, which was merged into American Service on February 25, 2010, also had a surplus note issued to Kingsway America, Inc. in the amount of \$950,000 with the same terms as the notes above except it carried an interest rate of 7.25%.

On December 2, 2010, approval was received from the Illinois Department of Insurance and the three notes were forgiven by Kingsway. The \$14.5 million total principal amount was recorded as additional paid in capital. As of December 31, 2010, accrued interest totaling \$1.0 million representing interest from inception of those notes to the date of forgiveness remained in accounts payable. This accrued interest was paid in full to Kingsway America, Inc. in the first quarter of 2011.

Contractual Obligations

Our provision for unpaid claims does not have contractual maturity dates. We have included an estimate of when we expect our unpaid claims to be paid, based on historical payment patterns, in Table 17. The Company maintains a securities portfolio with a substantial amount in short-term securities to provide adequate cash flows for the payment of claims. At December 31, 2010 the Company had 14% or, \$21.6 million, of its investment portfolio maturing within one-year or less. The unpaid claims in Table 17 have not been reduced by amounts recoverable from reinsurers to reflect the gross impact on cash flows. As noted above, as of December 31, 2010, the Company did not carry any debt obligations. This compares with surplus notes payable of \$13.5 million as of December 31, 2009.

TABLE 17 Contractual Obligations – Payments Projected by Period
(in thousands of dollars)

	2011	2012	2013	2014	2015	Thereafter	Total
Unpaid Claims	\$ 58.4	\$ 34.2	\$ 19.9	\$ 10.5	\$ 5.1	\$ 4.5	\$ 132.6

The exact timing of the payment of claims cannot be predicted with certainty.

Capital Requirements

Risk Based Capital

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, 2010, the insurance subsidiaries are well above the required risk based capital levels, with risk based capital ratios based on the unaudited statutory financial statements of 322.1% and 535.7% for American Country and American Service, respectively, and have estimated aggregate capital in excess of the 200% level of approximately \$26.1 million.

TABLE 18 Risk based capital (“RBC”)

As of December 31 (in millions of dollars)

	2010		2009	
	RBC (%)	Excess over Minimum ¹	RBC (%)	Excess over Minimum ¹
American Service	536	\$ 22.4	201	\$ 0.1
American Country	322	3.7	202	0.1
Total Consolidated		\$ 26.1		\$ 0.2

¹ Excess over regulatory minimum expressed in millions of dollars.

Go-Forward Earnings

The two year look back “continuation accounting” financial statements for the Company provided in this annual report will not provide an accurate overview of likely future results of the operations for the following reasons.

- Previous years financial statements include significant management fees and allocated expenses paid to Kingsway as the former owner of the Operating Insurance Subsidiaries that were discontinued at the close of the merger.
- Business mix and volume will be different in the future, consistent with the Company’s business strategy. A number of non-profitable and non-strategic lines of business have been discontinued. Some previously profitable lines of business which were de-emphasized under the former owners’ business strategy are the Company’s go-forward focus. As they become a relatively larger portion of the Company’s book of business, the underwriting results from these lines will trend towards go-forward business.
- Cost savings should be achieved as a result of combining the Operating Insurance Subsidiaries operations coupled with other expense reduction initiatives. Some non-recurring costs were incurred in 2009 and early 2010 relating to strategic reorganization and realignment of the operations.

LEGAL PROCEEDINGS

In the ordinary course of business, from time-to-time the Company is subject to various claims and legal proceedings, including class action lawsuits. It is also subject to claims and legal proceedings alleging bad faith or extra contractual damages. While it is not possible to estimate the final outcome of these various proceedings at this time, the Company does not believe the outcome of such proceedings will have a material impact on its financial conditions or results of operations.

There are no material actual or pending legal proceedings to which the Company is a party or of which any of its assets is subject. Management is not aware of any such legal proceedings contemplated against the Company.

EMPLOYEES

At December 31, 2010, the Company employed approximately 95 personnel. Approximately 13% of this work force provides support at cost under a transition services agreement entered into between Atlas and Kingsway Financial Services, inc. to facilitate a smooth transition following the Qualifying Transaction. None of our employees are represented by a labor union. We believe that we have good relations with our employees and have never experienced a work stoppage.

CONTROLS AND ACCOUNTING POLICIES

DISCLOSURE CONTROLS AND PROCEDURES

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

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted as of December 31, 2010, by and under the supervision of the Company's management, including the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings were effective as of such date to ensure that information relating to the Company required to be disclosed in reports that are filed or submitted under Canadian securities legislation are processed, summarized and reported within the time periods specified by those laws.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Chief Financial Officer have assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 based on the criteria set forth in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations* of the Treadway Commission. Based on that assessment, the Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2010, the Company's internal control over financial reporting was effective.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions, some of which may relate to matters that are uncertain. As more information becomes known, these estimates and assumptions could change and thus have a material impact on the Company's financial condition and results of operations in the future. The most significant estimates and assumptions used in preparing the financial statements are described below.

Provision for unpaid claims

A significant degree of judgment is required to determine amounts recorded in the financial statements for the provision for unpaid claims. The process for establishing the provision for unpaid claims reflects the uncertainties and significant judgmental factors inherent in predicting future results of both known and unknown claims. As such, the process is inherently complex and imprecise and estimates are constantly refined. The process of establishing the provision for unpaid claims relies on the judgment and opinions of a large number of individuals, including the opinions of the independent appointed actuary. Further information regarding estimates used in determining our provision for unpaid claims is discussed in the Provision for Unpaid Claims section of this MD&A.

Factors affecting the provision for unpaid claims include the continually evolving and changing regulatory and legal environments, actuarial studies, professional experience, the expertise of our claims personnel and independent adjusters retained to handle individual claims. A change in claims handling procedures and changes in individuals involved in the reserving process can also affect the provision for unpaid claims. The quality of the data used for projection purposes, existing

claims management practices, including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes, all affect the provision for unpaid claims.

Because the establishment of reserves is an inherently uncertain process involving estimates, current provisions may not be sufficient. Adjustments to reserves, both positive and negative, are reflected in the statement of income of the period in which such estimates are updated. The independent appointed actuary develops a variability of the reserve estimates, more commonly known as a range of reasonable reserve estimates, and a recommended actuarial central estimate of reserves. The actuarial central estimate is intended to represent the independent appointed actuary's best estimate and will not necessarily be at the mid-point of the high and low estimates of the range.

As of December 31, 2010 the actuarial central estimate of the independent appointed actuary was \$133.9 million and the Company's provision for unpaid claims was \$132.6 million. The independent appointed actuary's range of reasonable reserves as of December 31, 2010 was between \$124.4 million and \$145.4 million.

Impairment of securities

The establishment of other-than-temporary impairment on an investment security requires a number of judgments and estimates. We perform a quarterly analysis of the securities holdings to determine if declines in market value are other than temporary. The analysis includes some or all of the following procedures, as applicable:

- identifying all security holdings in an unrealized loss position that has existed for at least six months or other circumstances exist where management believes those circumstances may impact the recoverability of the security;
- obtaining a valuation analysis from third party investment managers regarding the intrinsic value of these holdings based on their knowledge and experience together with 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 the investment grade credit rating from third party security rating agencies;
- assessing if declines in market value are other than temporary for any debt security holding with a non-investment grade credit rating based on the continuity of its debt service record;
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed; and
- assessing the Company's ability and intent to hold these securities at least until the investment impairment is recovered.

The risks and uncertainties inherent in the assessment methodology used 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 charges recorded in 2010 or 2009 as a result of analysis of the securities portfolio for other than temporary impairments.

Income taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in our consolidated

financial statements. In determining the provision for income taxes, we interpret tax legislation in a variety of jurisdictions and make assumptions about the expected timing of the reversal of future tax assets and liabilities and the valuation of deferred tax assets related to tax loss carry forwards.

A valuation allowance is established when it is more likely than not that all or a portion of the deferred tax assets will not be realized. The ultimate realization of the deferred tax asset balance is dependent upon the generation of future taxable income during the periods in which those temporary differences are deductible. In making this determination, management considers all available positive and negative evidence affecting specific income taxes recoverable balances, including the Company's past and anticipated future performance, the reversal of deferred tax asset liabilities, and the availability of tax planning strategies.

Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of a company's deferred tax assets when significant negative evidence exists. Cumulative losses are the most compelling form of negative evidence considered by management in this determination. As of December 31, 2010, the Company maintains a valuation allowance of \$11.3 million resulting from continued losses. Uncertainty over the Company's ability to utilize these losses over the short term has led the Company to record that allowance.

Future changes in accounting policy – Adoption of International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board requires all Canadian public companies to present financial statements in accordance with IFRS for interim and annual periods beginning January 1, 2011. Accordingly the Company will present its quarterly unaudited consolidated financial statements commencing with the quarter ending March 31, 2011 and its annual audited consolidated financial statements for the year ending December 31, 2011 in accordance with IFRS, including comparative prior period results and balances restated to comply with IFRS. An opening IFRS statement of financial position will also be presented as of January 1, 2010, the transition date to IFRS, together with a comparison to the December 31, 2009 balances presented in accordance with U.S. GAAP. The Company is not aware of any reconciling items between the U.S. GAAP and IFRS balance sheets at this time.

The IFRS consist of the International Financial Reporting Standards and International Accounting Standards issued or adopted by the International Accounting Standards Board ("IASB") together with interpretations issued or adopted by the International Financial Reporting Interpretations Committee ("IFRIC"). IFRS uses a conceptual framework similar to U.S. GAAP, but there are differences in recognition, measurement and disclosure.

The Company established a changeover plan to transition its financial statement reporting, presentation and disclosure to IFRS to meet the January 1, 2011 deadline. The Company utilized the IFRS transition plan developed by Kingsway, a Canadian public insurance holding company and the former parent of the Company's insurance subsidiaries, in preparing for the adoption of IFRS. All of the Kingsway position papers covering IFRS were reviewed; and where applicable, modified to fit the Company's circumstances. The selection of appropriate accounting policies, the assessment and selection of *IFRS 1 First-time Adoption of IFRS* mandatory exceptions and optional elections, the potential impact on business processes, internal controls and IT systems as it relates to the Company were assessed and documented. The Company's IFRS transition plan and all activities necessary for the adoption of IFRS were substantially completed in March, 2011.

The following describes the impact of adopting IFRS on the Company's accounting, processes, information systems and internal controls:

IFRS 1 - First-time Adoption of International Financial Reporting Standards generally requires that IFRS standards be retrospectively applied. However, IFRS 1 does require certain mandatory exceptions and permits certain optional exemptions to full retrospective application of standards in effect on the initial reporting date. The Company will apply the mandatory exception; hindsight will not be used to adjust estimates under previous GAAP. Accordingly estimates made under IFRS are consistent with those made under U.S. GAAP. The following are the optional exemptions that the Company has elected to apply prospectively as of the transition date:

- **IFRS 2 - Share-Based Payments** will be applied prospectively from transition date. There is no impact on the consolidated financial statements on transition date resulting from this election.
- **IFRS 4 Insurance Contracts.** The Company will apply the IFRS 1 election to adopt the transitional provisions of IFRS 4 allowing insurers adopting IFRS to continue with their existing accounting policies for measuring insurance liabilities, subject to a liability adequacy test. Based on the qualitative and quantitative assessment performed by the Company, the impact on adoption of IFRS 4 is not expected to be significant.

Financial Statement Impact

The Company is not currently aware of any material adjustments that will be required in presenting its opening balance sheet as of January 1, 2010, the transition date to IFRS. Also there are not expected to be any material adjustments required in reconciling its 2010 comparative quarterly results and balances presented on a U.S. GAAP basis to those presented on an IFRS basis.

Impact on processes, information systems and controls

At this time, the Company has not identified any significant changes in processes, information systems and internal controls as a result of adopting IFRS.

Future Modifications to IFRS

In July 2010, the IASB issued an Exposure Draft, *Insurance Contracts - an Amendment to IFRS 4*. The Exposure Draft proposes significant changes in the accounting for insurance contracts under IFRS. The Company is studying the impact of these changes on its operations, financial position and results of operations, if issued as set forth in the Exposure Draft which would become effective in 2013.

As accounting standards and interpretations continue to change prior to the transition, the Company has and will continue to adjust its implementation plan accordingly. The Company has been monitoring the development of the standards and interpretations issued by the IASB and IFRIC, as well as regulatory developments as issued by the Canadian Securities Administrators and the Office of the Superintendent of Financial Institutions. The impact of yet-to-be-issued changes on the Company's business activities cannot be quantified at this date.

RELATED PARTY TRANSACTIONS

Related party transactions, including services provided to or received by the Company's subsidiaries, are carried out in the normal course of operations and are measured at the amount of consideration paid or received as established and agreed by the parties. Management believes that consideration paid for such services approximates fair value.

Prior to the December 31, 2010 reverse triangular merger transaction and in 2009, subsidiaries of Atlas entered into, or were a party to, the following related party transactions:

- 1 **Reinsurance Agreements** – American Service and American Country entered into 50% quota-share reinsurance agreements with a Kingsway affiliate effective January 1, 1998 and June 30, 2002, respectively. On October 1, 2004 for American Service and January 1, 2006 for American Country, modifications were made to these quota-share agreements to increase their shares of the ceding percentages to 75%. Also, American Country entered into a loss portfolio transfer agreement effective June 30, 2002, which ceded 50% of its reserves for unpaid losses and 50% of the unearned premium reserve as of the effective date to a Kingsway affiliate in exchange for a ceding commission. These quote-share and loss portfolio transfer agreements were both commuted effective July 1, 2009, and no balances relating to those agreements remained. Collectively, these insurance subsidiaries recognized gains of \$4.6 million related to the commutations, which is included in incurred loss and loss adjustment expense for the year

ended December 31, 2009. Ceded reinsurance activity with Kingsway in 2009 for both entities combined, which includes ceded unearned premiums through the July 1, 2009 commutation date, included: a) premiums written of \$10.8 million, b) premiums earned of \$36.2 million, c) loss and loss adjustment expenses incurred of \$34.6 million, and d) ceding commissions totaling \$10.5 million;

- 2 **Mortgages and Rent** - In 2003, American Service and American Country, entered into separate mortgage agreements whereby mortgage loans totaling \$4.1 million were made to Kingsway to finance the purchase of an Elk Grove Village office building and land, which served as the home office of these three companies and various other Kingsway subsidiaries. The same building is currently the home office of the Company. The loans were to be repaid in 300 monthly principal and interest installments commencing on June 1, 2003 with final payments due May 1, 2028 and carried a fixed interest rate of 6%. For the six months ended June 2010 and calendar 2009, American Service and American Country received total mortgage payments from Kingsway of \$157,918 and \$315,836, respectively, and paid rent as one component of a larger management services agreement (discussed below). On June 30, 2010, Kingsway contributed the building and land to American Service as a capital contribution. In the second half of 2010, American Service received rent of \$763,312 from Kingsway affiliates. American Service listed the Elk Grove Village office building for sale in July 2010. See Note 8 -Assets Held For Sale, for additional information;;
- 3 **Management Services** – Under various intercompany management services agreements between American Country, American Service and various Kingsway affiliates, services were provided including management, underwriting, claims service and accounting to the parties to the agreement during 2010 and 2009. American Country and American Service remitted total fees for management services and rent to Kingsway totaling \$2,642,760 and \$5,034,000 in 2010 and 2009, respectively. American Country also paid \$1,574 and \$25,859 in 2010 and 2009, respectively, as commission and fees to Northeast Alliance Insurance Agency, LLC, another Kingsway affiliate. American Country received management fees from Kingsway affiliated companies totaling \$277,062 and \$2,073,963, in 2010 and 2009, respectively;
- 4 **Surplus Notes Payable** - \$13.5 million principal amount surplus notes payables were issued by American Service and American Country to Kingsway dated September 30, 2009 with a maturity date of September 30, 2039. These were forgiven effective December 3, 2010. Unpaid accrued interest on surplus notes payable was \$973,629 as of December 31, 2010 and was paid in the first quarter of 2011. See NOTE 9 – Surplus Notes Payable, for additional information;
- 5 **Tax Allocation Agreements** – American Service and American Country were parties to an amended and restated Kingsway affiliated group tax allocation agreement effective October 30, 2009 between Kingsway and its subsidiaries pursuant to which the parties filed a U.S. consolidated income tax return for the tax year ended December 31, 2009 and will similarly file for 2010. In 2010 and 2009, pursuant to the tax allocation agreements, the two Atlas insurance subsidiaries received \$226,516 and \$404,820, respectively, for settlement of prior year's income tax returns;
- 6 **KFS Capital, LLC Investment** - At December 31, 2009 American Service owned 23.6% of KFS Capital, LLC, a Kingsway affiliated organization, through an investment of \$2,093,000 which was included in other assets. In December 2010, KFS Capital, LLC redeemed this investment at American Service book value of \$2,005,368.
- 7 **Avalon Commissions and Marketing** - In 2010 and 2009, the Atlas insurance subsidiaries paid \$4,462,540 and \$2,668,517, respectively, as commissions to Avalon Risk Management, Inc. In 2010 they also paid Avalon \$125,000 for marketing services. Avalon Risk Management, Inc. (Avalon) was a Kingsway subsidiary through October 2009, and has investors and directors in common with Atlas.

Other than the pooling agreement between the Operating Insurance Subsidiaries and related fiduciary and reinsurance agreement, all of the foregoing related party transactions were terminated effective with the completion of the reverse triangular merger transaction on December 31, 2010.

As a result of the transactions noted above, the Company reported net amounts receivable from Kingsway affiliates of \$1.3 million and \$0.1 million as of December 31, 2010 and 2009, respectively, which are included in accounts receivable and other assets in the balance sheet. In the first quarter of 2011, the Company received payment for all of the net receivables from Kingsway as of December 31, 2010.

The reverse triangular merger transaction was negotiated on an arm's length basis and is not a Non-Arm's Length Qualifying Transaction under the policies of the Toronto Stock Exchange; therefore, approval of the merger by the shareholders of the JJR

VI Acquisition Corp was not required.

On or about the date of the reverse triangular merger, Atlas and certain of its subsidiaries entered into, or have agreed in substance and anticipate entering into, certain commercial related party agreements in connection with the business, including:

1. American Service entered into a lease agreement with a Kingsway affiliate in respect of a portion of the office building owned by American Service;
2. Kingsway and Atlas have entered into a transitional services agreement in respect of certain services to be performed by or on behalf of the parties for the benefit of each other;
3. Kingsway has entered into a building expense subsidy agreement pursuant to which Kingsway will reimburse American Service to the extent certain expenses exceed revenues in connection with the building owned by American Service;
4. Kingsway, American Country and American Service have entered into an adverse development agreement pursuant to which Kingsway will provide purchase price protection to Atlas in respect of adverse claims in excess of the amounts reserved by American Country and American Service. This agreement provides contractual quota share protection for 90% of \$10.0 million of adverse claims beyond \$1.0 million, based on the carried reserves at September 30, 2010. Kingsway's maximum obligation to the company is \$9.0 million.

RISK FACTORS

Due to the nature of the insurance industry, the legal and economic climate in which it operates and the present stage of development of its business, the Company may be subject to significant risks. The Company's actual future operating results may be very different from those expected and from the results of operations for 2009 and 2010 as disclosed in this document on a continuation accounting basis. Readers should carefully consider all such risks including those listed below.

Financial Risk

Atlas is a holding company and the Operating Insurance Subsidiaries are subject to dividend restrictions and are required to maintain certain capital adequacy levels.

Atlas is a holding company with no significant operations of its own and as a legal entity separate and distinct from its Operating Insurance Subsidiaries. As a result, its only sources of income are dividends and other distributions from its subsidiaries. It will be limited by the earnings of those subsidiaries, and the distribution or other payment of such earnings to it in the form of dividends, loans, advances or the reimbursement of expenses. The payment of dividends, the making of loans and advances or the reimbursement of expenses by its subsidiaries is contingent upon the earnings of those subsidiaries and is subject to various business considerations. In addition, payments of dividends by the insurance subsidiaries are subject to various statutory and regulatory restrictions imposed by the insurance laws of the domiciliary jurisdiction of such subsidiaries, which limit the aggregate amount of dividends or other distributions that they can declare or pay within any 12-month period. In most jurisdictions, payment of dividends is subject to prior regulatory approval, and insurance regulators have broad powers to prevent reduction of statutory capital and surplus to inadequate levels and could refuse to permit the payment of dividends calculated under any applicable formula. As a result, Atlas may not be able to receive dividends from its insurance subsidiaries at times and in amounts necessary to meet its operating needs, to pay dividends to shareholders or to pay corporate expenses. The inability of its subsidiaries to pay dividends could have a material adverse effect on Atlas's business and financial condition.

Market fluctuations, changes in interest rates or a need to generate liquidity could have significant and negative effects on the Company's investment portfolio. The Company may not be able to realize its investment objectives, which could significantly reduce its net income.

The Company depends on income from its securities portfolio for a substantial portion of its earnings. Investment returns are an important part of overall profitability. A significant decline in investment yields in the securities portfolio or an impairment of securities owned could have a material adverse effect on the Company's business, results of operations and financial condition. The Company currently maintains and intends to continue to maintain a securities portfolio comprising primarily of fixed income securities. As of December 31, 2010, approximately 89% of the investment portfolio was invested in fixed maturities and 11% invested in cash and cash equivalents. The Company cannot predict which industry sectors in which it maintains investments may suffer losses as a result of potential declines in commercial and economic activity, or how any such decline might impact the ability of companies within the affected industry sectors to pay interest or principal on their securities and cannot predict how or to what extent the value of any underlying collateral might be affected. Accordingly, adverse fluctuations in the fixed income or equity markets could adversely impact profitability, financial condition or cash flows.

The Company's ability to achieve its investment objectives is affected by general economic conditions that are beyond its control. General economic conditions can adversely affect the markets for interest rate sensitive securities, including the extent and timing of investor participation in such markets, the level and volatility of interest rates and, consequently, the value of fixed income securities. U.S. and global markets have been experiencing volatility since mid-2007. Initiatives taken by the U.S. and foreign governments have helped to stabilize the financial markets and restore liquidity to the banking system and credit markets. However, the financial system has not completely stabilized and market volatility could continue in the future if there is a prolonged recession or a worsening in key economic indicators. If market conditions deteriorate, the Company's investment portfolio could be adversely impacted.

Difficult conditions in the economy generally may materially adversely affect the Company's business, results of operations, and statement of financial position and these conditions may not improve in the near future.

Current market conditions and the instability in the global credit markets present additional risks and uncertainties for the Company's business. In particular, deterioration in the public debt markets could lead to additional investment losses and an erosion of capital as a result of a reduction in the fair value of investment securities. The severe downturn in the public debt and equity markets, reflecting uncertainties associated with the mortgage crisis, worsening economic conditions, widening of credit spreads, bankruptcies and government intervention in large financial institutions, created significant unrealized losses in the securities portfolio at certain stages in 2009. Depending on market conditions going forward, the Company could incur substantial realized and additional unrealized losses in future periods, which could have an adverse impact on the results of operations and financial condition. The Company could also experience a reduction in capital in the insurance subsidiaries below levels required by the regulators in the jurisdictions in which they operate. Certain trust accounts for the benefit of related companies and third parties have been established with collateral on deposit under the terms and conditions of the relevant trust agreements. The value of collateral could fall below the levels required under these agreements putting the subsidiary or subsidiaries in breach of the agreement.

The current market volatility may also make it more difficult to value the Company's securities if trading becomes less frequent.

Disruptions, uncertainty and volatility in the global credit markets may also impact the Company's ability to obtain financing for future acquisitions. If financing is available, it may only be available at an unattractive cost of capital, which would decrease profitability. There can be no assurance that current market conditions will improve in the near future. In addition, the Company may have less coverage by security analysts, the trading price of the Company's ordinary voting shares and restricted voting shares may be lower and it may be more difficult for its shareholders to dispose of their Company's shares due to the lower trading volume. The lack of a significant presence in the market could serve to limit the distribution of news and limit investor interest in the Company's shares. In addition, the Company does not manage analysts' or investors' earnings expectations. One or more of these factors could result in price volatility and serve to depress the liquidity and market price of the Company's shares.

The Company may not have access to capital in the future due to an economic downturn.

The Company may need new or additional financing in the future to conduct its operations, or expand its business. Any sustained weakness in the general economic conditions and/or financial markets in Canada, the United States or globally could adversely affect its ability to raise capital on favorable terms, or at all. From time-to-time, the Company may rely on access to financial markets as a source of liquidity for operations, acquisitions and general corporate purposes.

Financial disruption or a prolonged economic downturn may materially and adversely affect the Company's business.

Worldwide financial markets have recently experienced extraordinary disruption and volatility, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. Moreover, many companies are experiencing reduced liquidity and uncertainty as to their ability to raise capital. In the event that these conditions persist or result in a prolonged economic downturn, the Company's results of operations, financial position and/or liquidity could be materially and adversely affected. These market conditions may affect its ability to access debt and equity capital markets. In addition, as a result of recent financial events, the Company may face increased regulation. Many of the other risk factors discussed in this Risk Factors section identify risks that result from, or are exacerbated by, financial economic downturn. These include risks related to the securities portfolio, the competitive environment, the adequacy of the unpaid claims reserve, regulatory developments and the impact of rating agency actions.

Liquidity Risk

The limited public float and trading volume for the Company's shares may have an adverse impact on the share price or make it difficult to liquidate.

The Company's securities are held by a relatively small number of shareholders. Kingsway holds all of the restricted voting shares and the ordinary voting shares are not widely held. Future sales of substantial amounts of the Company's shares in the public market, or the perception that these sales could occur, may adversely impact the market price of the Company's shares and the Company's shares could be difficult to liquidate.

Compliance Risk

Compliance risk includes the risk arising from violations of, or non-conformance with, laws, regulations or prescribed practices. Compliance risk also arises in situations where the laws or rules governing certain products or activities may be ambiguous or untested. Compliance risk exposes the organization to negative publicity, a potential drop in stock price, fines, criminal and civil monetary penalties, payment of damages and the voiding of contracts. Compliance risks are also sometimes referred to as legal/regulatory, tax or documentation risks.

If the Company fails to comply with applicable insurance and securities laws or regulatory requirements, its business, results of operations and financial condition could be adversely affected.

As a publicly traded holding company listed on a stock exchange with the Operating Insurance Subsidiaries, Atlas and its Operating Insurance Subsidiaries will be subject to numerous laws and regulations. These laws and regulations delegate regulatory, supervisory and administrative powers to federal, provincial or state regulators. Insurance regulations are generally designed to protect policyholders rather than shareholders, and are related to matters including:

- rate setting;
- RBC and solvency standards;
- restrictions on the amount, type, nature, quality and quantity of securities;
- the maintenance of adequate reserves for unearned premiums and unpaid claims;
- restrictions on the types of terms that can be included in insurance policies;
- standards for accounting;
- marketing practices;

- claims settlement practices;
- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations;
- the licensing of insurers and their agents;
- limitations on dividends and transactions with affiliates;
- approval of certain reinsurance transactions; and
- insolvency proceedings.

Such rules and regulations are expected to increase the Company's legal and financial compliance costs and to make some activities more time-consuming and costly. A significant amount of resources will be committed to monitor and address any internal control issues, and failure to do so could adversely impact operating results. Any failure to comply with applicable laws or regulations could result in the imposition of fines or significant restrictions on its ability to do business, which could adversely affect the Company's results of operations or financial condition. In addition, any changes in laws or regulations, including the adoption of consumer initiatives regarding rates charged for automobile or other insurance coverage or claims handling procedures, could materially adversely affect its business, results of operations and financial condition. It is not possible to predict the future impact of changing federal, state and provincial regulation on the Company's operations, and there can be no assurance that laws and regulations enacted in the future will not be more restrictive than existing laws and regulations. New or more restrictive regulations, including changes in current tax or other regulatory interpretations affecting the alternative risk transfer insurance model could make it more expensive for the Company to conduct its businesses, restrict the premiums its subsidiaries able to charge or otherwise change the way it does business. In addition, economic and financial market turmoil may result in some type of U.S. federal oversight of the insurance industry in general.

The Operating Insurance Subsidiaries are subject to comprehensive regulation and their ability to earn profits may be restricted by the regulations.

The Operating Insurance Subsidiaries are subject to comprehensive regulation by government agencies in the United States. Failure to meet regulatory requirements could subject them to regulatory action. The regulations and associated examinations may have the effect of limiting the Operating Insurance Subsidiaries' liquidity and may adversely affect results of operations. The subsidiaries must comply with statutes and regulations relating to, among other things:

- statutory capital and surplus and reserve requirements;
- standards of solvency that must be met and maintained;
- payment of dividends;
- changes of control of insurance companies;
- transactions between an insurance company and any of its affiliates;
- licensing of insurers and their agents;
- types of insurance that may be written;
- market conduct, including underwriting and claims practices;
- provisions for unearned premiums, losses and other obligations;
- ability to enter and exit certain insurance markets; and
- nature of and limitations on investments, premium rates, or restrictions on the size of risks that may be insured under a single policy.

In addition, state insurance department examiners perform periodic financial, market conduct and other examinations of insurance companies. Compliance with applicable laws and regulations is time consuming and personnel-intensive. In addition to financial examinations, the Company may be subject to market conduct examinations of claims and underwriting practices. Any adverse findings could result in significant fines and penalties, negatively affecting profitability.

The Company's business is subject to risks related to litigation and regulatory actions.

The Company may from time-to-time be subject to a variety of legal and regulatory actions relating to its current and past business operations, including, but not limited to:

- disputes over coverage or claims adjudication;
- disputes regarding sales practices, disclosure, premium refunds, licensing, regulatory compliance and compensation arrangements;
- disputes with its agents, producers or network providers over compensation and termination of contracts and related claims;
- disputes relating to customers regarding the ratio of premiums to benefits in its various business lines;
- disputes with taxing authorities regarding tax liabilities; and
- disputes relating to certain businesses acquired or disposed of by it.

As insurance industry practices and regulatory, judicial and industry conditions change, unexpected and unintended issues related to pricing, claims, coverage and business practices may emerge. Plaintiffs often target P&C insurers in purported class action litigation relating to claims handling and insurance sales practices. The resolution and implications of new underwriting, claims and coverage issues could have a negative effect on the Company's business by extending coverage beyond the Company's underwriting intent, increasing the size of claims or otherwise requiring them to change their practices. The effects of unforeseen emerging claim and coverage issues could negatively impact revenues, results of operations and reputation.

Current and future court decisions and legislative activity may increase the Company's exposure to these types of claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant damage award or a judicial ruling that was otherwise detrimental, could create a precedent in the industry that could have a material adverse effect on its results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult to obtain. The Company cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on its business.

The Company may be subject to governmental or administrative investigations and proceedings in the context of its highly regulated sectors of activity. It cannot predict the outcome of these investigations, proceedings and reviews, and cannot assure you that such investigations, proceedings or reviews or related litigation or changes in operating policies and practices would not materially adversely affect its results of operations and financial condition. In addition, if it were to experience difficulties with its relationship with a regulatory body in a given jurisdiction, it could have a material adverse effect on its ability to do business in that jurisdiction.

The Company's business could be adversely affected as a result of changing political, regulatory, economic or other influences.

The insurance industry is subject to changing political, economic and regulatory influences. These factors affect the practices and operation of insurance and reinsurance organizations. Legislatures in the United States and other jurisdictions have periodically considered programs to reform or amend their respective insurance and reinsurance systems. Recently, the insurance and reinsurance regulatory framework has been subject to increased scrutiny in many jurisdictions. Changes in current insurance regulation may include increased governmental involvement in the insurance industry and initiatives aimed at premium controls, or may otherwise change the business and economic environment in which insurance industry participants operate. Historically, the automobile insurance industry has been under pressure from time-to-time from regulators, legislators or special interest groups to reduce, freeze or set rates at levels that are not necessarily related to underlying costs or risks, including initiatives to roll back automobile and other personal line rates. These changes may limit the ability of the Operating Insurance Subsidiaries to price automobile insurance adequately and could require the Company to discontinue unprofitable product lines, make unplanned modifications of its products and services, or result in delays or cancellations of sales of its products and services.

Strategic Risk

Strategic risk arises from adverse effects of high-level business decisions or the improper implementation of those decisions. Strategic risk also incorporates how management analyzes external factors that impact the strategic direction of the business. Strategic risk further encompasses reputation risk which is the impact to earnings, capital or the ability to do business arising from negative public opinion from whatever cause.

The Company will derive the majority of premiums from a few geographic areas, which may cause its business to be affected by catastrophic losses or business conditions in these areas.

Some jurisdictions including Illinois, Indiana, Virginia, Minnesota, New York and Michigan generate a significant percentage of total premiums. Results of operations may, therefore, be adversely affected by any catastrophic losses or material loss trends in these areas. Catastrophic losses can be caused by a wide variety of events, including earthquakes, hurricanes, tropical storms, tornadoes, wind, ice storms, hail, fires, terrorism, riots and explosions, and their incidence and severity are inherently unpredictable. Catastrophic losses are characterized by low frequency but high severity due to aggregation of losses, and could result in adverse effects on its results of operations or financial condition. Results of operations may also be adversely affected by general economic conditions, competition, regulatory actions or other business conditions that affect losses or business conditions in the specific areas in which it does most of its business.

The Company may experience difficulty in managing historic and future growth, which could adversely affect its results of operations and financial condition.

The Company intends to grow by expanding geographically and capturing more market share from the Company's distribution network. Continued growth could impose significant demands on management, including the need to identify, recruit, maintain and integrate additional employees. Growth may also place a strain on management systems and operational and financial resources, and such systems, procedures and internal controls may not be adequate to support operations as they expand.

The successful integration and management of program business, acquired businesses and other business involve numerous risks that could adversely affect the Company's profitability, and are contingent on many factors, including:

- expanding its financial, operational and management information systems;
- managing its relationships with independent agents, program managers and brokers, including maintaining adequate controls;
- expanding its executive management and the infrastructure required to effectively control its growth;
- maintaining ratings for certain of its insurance subsidiaries;
- increasing the statutory capital of its insurance subsidiaries to support growth in written premiums;
- accurately setting claims provisions for new business where historical underwriting experience may not be available;
- obtaining regulatory approval for appropriate premium rates; and
- obtaining the required regulatory approvals to offer additional insurance products or to expand into additional states or provinces.

Failure by the Company to manage its growth effectively could have a material adverse effect on its business, financial condition or results of operations.

Engaging in acquisitions involves risks and, if the Company is unable to effectively manage these risks its business may be materially harmed.

From time-to-time the Company may engage in discussions concerning acquisition opportunities and, as a result of such discussions, may enter into acquisition transactions. Upon the announcement of an acquisition, the Company's share price may fall depending on the size of the acquisition, the purchase price and the potential dilution to existing shareholders. It is also possible that an acquisition could dilute earnings per share.

Acquisitions entail numerous risks, including the following:

- difficulties in the integration of the acquired business;
- assumption of unknown material liabilities, including deficient provisions for unpaid claims;
- diversion of management's attention from other business concerns;
- failure to achieve financial or operating objectives; and
- potential loss of policyholders or key employees of acquired companies.

The Company may not be able to integrate or operate successfully any business, operations, personnel, services or products that it may acquire in the future, which may result in its inability to realize expected revenue increases, cost savings, increases in geographic or product presence, and other projected benefits from the acquisition. Integration may result in the loss of key employees, disruption to the existing businesses or the business of the acquired company, or otherwise harm the Company's ability to retain customers and employees or achieve the anticipated benefits of the acquisition. Time and resources spent on integration may also impair its ability to grow its existing businesses. Also, the negative effect of any financial commitments required by regulatory authorities or rating agencies in acquisitions or business combinations may be greater than expected.

Various factors may inhibit potential acquisition bids that could be beneficial to shareholders.

Regulatory provisions may delay, defer or prevent a takeover attempt that shareholders may consider in their best interest. For example, under the terms of applicable U.S. state statutes, any person or entity desiring to purchase more than a specified percentage (commonly 10% but can be as low as 5%) of the Company's outstanding voting securities is required to obtain regulatory approval prior to the purchase of its shares. These requirements would require a potential bidder to obtain prior approval from the insurance departments of the states in which the subsidiaries are domiciled and may require pre-acquisition notification in states that have adopted pre-acquisition notification provisions. Obtaining these approvals could result in material delays or deter any such transaction.

Regulatory requirements could make a potential acquisition of the Company more difficult and may prevent shareholders from receiving the benefit from any premium over the market price of its shares offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of its shares if they are viewed as discouraging takeover attempts in the future.

Provisions in the Company's organizational documents, corporate laws and the insurance laws of Illinois could impede an attempt to replace or remove their management or directors or prevent or delay a merger or sale, which could diminish the value of the Company's shares.

The Company's Amended and Restated Articles of Incorporation and Code of Regulations and the corporate laws and the insurance laws of various states contain, or are anticipated to contain, provisions that could impede an attempt to replace or remove management or directors or prevent the sale of the insurance subsidiaries that shareholders might consider to be in their best interests. These provisions may include, among others:

- classified board of directors consisting of no less than five, and no more than ten directors;
- requiring a vote of holders of 20% of the common shares to call a special meeting of shareholders;
- requiring a two-thirds vote to amend the Articles of Incorporation;
- requiring the affirmative vote of a majority of the voting power of shares represented at a special meeting of

- shareholders;
- statutory requirements prohibiting a merger, consolidation, combination or majority share acquisition between the insurance subsidiaries and an interested shareholder or an affiliate of an interested shareholder without regulatory approval.

These provisions may prevent shareholders from receiving the benefit of any premium over the market price of the Company's shares offered by a bidder in a potential takeover. In addition, the existence of these provisions may adversely affect the prevailing market price of the Company's shares if they are viewed as discouraging takeover attempts.

The insurance laws of most states require prior notice or regulatory approval of changes in control of an insurance company or its holding company. The insurance laws of the State of Illinois, where the insurance subsidiaries are domiciled, provide that no corporation or other person may acquire control of a domestic insurance or reinsurance company unless it has given notice to such insurance or reinsurance company and obtained prior written approval of the relevant insurance regulatory authorities. Any purchaser of 10% or more of the Company's aggregate outstanding voting power could become subject to these regulations and could be required to file notices and reports with the applicable regulatory authorities prior to such acquisition. In addition, the existence of these provisions may adversely affect the prevailing market price of the Company's shares if they are viewed as discouraging takeover attempts.

Market and Competition Risk

Because the Operating Insurance Subsidiaries are commercial automobile insurers, conditions in that industry could adversely affect their business.

The majority of the gross premiums written by the Company will be generated from commercial automobile insurance policies. Adverse developments in the market for commercial automobile insurance, including those which could result from potential declines in commercial and economic activity, could cause their results of operations to suffer. The commercial automobile insurance industry is cyclical. Historically, the industry has been characterized by periods of price competition and excess capacity followed by periods of high premium rates and shortages of underwriting capacity. These fluctuations in the business cycle have negatively impacted and could continue to negatively impact the revenues of the Company. The results of the Company, and in turn, the Company, may also be affected by risks that impact the commercial automobile industry related to severe weather conditions, floods, hurricanes, tornadoes, earthquakes and tsunamis, as well as explosions, terrorist attacks and riots. The Operating Insurance Subsidiaries' commercial automobile insurance business may also be affected by cost trends that negatively impact profitability, such as a continuing economic downturn, inflation in vehicle repair costs, vehicle replacement parts costs, used vehicle prices, fuel costs and medical care costs. Increased costs related to the handling and litigation of claims may also negatively impact profitability. Legacy business previously written by the Company also includes private passenger auto, surety and other P&C insurance business. Adverse developments relative to previously written business could have a negative impact on the Company's results.

The insurance and related businesses in which the Company operates may be subject to periodic negative publicity which may negatively impact its financial results.

The products and services of the Operating Insurance Subsidiaries are ultimately distributed to individual and business consumers. From time-to-time, consumer advocacy groups or the media may focus attention on insurance products and services, thereby subjecting the industry to periodic negative publicity. The Company also may be negatively impacted if participants in one or more of its markets engage in practices resulting in increased public attention to its business. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the P&C insurance industry as well as increased litigation. These factors may further increase its costs of doing business and adversely affect its profitability by impeding its ability to market its products and services, requiring it to change its products or services or by increasing the regulatory burdens under which it operates.

The highly competitive environment in which the Company operates could have an adverse effect on its business, results of operations and financial condition.

The commercial automobile insurance business is highly competitive and, except for regulatory considerations, there are relatively few barriers to entry. Many of the Company's competitors are substantially larger and may enjoy better name recognition, substantially greater financial resources, higher ratings by rating agencies, broader and more diversified product lines and more widespread agency relationships than the Company.

The Company's underwriting profits could be adversely impacted if new entrants or existing competitors try to compete with the Company's products, services and programs or offer similar or better products at or below the Company's prices. Insurers in its markets generally compete on the basis of price, consumer recognition, coverages offered, claims handling, financial stability, customer service and geographic coverage. Although pricing is influenced to some degree by that of its competitors, it is not in the Company's best interest to compete solely on price, and may from time-to-time experience a loss of market share during periods of intense price competition. Its business could be adversely impacted by the loss of business to competitors offering competitive insurance products at lower prices. This competition could affect its ability to attract and retain profitable business.

If the Company is not able to attract and retain independent agents and brokers, its revenues could be negatively affected.

The Company competes with other insurance carriers to attract and retain business from independent agents and brokers. Some of its competitors offer a larger variety of products, lower prices for insurance coverage or higher commissions than the Company. The Company's top ten independent agents accounted for an aggregate of 28% of its gross premium written during the year ended December 31, 2010. If the Operating Insurance Subsidiaries are unable to attract and retain independent agents/brokers to sell their products, their ability to compete and attract new customers and their revenues would suffer.

If the Company is unable to improve its claims-paying ratings, its ability to write insurance and to compete with other insurance companies may be adversely impacted. A decline in rating could adversely affect its position in the insurance market, make it more difficult to market its insurance products and cause its premiums and earnings to decrease.

Financial ratings are an important factor influencing the competitive position of insurance companies. Third party rating agencies assess and rate the claims-paying ability of insurers and reinsurers based upon criteria that they have established. Periodically these rating agencies evaluate the business to confirm that it continues to meet the criteria of the ratings previously assigned. Financial strength ratings are an important factor in establishing the competitive position of insurance companies and may be expected to have an effect on an insurance company's premiums.

All of the Operating Insurance Subsidiaries of the Company are rated by A.M. Best, which issues independent opinions of an insurer's financial strength and its ability to meet policyholder obligations. A.M. Best ratings range from "A++" (Superior) to "F" (In Liquidation), with a total of 16 separate rating categories. The objective of A.M. Best's rating system is to provide potential policyholders and other interested parties an opinion of an insurer's financial strength and ability to meet ongoing obligations, including paying claims. As of January 6, 2011, both the Operating Insurance Subsidiaries possess a "B" (Fair) rating, upgraded from their prior "B-" (Fair) rating. According to A.M. Best, entities with a "B" rating are deemed to have a fair ability to meet their ongoing insurance obligations. Financial strength is vulnerable to adverse changes in underwriting and economic conditions. A.M. Best issued the above ratings as stable. The "stable" status indicates the rating indicates a low likelihood of a rating change due to stable financial/market trends. Prior to the Qualifying Transaction, the Company's A.M. Best ratings were categorized as "under review".

The Company cannot provide assurance that A.M. Best will not downgrade these ratings in the future. If the Operating Insurance Subsidiaries' ratings are reduced by A.M. Best, their competitive position in the insurance industry could suffer and it could be more difficult to market their insurance products. A downgrade could result in a significant reduction in the number of insurance contracts written by the subsidiaries and in a substantial loss of business to other competitors with higher ratings,

causing premiums and earnings to decrease. Rating agencies evaluate insurance companies based on financial strength and the ability to pay claims, factors that are more relevant to policyholders than to investors. Financial strength ratings by rating agencies are not ratings of securities or recommendations to buy, hold or sell any security and should not be relied upon as such.

Operational Risk

Operational risk is the risk that the Company is unable to deliver its products or services to customers or perform vital functions required to conduct its business in an efficient and cost effective manner. This risk includes the potential for loss from such events as the breakdown or ineffectiveness of processes, human errors, technology and infrastructure failures, etc.

The insurance subsidiaries' provisions for unpaid claims may be inadequate, which would result in a reduction in the Company's net income and might adversely affect its financial condition.

Establishing an appropriate level of reserves is an inherently uncertain process. The Company's provisions for unpaid claims do not represent an exact calculation of actual liability, but are estimates involving actuarial and statistical projections at a given point in time of what they expect to be the cost of the ultimate settlement and administration of known and unknown claims. The process for establishing the provision for unpaid claims reflects the uncertainties and significant judgmental factors inherent in estimating future results of both known and unknown claims and as such, the process is inherently complex and imprecise. These estimates are based upon various factors, including:

- actuarial projections of the cost of settlement and administration of claims reflecting facts and circumstances then known;
- estimates of future trends in claims severity and frequency;
- judicial theories of liability;
- variability in claims handling procedures;
- economic factors such as inflation;
- judicial and legislative trends, and actions such as class action lawsuits and judicial interpretation of coverages or policy exclusions; and the level of insurance fraud.

Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact the Company's ability to accurately assess the risks of the policies that it writes. In addition, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer and additional lags between the time of reporting and final settlement of claims. Unfavorable development in any of these factors could cause the level of reserves to be inadequate. The following factors may have a substantial impact on future claims incurred:

- the amounts of claims payments;
- the expenses that the Operating Insurance Subsidiaries incur in resolving claims;
- legislative and judicial developments; and
- changes in economic conditions, including inflation.

As time passes and more information about the claims becomes known, the estimates are appropriately adjusted upward or downward to reflect this additional information. Because of the elements of uncertainty encompassed in this estimation process, and the extended time it can take to settle many of the more substantial claims, several years of experience may be required before a meaningful comparison can be made between actual losses and the original provision for unpaid claims. The development of the provision for unpaid claims is shown by the difference between estimates of claims as of the initial year end and the re-estimated liability at each subsequent year end. Favorable development (reserve redundancy) means that the original claims estimates were higher than subsequently determined or re-estimated. Unfavorable development (reserve

deficiency) means that the original claims estimates were lower than subsequently determined or re-estimated. The Company cannot assure you that it will not have additional unfavorable reserve development in the future. In addition, it may in the future, acquire other insurance companies. It cannot assure you that the provisions for unpaid claims of the companies that it acquires are or will be adequate.

Actual claims and claim adjustment expenses incurred under insurance policies may deviate, perhaps substantially, from the amounts of provisions reflected in the financial statements of the Company.

To the extent that actual claims incurred exceed expectations and the provision for unpaid claims reflected on financial statements, the Company will be required to reflect those changes by increasing reserves for unpaid claims. In addition, government regulators could require that it increase reserves if they determine that provisions for unpaid claims are understated. When reserves are increased for unpaid claims, pre-tax increases to the provision for unpaid claims causes a reduction in the insurance subsidiaries' surpluses which could cause a downgrading of the Operating Insurance Subsidiaries' ratings. Any such downgrade could, in turn, adversely affect their ability to sell insurance policies.

The Operating Insurance Subsidiaries will rely on independent agents or producers and will be exposed to risks.

The Operating Insurance Subsidiaries will market and distribute automobile insurance products through a network of independent agents or producers in the United States. As a result, they rely heavily on these agents or producers to attract new business. They typically represent more than one insurance company, which may expose the operating subsidiaries to competition within the agencies and, therefore, cannot rely on their commitment to the Company's insurance products. Independent agents generally have the ability to bind insurance policies, actions over which the Company has a limited ability to exercise preventative control. In the event that an independent agent exceeds its authority by binding the Company on a risk that does not comply with its underwriting guidelines, the Company may be at risk for that policy until it effects a cancellation. Any improper use of such authority may result in losses that could have a material adverse effect on its business, results of operations and financial condition.

In accordance with industry practice, customers often pay the premiums for their policies to agents for payment to the Company. These premiums may be considered paid when received by the agent and thereafter the customer is no longer liable to the Company for those amounts, whether or not it has actually received the premiums from the agent. Consequently, the Company assumes a degree of risk associated with its reliance on independent agents and program managers in connection with the settlement of insurance balances.

The majority of gross premiums written will be derived from the commercial automobile markets. If the demand for insurance in these markets declines, results of operations could decline significantly.

The size of the commercial automobile insurance market can be affected significantly by many factors outside of the Company's control, such as the underwriting capacity and underwriting criteria of standard automobile insurance carriers, and it may be specifically affected by these factors. Additionally, an economic downturn in one or more of its principal markets could result in fewer automobile sales, resulting in less demand for these insurance products. To the extent that these insurance markets are affected adversely for any reason, gross premiums written will be disproportionately affected due to its substantial reliance on these insurance markets.

The operating subsidiaries may not be successful in reducing their risk and increasing their underwriting capacity through reinsurance arrangements, which could adversely affect their business, financial condition and results of operations. If reinsurance rates rise significantly or reinsurance becomes unavailable or reinsurers are unable to pay its claims, the Company may be adversely affected.

In order to reduce underwriting risk and increase underwriting capacity, the Company transfers portions of its insurance risk to other insurers through reinsurance contracts. The availability, cost and structure of reinsurance protection are subject to

prevailing market conditions that are outside of the Company's control and which may affect its level of business and profitability. The Company purchases reinsurance from third parties in order to reduce its liability on individual risks. Reinsurance does not relieve it of its primary liability to its insureds. A third party reinsurer's insolvency or inability or unwillingness to make payments under the terms of a reinsurance treaty could have a material adverse effect on its financial condition or results of operations. The amount and cost of reinsurance available to the Company are subject, in large part, to prevailing market conditions beyond the Company's control. Its ability to provide insurance at competitive premium rates and coverage limits on a continuing basis depends in part upon the extent to which it can obtain adequate reinsurance in amounts and at rates that will not adversely affect its competitive position. It cannot assure you that it will be able to maintain its current reinsurance facilities, which generally are subject to annual renewal. If it is unable to renew any of these facilities upon their expiration or to obtain other reinsurance facilities in adequate amounts and at favorable rates, it may need to modify its underwriting practices or reduce its underwriting commitments.

The operating subsidiaries are subject to credit risk with respect to the obligations of reinsurers and certain of their insureds. The inability of their risk sharing partners to meet their obligations could adversely affect their profitability.

Although the reinsurers are liable to the Company to the extent of risk ceded by them, the Company remains ultimately liable to policyholders on all risks, even those reinsured. As a result, ceded reinsurance arrangements do not limit the Company's ultimate obligations to policyholders to pay claims. The Company is subject to credit risks with respect to the financial strength of its reinsurers. It is also subject to the risk that their reinsurers may dispute their obligations to pay its claims. As a result, it may not recover sufficient amounts for claims that it submits to reinsurers, if at all. As of December 31, 2010, the Company had an aggregate of \$13.3 million of unsecured reinsurance recoverables. In addition, its reinsurance agreements are subject to specified limits and it would not have reinsurance coverage to the extent that it exceeds those limits. With respect to insurance programs, the insurance subsidiaries are subject to credit risk with respect to the payment of claims and on the portion of risk exposure either ceded to the captives or retained by their clients. The credit worthiness of prospective risk sharing partners is a factor considered when entering into or renewing these alternative risk transfer programs. The Company typically collateralizes balances due through funds withheld, letters of credit or trust agreements. No assurance can be given regarding the future ability of these entities to meet their obligations. The inability of their risk sharing partners to meet their obligations could adversely affect profitability.

Human Resources Risk

Human resources risk is the risk that the Company is unable to maximize available human resources in the achievement of its business objectives. This includes people, their experience, knowledge, skills and work environment.

The Company's business depends upon key employees, and if it is unable to retain the services of these key employees or to attract and retain additional qualified personnel, its business may suffer.

The Company's success depends, in part, upon the ability of executive management and other key employees to implement its business strategy and its ability to attract and retain additional qualified personnel in the future. The loss of the services of any of its key employees, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of its business operations. In addition, the Company must forecast volume and other factors in changing business environments with reasonable accuracy and adjust its hiring and employment levels accordingly. Its failure to recognize the need for such adjustments, or its failure or inability to react appropriately on a timely basis, could lead either to over-staffing (which could adversely affect its costs structure) or under-staffing (which could impair its ability to service current products lines and new lines of business). In either event, its financial results and customer relationships could be adversely affected.

U.S. Tax Risks

If the Company were not to be treated as a U.S. Corporation for U.S. federal income tax purposes, certain tax inefficiencies would result and certain adverse tax rules would apply.

Pursuant to certain “expatriation” provisions of the U.S. Internal Revenue Code of 1986, as amended, the reverse merger agreement provides that the parties intend to treat the Company as a U.S. corporation for U.S. federal income tax purposes. The expatriation provisions are complex, are largely unsettled and subject to differing interpretations, and are subject to change, perhaps retroactively. If the Company were not to be treated as a U.S. corporation for U.S. federal income tax purposes, certain tax inefficiencies and adverse tax consequences and reporting requirements would result for both the Company and the recipients and holders of stock in the Company, including that dividend distributions from its subsidiaries to Atlas would be subject to 30% U.S. withholding tax, with no available reduction and that members of the consolidated group may not be permitted to file a consolidated U.S. tax return resulting in the acceleration of cash tax outflow and potential permanent loss of tax benefits associated net operating loss carryforwards that could have otherwise been utilized.

The Company’s use of losses may be subject to limitations and the tax liability of the Company may be increased.

Generally, a change of more than 50% in the ownership of a corporation’s stock, by value, over a three-year period constitutes an ownership change for U.S. federal income tax purposes. An ownership change generally limits a U.S. corporation’s ability to use its net operating loss carry-forwards attributable to the period prior to the change. Both the insurance subsidiaries experienced ownership changes in connection with the private placement and reverse merger transaction completed in the last quarter of 2010, such that the use of their net operating loss carry-forwards will be subject to limitation. In addition, the amounts of any pre-transaction net operating losses of the subsidiaries and tax basis that may be available for use by the subsidiaries following the reverse merger transaction are limited and dependent on tax elections to be taken on a tax return of the insurance subsidiaries’ former parent. The Company’s former parent controls the determination of which elections are made and the extent to which the elections will impact the net operating losses and tax attributes of the insurance companies for net operating losses and tax attributes generated in periods through December 31, 2010. The Company will not be compensated to the extent the net operating losses and tax attributes are reduced or otherwise unfavorably adjusted due to changes and elections in the former parent’s 2010 and prior tax filings.

Further limitations on the utilization of losses may apply because of the “dual consolidated loss” rules, which will also require the Company to recapture into income the amount of any such utilized losses in certain circumstances. As a result of the application of these rules, the future tax liability of the Company and its subsidiaries could be significantly increased. In addition, taxable income may also be recognized by the Company or its subsidiaries in connection with the recent reverse merger transaction.

SUBSEQUENT EVENTS

On January 5, 2011, the TSX Venture Exchange accepted the reverse merger transaction effectively creating the Company as the Company’s “qualifying transaction” as discussed in Note 1- Nature of Operations in the consolidated financial statements. The TSX Venture Exchange also approved the listing of the ordinary voting shares of the Company on Tier 2 of the TSX Venture Exchange under the symbol “AFH”. Trading commenced on January 6, 2011.

On January 18, 2011, directors and directors of the Company were granted options to purchase 369,749 ordinary voting shares with an exercise price of C\$2.00 per share which expire ten (10) years from grant date. These options vest 25% on date of grant and 25% on the each of the next three anniversary dates of the grant date.

On January 24, 2011, a contract for the sale of the office building in Mobile, Alabama with a December 31, 2010 net book value of \$2.0 million was executed. The sale is expected to be consummated in the second quarter of 2011.

OUTLOOK

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

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

In 2011, the Company’s focus is the underwriting light commercial automobile insurance in the U.S.

The Company will seek to deploy its capital to maximize the return for its shareholders, either by investing in growing the operations or other capital initiatives, depending upon insurance and capital market conditions. The Company will use historic and current data to analyze and assess future business market areas.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and have designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP, including a reconciliation to Canadian generally accepted accounting principles (GAAP).

Management has used the Internal Control - Integrated Framework to assess the effectiveness of the Company's internal control over the financial reporting as of December 31, 2010, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2010 and has concluded that such internal control over financial reporting is effective as of December 31, 2010. There are no material weaknesses that have been identified by management in this regard.

/s/ Scott D. Wollney

President & Chief Executive Officer

/s/ Paul A. Romano, Jr.

Chief Financial Officer

April 15, 2011

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S STATEMENT ON RESPONSIBILITY FOR FINANCIAL INFORMATION

Management is responsible for presentation and preparation of the annual consolidated financial statements, Management's Discussion and Analysis ("MD&A") of the financial condition and results of the operations and all other information in the Company's Annual Report. The consolidated financial statements have been prepared in accordance with US generally accepted accounting principles and the requirements of the Ontario Securities Commission ("OSC") including reconciliation to Canadian generally accepted accounting principles. Financial information appearing elsewhere in the Company's annual report is consistent with the consolidated financial statements.

The MD&A has been prepared in accordance with the requirements of the applicable securities rules and regulations, including National Instrument 51-102 of the Canadian securities regulators and their related published requirements.

The consolidated financial statements and information in the MD&A necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information management must make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MDA also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from management's present assessment of this information because future events and circumstances may not occur as expected and we undertake no duty to update such forward-looking statements.

In meeting its responsibility for the reliability of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, that assets are safeguarded against unauthorized use or disposition and that liabilities are recognized.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the Company. The Audit Committee reviews the consolidated financial statements and recommends them to the board for approval. The Audit Committee also reviews and monitors the Company's system of internal controls as reported by management.

CONSOLIDATED FINANCIAL STATEMENTS

ROLE OF THE AUDITOR

The independent registered public accounting firm, KPMG LLP, has been appointed by the Audit Committee. Its responsibility is to conduct an independent and objective audit of the financial statements in accordance with auditing standards of the Public Company Accounting Oversight Board and to report thereon to the board of directors. In carrying out their audit procedures relating to the claims liabilities of the Company, the auditors make use of the work and report of the independent actuary. KPMG LLP has full and unrestricted access to the Board of Directors and the Audit Committee to discuss audit, financial reporting and related findings. The auditors' report outlines the scope of their audit and their opinion.

/s/Scott D. Wollney.

President & Chief Executive Officer

/s/Paul A. Romano, Jr.

Chief Financial Officer

April 15, 2011

CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM



KPMG LLP
303 East Wacker Drive
Chicago, IL 60601-5212

Independent Auditor's Report

The Board of Directors
Atlas Financial Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Atlas Financial Holdings, Inc. and subsidiaries (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in shareholders' equity, comprehensive income (loss), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 22, the Company has quantified reconciling items or differences between U.S. generally accepted accounting principles and Canadian generally accepted accounting principles, as required by the Ontario Securities Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Atlas Financial Holdings, Inc., as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

April 15, 2011

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

CONSOLIDATED BALANCE SHEETS (In thousands of U.S. dollars, except for share references)

As of December 31		2010	2009
ASSETS			
Cash and cash equivalents	\$	19,037	\$ 6,695
Securities		154,011	214,910
Accrued investment income		1,293	1,710
Accounts receivable and other assets		13,340	28,109
Due from reinsurers and other insurers		11,276	5,811
Deferred policy acquisition costs		3,804	9,399
Income taxes receivable		-	271
Deferred tax asset		6,399	9,273
Fixed assets		1,274	1,423
Assets held for sale		15,004	-
	\$	225,438	\$ 277,601
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES:			
Notes payable	\$	-	\$ 13,500
Accounts payable and accrued liabilities		6,015	7,114
Due to reinsurers and other insurers		9,614	640
Unearned premiums		17,061	34,286
Unpaid claims		132,579	169,515
	\$	165,269	\$ 225,055
SHAREHOLDERS' EQUITY:			
Ordinary voting common shares, \$0.001 par value, authorized, 800,000,000 shares, issued and outstanding 4,553,502 shares		8,010	8,010
Restricted voting common shares, \$0.001 par value, authorized 100,000,000 shares, issued and outstanding shares 13,804,861 shares		27,760	27,760
Preferred shares, \$0.001 par value, authorized, 100,000,000 shares, issued and outstanding 18,000,000 shares		18,000	18,000
Additional paid in capital		116,714	46,923
Retained deficit		(112,853)	(47,196)
Accumulated other comprehensive income (loss), net of tax		2,538	(951)
		60,169	52,546
	\$	225,438	\$ 277,601

See accompanying notes to consolidated financial statements.

On behalf of the Board:

/s/ Jordan Kupinsky

/s/ Scott D. Wollney

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of U.S. dollars, except per share amounts)

Years ended December 31				
	2010		2009	
Gross premiums written	\$	46,679	\$	107,629
Net premiums written	\$	32,478	\$	94,593
Revenue:				
Net premiums earned	\$	53,603	\$	76,233
Net investment income		6,037		3,880
Net realized investment gains (losses)		888		(719)
Miscellaneous income (loss)		(555)		2,012
		59,973		81,406
Expenses:				
Claims incurred		48,074		64,880
Commissions and premium taxes		11,115		12,257
General and administrative expenses		20,021		22,529
		79,210		99,666
Loss from operations before income taxes		(19,237)		(18,260)
Income tax expense (benefit)		2,575		(5,025)
Net loss	\$	(21,812)	\$	(13,235)
Per share amounts (in dollars):				
Loss per share				
Basic	\$	(1.19)	\$	(0.72)
Diluted	\$	(1.19)	\$	(0.72)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of U.S. dollars)

	Ordinary voting common shares	Restricted voting common shares	Preferre d Shares	Add'l paid-in capital	Retained deficit	Accumulated other comprehensive income (loss)	Total
Balance January 1, 2009	\$ 8,010	\$ 27,760	\$ 18,000	\$ 79,193	\$ (33,961)	\$ (2,660)	\$ 96,342
Net loss for the year					(13,235)		(13,235)
Capital contribution				21,500			21,500
Impact of reverse merger				(53,770)			(53,770)
Other comprehensive income						1,709	1,709
Subtotal 2009	-	-	-	(32,270)	(13,235)	1,709	(43,796)
Balance December 31, 2009	8,010	27,760	18,000	46,923	(47,196)	(951)	52,546
Net loss for the year					(21,812)		(21,812)
Capital contribution				26,994			26,994
Dividends Paid				(16,700)			(16,700)
Forgiveness of Debt				(447)			(447)
Merger of Southern United				59,944	(43,845)	331	16,430
Other comprehensive income						3,158	3,158
Subtotal 2010	-	-	-	69,791	(43,845)	3,489	7,623
Balance December 31, 2010	\$ 8,010	\$ 27,760	\$ 18,000	\$ 116,714	\$ (112,853)	\$ 2,538	\$ 60,169

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands of U.S. dollars)

Years ended December 31

	2010	2009
Comprehensive loss		
Net loss	\$ (21,812)	\$ (13,235)
Other comprehensive loss, net of taxes:		
• Change in unrealized gains (losses) on available-for-sale securities:		
Unrealized gains arising during the year, net of income taxes	3,514	2,444
Net of income tax (recovery) of nil in 2010, (\$1,259) in 2009		
Reclassification to net loss of realized gains, net of income taxes.	(203)	(910)
Net of income tax of nil in 2010, \$469 in 2009.		
• Minimum pension liability adjustment	(153)	175
Other comprehensive income	3,158	1,709
Comprehensive loss	\$ (18,654)	\$ (11,526)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

Years ended December 31		
	2010	2009
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (21,812)	\$ (13,235)
Items not affecting cash:		
Forgiveness of mortgage loan	(1,695)	-
Amortization of fixed assets and deferred charges	3,370	433
Deferred income taxes	2,875	(5,117)
Net realized losses	807	719
Amortization of bond premiums and discounts	1,431	726
Net changes in operating assets and liabilities, net of effects of the merger of subsidiary:		
Accounts receivable and other assets, net	14,769	4,971
Due from reinsurers and other insurers	(5,255)	(33,634)
Deferred policy acquisition costs	5,750	(2,476)
Income taxes receivable	271	495
Other assets and accrued investment income	493	(3,446)
Unpaid claims	(36,936)	118,918
Unearned premium	(16,789)	10,202
Due to reinsurers and other insurers	9,193	19,153
Accounts payable and accrued liabilities	(1,472)	(1,851)
Net change in other balances	(7,466)	-
	(52,466)	95,858
Financing activities:		
Capital contributions	-	21,500
Dividends paid	(16,700)	-
Issuance of notes payable	-	13,500
	(16,700)	35,000
Investing activities:		
Purchase of securities	(25,826)	(187,820)
Proceeds from sales and maturities of securities	106,684	58,445
Cash acquired from merger of subsidiary	3,871	-
Net additions to fixed assets	(3,221)	75
	81,508	(129,300)
Net change in cash and cash equivalents	12,342	1,558
Cash and cash equivalents, beginning of year	6,695	5,137
Cash and cash equivalents, end of year	\$ 19,037	\$ 6,695
Supplementary disclosure of cash information:		
Represented by:		
Cash on hand and balances with banks	2,329	6,695
Investments with maturities less than 30 days	16,708	-
Cash and cash equivalents, end of year	\$ 19,037	\$ 6,695
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	(227)	(405)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular amounts in thousands of U.S. dollars, except for per share amounts)

NOTE 1	Nature of Operations
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Formation

The Company was formed on December 31, 2010 through a reverse triangular merger amongst: a) JJR VI Acquisition Corporation (JJR VI), a Canadian Capital Pool Company sponsored by JJR Capital, a Toronto based merchant bank, b) American Insurance Acquisition Inc., (“American Acquisition”), a corporation formed under the laws of Delaware by Kingsway America Inc., a subsidiary of Kingsway Financial Services Inc., a Canadian public company formed under the laws of Ontario and whose shares are traded on the Toronto and New York Stock Exchanges, and, c) Atlas Acquisition Corp, a Delaware corporation formed by JJR VI. JJR VI, the ultimate parent company, was re-domiciled in the Cayman Islands and renamed Atlas Financial Holdings, Inc (“Atlas”). The Company commenced operations on December 31, 2010. Atlas ordinary voting shares are traded on TSX Venture Exchange (TSXV) under the symbol “AFH”.

Prior to the merger Kingsway America Inc. transferred 100% of the capital stock of its insurance subsidiaries, American Service and American Country to American Acquisition in exchange for \$35.1 million of American Acquisition common shares, \$18.0 million of American Acquisition preferred shares and promissory notes aggregating C\$7.9 million payable by American Acquisition. In addition, American Acquisition raised C\$7.9 million through a private placement offering of subscription receipts to qualified investors at a price of C\$2.00 per subscription receipt. American Country and American Service are sometimes referred to in this document as the Company’s “Operating Insurance Subsidiaries”.

On February 25, 2010, Southern United Fire Insurance Company (Southern United) merged into American Service. The transaction was accounted for as a merger of companies under common control with the Southern United assets and liabilities included at their carrying values and its results of operations included in the financial statements from the date of the merger.

In the merger, Kingsway America Inc. received 13.8 million restricted voting shares valued at \$27.4 million, 18 million non-voting preferred shares valued at \$18.0 million, and C\$7.9 million in cash from the private placement in exchange for 100% of the outstanding shares of American Acquisition and full payment of the promissory notes. Investors in the American Acquisition subscription receipt private placement received approximately 4 million ordinary voting shares plus warrants to purchase one ordinary voting share for each subscription receipt at C\$2.00 at any time until December 31, 2013 (three years after the closing of the merger). As part of the merger, JJR VI common shares held by former shareholders of JJR VI were consolidated on the basis of one post-consolidation JJR VI common share for every ten pre-consolidation JJR VI common shares, which post-consolidation JJR VI common shares were then exchanged on a one-for-one basis for ordinary voting shares.

Business

The primary business of the Company is commercial automobile insurance in the United States, with a niche market orientation and focus on insurance for the “light” commercial automobile sector including taxi cabs, non-emergency paratransit, limousine, livery and business auto. Automobile insurance products provide 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 coverages provide 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 coverages generally provide more predictable results than automobile accident benefit or personal injury insurance.

Operating Insurance Subsidiaries

The business of the Company is carried on through its Operating Insurance Subsidiaries, American Country and American Service, each with their head office and registered office located at 150 Northwest Point Boulevard, Elk Grove Village, Illinois 60007, United States. The Operating Insurance Subsidiaries distribute their insurance products through a network of retail independent agents. Together, American Country and American Service are licensed to write property and casualty insurance in 47 states in the United States. The management and operating infrastructure of American Country is integrated with that of American Service.

NOTE 2	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
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(a) Reverse merger continuation accounting

As described in Note 1, Formation, the Company was formed through a reverse triangular merger and these consolidated financial statements are those of Atlas (formerly JJR) and subsidiaries and have been prepared in accordance with Financial Accounting Standards Board ("FASB") *Accounting Codification Standard ("ACS") 805.40 Reverse Acquisitions*. Under this standard the financial statements prepared following a reverse merger are presented in the name of the legal parent acquirer, Atlas, but are a continuation of the financial statements of the accounting acquirer, American Acquisition, with an adjustment for the capital structure (that is the number and type of equity interests of Atlas, including equity instruments issued to effect the merger) of Atlas, as the legal parent acquirer and accounting acquiree. Accordingly, and as a result of the December 31, 2010 merger date, shareholders' equity at December 31, 2010 and 2009 each reflect the ordinary common voting shares outstanding at the date of the merger as well as the ordinary voting shares, restricted voting common shares and preferred shares that were issued to effect the merger, and also reflect the historical retained earnings (accumulated deficit) balances of American Acquisition, as the accounting acquirer.

(b) Principles of consolidation and presentation

The consolidated financial statements of the Company include the accounts of the Company including its subsidiaries. American Country and American Service, both incorporated in Illinois, are the Company's major subsidiaries.

The financial statements include the accounts of the Company and have been prepared on the basis of U.S. generally accepted accounting principles (U.S.GAAP). As required by the Ontario Securities Commission, material differences between Canadian generally accepted accounting principles (Canadian GAAP) and U.S. GAAP with respect to net loss for the year, comprehensive loss, and stockholders' equity are required to be quantified. See Note 21 regarding reconciling items between Canadian GAAP and U.S. GAAP as reported by the Company for 2010 and 2009.

(c) Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The liability for unpaid loss and loss adjustment expenses represents the most significant estimate in the accompanying financial statements. Significant estimates in the accompanying financial statements also include the fair values of investments in bonds and stocks, deferred tax asset valuation, premium receivable bad debt allowance and deferred policy acquisition cost recoverability.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash and securities with maturities of less than thirty days.

(e) Securities

Investments in bonds are classified as available-for-sale. Securities are classified as available-for-sale when the Company may decide to sell those securities due to changes in market interest rates, liquidity needs, changes in yields or alternative investments, and for other reasons. Available for sale securities are carried at fair value with unrealized gains and losses, net of income tax, included as a separate component of accumulated other comprehensive income (loss) in shareholder's equity. Declines in the fair value of available-for-sale securities below their cost may be deemed to be other-than-temporary. In determining other-than-temporary losses for debt securities, management considers whether the Company (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost. Other-than-temporary losses are separated between the amount related to credit loss, which is recognized in current earnings, and the amount related to all other factors, which is recognized in accumulated other comprehensive income (loss). Other-than-temporary losses are also recognized in current earnings if the Company has the intent to sell and recovery of the security's entire amortized cost is not expected.

Collateral and mortgage loans are reported at their unpaid principal balance.

Interest income is reported net of amortization of premium and accretion of discount. Realized gains and losses on disposition of available-for-sale securities are based on the net proceeds and the adjusted cost of the securities sold, using the specific identification method.

(f) Fair values of financial instruments

The Company has used the following methods and assumptions in estimating its fair value disclosures:

Securities and Cash – Fair values for bonds 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. The carrying amounts reported in the balance sheet for cash approximates fair values.

Notes Payable – The carrying amount reported in the balance sheet for notes payable approximates fair value due to their terms and nature of settlement.

(g) Accounts receivable and other assets

Accounts receivable include premium balances due and uncollected and installment premiums not yet due from agents and insureds. Premiums receivable are shown net of bad debt allowance of \$4.2 million and \$1.8 million in 2010 and 2009, respectively.

(h) Reinsurance

Reinsurance premiums and claims expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums and claims ceded to other companies have been reported as a reduction of premium revenue and claims incurred expense. Commissions paid to the Company by reinsurers on business ceded have been accounted for as a reduction of the related policy acquisition costs. Reinsurance receivables are recorded for that portion of paid and unpaid losses and loss adjustment expenses that are ceded to other companies. Prepaid reinsurance premiums are recorded for unearned premiums that have been ceded to other companies.

Reinsurance contracts that cover liabilities, which occurred prior to the effective date of the contract, are accounted for as retroactive reinsurance. The accounting for retroactive reinsurance contracts at the inception of the contracts has no effect on the statements of operations. The amount by which the liabilities associated with the reinsured policies exceed the amounts paid for retroactive reinsurance contracts is recorded as a deferred gain and amortized into net premiums earned over the remaining settlement period using the interest method. The amount by which the amounts paid for retroactive reinsurance contracts exceed the liabilities associated with the reinsured policies is immediately recognized as a reduction to net premiums earned. Subsequent changes to the estimated amount and timing of recoveries under such retroactive reinsurance contracts are accounted for by adjusting the previously deferred amount to the balance that would have existed had the revised estimate been available at the inception of the reinsurance transaction, with a corresponding charge or credit to net premiums earned.

(i) Deferred policy acquisition costs

The Company defers brokers' commissions, premium taxes and other underwriting and marketing costs that vary with and are directly related to the 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. The Company's deferred policy acquisition costs are reported net of ceding commissions.

(j) Federal income tax

The subsidiaries of the Company file consolidated federal income tax returns with Kingsway America Inc. (their former parent holding company) and its subsidiaries for the 2010 and 2009 calendar years. Those subsidiaries entered into tax-sharing agreements through December 31, 2010 wherein any tax liability for the group was apportioned based on the ratio that taxable income attributable to each member having taxable income bears to the Kingsway America Inc. consolidated taxable income. The excess of the separate return tax liability of the members over the tax liability allocated as described above was credited to members that had items of income, deductions, or credits to which any difference is attributable. Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. This tax sharing agreement with Kingsway America, Inc. was terminated as of December 31, 2010.

Deferred tax assets and liabilities are recognized for differences between financial statement carrying amounts and income tax basis of assets and liabilities using enacted income tax rates and laws. The effect on deferred tax assets and liabilities of a change in tax rates and laws are reflected in the financial statements in the period of enactment. Deferred tax assets are reduced by a valuation allowance when, in the judgment of management, it is "more likely than not" that some portion or all of the deferred tax assets will not be realized.

(k) Fixed assets

Fixed assets are reported in the financial statements at depreciated cost. Depreciation of fixed assets has been provided using the straight-line method over the estimated useful lives of such assets. The useful lives range from 30 to 40 years for buildings, the lease term for leasehold improvements, 3 to 5 years for electronic data equipment hardware and software, and 3 to 5 years for automobiles, furniture, fixtures and equipment.

(l) Unpaid claims

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.

(m) Revenue Recognition

Premium income is recognized on a pro rata basis over the terms of the respective insurance contracts. Unearned premiums represent the portion of premiums written that are related to the unexpired terms of the policies in force.

(n) Stock Options

The Company has a stock-based compensation plan which is described in Note 16. The Company uses the fair-value method of accounting for stock-based compensation awards granted to employees and non-employees. The Company determines the fair value of the stock options on their grant date using the Black-Scholes option pricing model and records the fair value as a compensation expense over the period that the stock options vest, with a corresponding increase to additional paid in capital. When stock options are exercised, the amount of proceeds together with the amount recorded in additional paid in capital is recorded in ordinary voting common shares.

(o) Pension Expense

Periodic net pension expense is based on the cost of incremental benefits for employee service during the period, interest on projected benefit obligation, actual return on plan assets and amortization of actuarial gains and losses.

(p) Statutory Accounting Practices

The Company's insurance subsidiaries, domiciled in the state of Illinois, prepare statutory financial statements in accordance with the accounting practices prescribed or permitted by the insurance departments of that state. Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations, and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted statutory accounting practices include practices not prescribed by the domiciliary state, but allowed by the domiciliary state regulatory authority. The impact of any permitted accounting practices on statutory surplus of the Company is not material.

(q) Recently issued accounting standards

On July 1, 2009, the FASB Accounting Standards Codification ("ASC") became the sole source of authoritative GAAP literature recognized by the FASB for financial statements issued for interim and annual periods ending after September 15, 2009. ASC did not change GAAP, but rather combined the sources of GAAP and the framework for selecting among those sources into a single source. Accordingly, the adoption of ASC had no impact on the financial results of the Company. Prior to the adoption of ASC, the Company adopted various standards which have been codified into ASC. A discussion of these standards, along with a reference to the ASC topics into which they have been codified and the effect of adoption on the Company follows:

In April 2009, the FASB issued FASB Staff Position (FSP) SFAS No. 115-2 and SFAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (codified into ASC Topic 320, *Investments-Debt and Equity Securities*). The standard amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. The standard does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. On April 1, 2009, the Company adopted the standard and applied it prospectively. The initial application of the standard did not have an impact on the Company.

In March 2008, the FASB issued SFAS No. 161, *Disclosure about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (codified into ASC Topic 810, *Consolidation*). SFAS No. 161 establishes, among

other things, the disclosure requirements for derivative instruments and for hedging activities. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), with the intent to provide users of consolidated financial statements with enhanced understanding of: how and why an entity uses derivative securities; how derivatives and hedges are being accounted for under SFAS No. 133; and how derivatives and hedges affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for consolidated financial statements issued for fiscal years beginning after November 15, 2008. The adoption of this new standard did not have an impact on the Company.

In April 2009, the FASB issued FSP SFAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions That are not Orderly* (codified into ASC Topic 820). FSP SFAS No. 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, when the volume and level of activity for the asset or liability have significantly decreased. FSP SFAS No. 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP SFAS No. 157-4 is effective for periods ending after June 15, 2009. The adoption of this new standard did not have an impact on the Company.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (codified into ASC Topic 855, *Subsequent Events*), which provides guidance on management's accounting for and disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued. The standard is effective for interim or annual financial periods ending after June 15, 2009. The initial application of the standard did not have an impact on the financial results of the Company.

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets*, a grandfathered standard under ASC. The standard provides the guidance to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The standard must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, and for interim periods within that first annual reporting period. The adoption of the standard did not have a material impact on the Company.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, a grandfathered standard under ASC, to amend the consolidation guidance that applies to variable interest entities. The standard is effective for the Company beginning in 2010. The adoption of the standard did not have a material impact on the Company.

On January 21, 2010, the FASB issued FASB Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. The standard amends ASC Topic 820 to require additional disclosures related to transfers between levels in the hierarchy of fair value measurements. The standard is effective for interim and annual reporting periods beginning after December 15, 2009. The standard does not change how fair values are measured. The initial adoption of the standard did not have an impact on the Company.

In October 2010, the FASB's Emerging Issues Task Force (EITF) issued EITF 09-G *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*. The guidance addresses the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. If application of this guidance would result in the capitalization of acquisition costs that had not previously been capitalized by a reporting entity, the entity may elect not to capitalize those costs. The updated guidance is effective for periods ending after December 15, 2011. This guidance will not have an impact on the Company because the financial statements will be presented in accordance with International Reporting standards in 2011.

The Canadian Accounting Standards Board requires all Canadian public companies to present financial statements in accordance with IFRS for interim and annual periods beginning January 1, 2011.

The IFRS consist of the International Financial Reporting Standards and International Accounting Standards issued by the International Accounting Standards Board together with interpretations issued by the International Financial Reporting Interpretations Committee. IFRS uses a conceptual framework similar to U.S. GAAP, but there are differences in recognition, measurement and disclosure.

The Company will present its quarterly unaudited consolidated financial statements commencing with the quarter ending March 31, 2011 and its annual audited consolidated financial statements for the year ending December 31, 2011 in accordance with IFRS, including comparative prior period results and balances.

The amortized cost and fair values of investments are summarized below:

December 31, 2010						
		Amortized Cost		Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits		\$ 7,898	\$ 3	\$ -		\$ 7,901
Bonds:						
	-Government	67,388		2,117	-	69,505
	-Corporate	62,429		3,011	-	65,440
	-Commercial mortgage backed	8,445		270	-	8,715
	-Other asset backed	2,371		79	-	2,450
		\$ 148,531	\$ 5,480	\$ -		\$ 154,011
December 31, 2009						
		Amortized Cost		Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits		\$ 12,412	\$ -	\$ -		\$ 12,412
Bonds:						
	-Government	108,079		1,215	317	108,977
	-Corporate	80,409		1,477	503	81,383
	-Commercial mortgage backed	8,587		-	116	8,471
	-Other asset backed	3,622		74	28	3,668
		\$ 213,109	\$ 2,766	\$ 964		\$ 214,911

The Company had no unrealized loss positions as of December 31, 2010. Unrealized aggregate loss positions as of December 31, 2009 are in the table below. The table segregates the holdings based on the period of time the securities have been continuously held in an unrealized loss position.

December 31, 2009					
0-12 Months			Over 12 Months		
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	
Term Deposits	\$ -	\$ -	\$ -	\$ -	
Bonds:					
Government	84,759	317	-	-	
Corporate	44,845	478	983	25	
Commercial mortgage backed	8,471	116	-	-	
Other asset backed	1,199	22	460	6	
	\$ 139,274	\$ 933	\$ 1,443	\$ 31	

Fair values of term deposits and bonds are considered to approximate quoted market values based on the latest bid prices in active markets. Fair values of securities for which no active market exists are derived from quoted market prices of similar securities or other third party evidence.

Management performs a quarterly analysis of the Company's investment holdings to determine if declines in market 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 non-investment grade credit rating based on the continuity of its debt service record;
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed; and
- assessing the Company's ability and intent to hold these securities at least until the investment impairment is recovered.
- 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 the Company's unknown underlying financial problems.

There were no impairments recorded in 2010 or 2009 as a result of the above analysis performed by management to determine declines in market value that were are other than temporary.

Net investment income for the years ended December 31 is comprised as follows:

	2010	2009
Investment income:		
Interest	\$ 6,336	\$ 4,005
Dividends	0	40
Other	-	-
Gross investment income	6,336	4,045
Investment expenses	299	164
Net investment income	\$ 6,037	\$ 3,881

The increase in interest income in 2010 compared to 2009 is primarily due to the Commutation of the affiliated reinsurance contracts (see related party transaction note 20) which increased the amount of invested assets held by the Company by \$134.6 million at the date of the commutation.

Commutation is an agreement between the ceding insurer and the reinsurer that provides for the valuation, payment and complete discharge of some or all current and future obligations between the parties under particular reinsurance contracts.

Net realized gains and (losses) for the years ended December 31 are comprised of the following:

	2010	2009
Fixed income	\$ 888	\$ 57
Equities	-	(776)
Net realized investment gains (losses)	\$ 888	\$ (719)

The net loss in 2009 was due primarily to the decision by management to liquidate the entire equity security portfolio.

The following table summarizes carrying amounts of securities by contractual maturity or expected cash flow dates. As certain securities and debentures have the right to call or prepay obligations, the actual settlement dates may differ from contractual maturity.

As of December , 2010	One year or less	One to five years	Five to ten years	More than ten years	Total
Securities	21,556	88,564	24,026	19,865	154,011

NOTE 5 FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies:

By virtue of the nature of the Company's 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. The Company has a risk management framework in place to monitor, evaluate and manage the risks assumed in conducting its business. The Company manages these risks using risk management policies and practices.

Further details are provided below on the risk management objectives and policies as they relate to the specific financial risks:

Credit risk:

The Company is exposed to credit risk principally through its fixed income securities and balances receivable from policyholders and reinsurers. The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of U.S. bonds) as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company's credit exposure to any one individual policyholder is not material. The Company 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 reinsurer insolvency.

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

	2010			2009		
	Amount	%		Amount	%	
AAA/Aaa	\$ 88,684	57.6	% \$	123,104	57.3	%
AA/Aa	26,388	17.1		25,970	12.1	
A/A	35,027	22.7		49,626	23.1	
BBB/Baa	3,851	2.5		3,799	1.7	
CCC/Caa or lower, or not rated	61	0.1		12,412	5.8	
Total	\$ 154,011	100.0	% \$	214,911	100.0	%

Available-for-sale securities in an unrealized loss position as reflected in Accumulated Other Comprehensive Income (loss) may at some point in the future be realized through a sale or impairment.

Equity price risk:

The Company does not have a material exposure to changes in the value of equity securities as a result of market conditions. This is the risk of loss due to adverse movements in equity prices.

In early 2009, the Company elected to significantly reduce this equity risk by liquidating the entire common equity portfolio. As a result, the Company's current exposure to equity price risk is considered to be nil.

Foreign currency risk:

The Company is not currently exposed to changes in the U.S. to Canadian dollar foreign currency exchange rate.

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 the Company. 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-dated 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 the Company's 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.

(b) Fair value:

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

Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market based inputs are used to estimate the fair value. These valuation models may use multiple observable market inputs, including observable interest rates, foreign exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, corresponding market volatility levels and option volatilities. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. For the Company's financial instruments carried at cost or amortized cost, the book value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes as it is the Company's intention to hold them until there is a recovery of fair value, which may be to maturity.

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

The Company employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The extent of use of quoted market prices (Level 1), internal models using observable market information (Level 2) and internal models without observable market information (Level 3) in the valuation of securities as of December 31, 2010 and 2009 was as follows:

As of December 31, 2010

Description	Available for sale securities
	Fixed income
Fair value	\$154,011
Based on:	
Quoted market prices (level 1)	-
Valuation techniques -Significant market observable Inputs (level 2)	100.0%
Valuation techniques - Significant unobservable market inputs (level 3)	-

As of December 31, 2009

Description	Available for sale securities
	Fixed income
Fair value	\$214,910
Based on:	
Quoted market prices (level 1)	-
Valuation techniques -Significant market observable Inputs (level 2)	100.0%
Valuation techniques - Significant unobservable market inputs (level 3)	-

The carrying value of all other financial instruments approximates their carrying value due to the short term to maturity of those financial instruments.

NOTE 6	FIXED ASSETS
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2010	Cost	Accumulated Amortization	Carrying Value
Leasehold improvements	3,241	2,232	1,009
Furniture and equipments	1,105	1,096	9
Computer hardware and software	5,627	5,389	238
Automobiles	259	241	18
Total	\$ 10,232	\$ 8,958	\$ 1,274

2009	Cost	Accumulated Amortization	Carrying Value
Leasehold improvements	3,241	1,903	1,338
Furniture and equipments	1,289	1,264	25
Computer hardware and software	4,886	4,834	52
Automobiles	22	14	8
Total	\$ 9,438	\$ 8,015	\$ 1,423

NOTE 7	INCOME TAXES
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(a) Set forth below is a reconciliation of the effective tax rates to statutory rates:

	2010			2009		
	Amount	%		Amount	%	
Provision for taxes at U.S. statutory marginal income tax rate of 34% in 2010 and 2009	\$ (6,541)	(34.0)	%	\$ (6,208)	(34.0)	%
Valuation allowance	(9,476)	(49.3)		1,184	6.5	
Non-deductable expense	183	1.0		28	-	
Tax implications of going public transaction (excluding valuation allowance)	18,412	95.7		-	-	
Other	(3)	-		(28)	-	
Income tax expense (benefit)	\$ 2,575	13.4	%	\$ (5,025)	(27.5)	%

(b) Income tax expense (benefit) consist of the following for the years ended December 31:

	2010	2009
Current tax expense (benefit)	\$ (300)	\$ 92
Deferred tax expense (benefit)	2,875	(5,117)
Total	\$ 2,575	\$ (5,025)

(c) The components of deferred tax assets are as follows:

	2010		2009	
Deferred tax assets:				
Losses carried forward	\$	13,252	\$	19,043
Unpaid claims and unearned premiums		4,218		6,434
Pension		841		789
Bad Debts		1,356		621
Other		1,394		1,254
Valuation Allowance		(11,288)		(14,748)
Deferred tax assets	\$	9,773	\$	13,393
Deferred policy acquisition costs	\$	(1,293)	\$	(3,196)
Securities		(1,863)		(612)
Other		(218)		(312)
Deferred tax asset liabilities	\$	(3,374)	\$	(4,120)
Net deferred tax assets	\$	6,399	\$	9,273

(d) Amounts and expiration dates of the operating loss carry forwards are as follows:

Year of net operating loss	Expiration date	Net operating loss
2008	2028	3,808
2009	2029	20,723
2010	2030	10,884

(e) The Company established a valuation allowance of approximately \$11.3 million and \$14.7 million for its gross deferred tax assets at December 31, 2010 and 2009, respectively. In addition, the Company merged during the year with Southern United Fire Insurance Company ("Southern United"), which maintained a valuation allowance of \$7.0 million against its deferred tax assets at the merger date.

The net decrease in valuation allowance of \$3.5 million during the year is composed of the increase in valuation allowance of \$7.0 million from the Southern United merger, a decrease in valuation allowance of \$1.1 million allocated to other comprehensive income, and a net decrease in valuation allowance of \$9.4 million primarily due to the tax implications of the initial public offering.

Based on the Company's expectations of taxable income, its ability to change its investment strategy, as well as reversing gross future tax liabilities, management believes it is more likely than not that the Company will fully realize the net future tax assets, with the exception of the aforementioned valuation allowance. The Company has therefore established the valuation allowance at December 31, 2010 mainly as a result of the potential inability to utilize a portion of its net operating losses that does not

expire for up to 20 years. The uncertainty over the Company's ability to utilize a portion of these losses over the short term has led to the Company recording valuation allowances.

NOTE 8

ASSETS HELD FOR SALE

As of December 31, 2010, the Company had five properties held for sale with an aggregate book value of \$15.0 million. All of the properties individual book values were below their respective appraised amounts less reasonably estimated selling costs at the time those appraisals were received and at the time properties were deemed to be held for sale. All properties were listed for sale through brokers at those appraised values as of December 31, 2010.

The two largest properties held for sale, representing 97% of the total book value of the assets held for sale, were the Company's headquarters building in Elk Grove Village, Illinois with a book value of \$12.5 million and an office building in Mobile, Alabama carried at \$2.0 million. The remaining three properties are vacant land parcels in areas surrounding Mobile, Alabama with an aggregate book value of \$0.5 million.

The Elk Grove Village building and property were previously owned by Kingsway and were contributed to American Service as a capital contribution in June 2010. See Note 20 – Related Party Transactions for more information.

The Mobile, Alabama office building was written down by \$0.4 million on December 31, 2010 to an estimated selling price less costs to sell based on a contract for the sale of this property for \$2.1 million that was executed on January 24, 2011. The sale is expected to be consummated in the second quarter of 2011.

NOTE 9

NOTES PAYABLE

As of December 31, 2010, the Company and its insurance subsidiaries did not have any outstanding debt.

American Country and American Service had surplus notes payable issued to Kingsway America Inc., their former parent, as of December 31, 2009. The notes had a carrying value of \$13.5 million, with interest at 2% over prime and maturing at September 30, 2039. Accrued and unpaid interest was \$0.2 million at December 31, 2009.

As it relates to the surplus notes, the insurance subsidiaries were not restricted from incurring any future indebtedness, policy claims, or prior claims.

Southern United, which was merged into American Service on February 25, 2010, also had a surplus note issued to Kingsway America Inc. in the amount of \$1.0 million with the same terms as the notes noted above, except it carried an interest rate of 7.25%. Each payment of interest on and/or repayment of principal of the surplus notes may be made only with the prior approval of the Illinois Director of Insurance, which approval will only be granted if, in the judgment of the Illinois Director of Insurance, the financial condition of the insurance subsidiary warrants the making of such payments and their statutory surplus reflects sufficient funds to cover the amount of such payment. The cumulative amount of interest accrued for which scheduled interest payment dates had not yet arrived totaled \$0.2 million as of December 31, 2009.

On December 2, 2010, approval was received from the Illinois Department of Insurance and the three notes were forgiven by Kingsway America Inc. The \$14.5 million total principal amount was recorded as an addition to capital. As of December 31, 2010, accrued interest totaling \$1.0 million representing interest from inception of those notes to the date of forgiveness remained in accounts payable and accrued liabilities. This accrued interest was paid in full to Kingsway in the first quarter of 2011.

NOTE 10	UNDERWRITING POLICY AND REINSURANCE CEDED
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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 risk, catastrophic loss risk and reinsurance coverage risk.

Reinsurance Ceded

As is customary in the insurance industry, the Company reinsures portions of certain insurance policies it writes, thereby providing a greater diversification of risk and minimizing exposure on larger risks. The Company 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.

The Company 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 and ceded loss reserve balances.

Gross premiums written and ceded premiums, losses, and commissions as of and for the years ended December 31, 2010 and 2009 are summarized as follows (000's omitted).

	2010	2009
Gross premiums written	\$46,679	\$107,629
Ceded premiums written	14,201	13,035
Ceded premiums earned	7,434	38,498
Ceded losses and loss adjustment expenses	3,628	35,072
Ceded unpaid losses and loss adjustment expense	6,477	5,192
Ceded unearned premiums	3,964	232
Ceded commissions	5,441	10,701

The maximum amount of return commission, which would have been due to reinsurers if they or the Company had canceled all of the Company's reinsurance, with the return of the unearned premium, is as follows at December 31, 2010 (000's omitted):

	Assumed		Ceded		Net	
	Unearned Premium	Commission Equity	Unearned Premium	Commission Equity	Unearned Premium	Commission Equity
All other	134	31	3,964	2,910	(3,830)	(2,879)

NOTE 11	UNPAID CLAIMS
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(a) Nature of unpaid claims:

The establishment of the estimated provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claims departments' personnel and independent adjusters

retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short tail claims such as property claims, tend to be more reasonably predictable than long tail claims, such as general liability and automobile accident benefit claims that are less predictable.

Consequently, 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.

(b) Provision for unpaid claims:

The Company's annual evaluation of the adequacy of unpaid claims includes a re-estimation of the liability for unpaid claims relating to each preceding financial year compared to the liability that was originally established. The results of this comparison and the changes in the provision for unpaid claims, net of amounts recoverable from reinsurers, for the years ended December 31, 2010 and 2009 were as follows:

	2010	2009
Unpaid claims-beginning of year net	\$ 164,323	\$ 70,040
Net unpaid claims of subsidiaries acquired	9,534	-
Provision for claims occurring:		
In the current year	42,739	58,954
In prior years	5,335	5,926
Claims paid during the year relating to:		
The current year	18,994	8,914
The prior years	76,835	(38,409)
Ceded retroactive reinsurance reserves	-	(90)
Unpaid claims-end of the year net	126,102	164,323
Reinsurers' and other insurers' share of unpaid claims	6,477	5,192
Unpaid claims- end of the year	\$ 132,579	\$ 169,515

The results for the years ended December 31, 2010 and 2009 were adversely affected by the evaluation of unpaid claims related to prior years.

The Company reported unfavorable reserve development of \$5.3 million in 2010 compared to \$5.9 million in 2009. Commercial auto business contributed \$7.7 million of the prior years' claims development in 2010, primarily related to 2005 and prior accident years compared to nil in 2009. Non-standard auto liability business favorably contributed \$1.5 million of the prior years' claims development in 2010, compared to unfavorable contribution of \$6.1 million in 2009 related primarily to the 2008 accident year.

(c) Ranges of unpaid claims:

The independent appointed actuary develops a variability of the reserve estimates, more commonly known as a range of reasonable reserve estimates, and a recommended actuarial central estimate of reserves. The actuarial central estimate is intended to represent the independent appointed actuary's best estimate and will not necessarily be at the mid-point of the high and low estimates of the range. The range of reasonable reserve estimates reflects the uncertainties associated with analyzing the reserves, and includes estimates that could be produced by appropriate actuarial methods and assumptions. This range does not reflect the range of all possible outcomes. Actual results outside of this range are possible.

The ranges of provision for gross unpaid claims estimated by our independent appointed actuary and the carried amount for unpaid claims were as follows:

		Low	High	Actuarial Central Estimate	Carried Amount
As of December 31, 2010	\$	124,203	\$ 145,424	\$ 133,891	\$ 132,579
As of December 31, 2009		160,316	187,707	172,822	169,515

As part of the reserving process, the independent appointed actuary performs various quarterly reviews throughout the calendar year to assess whether the actual results of the operating insurance company are materially different than what was expected based on loss development factors previously established.

As the processes of management and the independent appointed actuary are undertaken independently, the provision for unpaid claims recorded by management can differ from the independent appointed actuary's central estimate. Comparing management's selected reserve estimate to the actuarial central estimate and range of reasonable reserves independently determined by the independent appointed actuary continues to be an important step in the reserving process of the Company, however; where differences exist and the Company believes the internally developed reserve estimate to be more accurate, management's estimate will not change. We believe this to be consistent with industry practice for companies with a robust reserving process in place. As of December 31, 2010, the aggregate amount by which the independent appointed actuary's central estimate exceeded management's selected reserve estimate was \$1.3 million.

As of December 31, 2010, the carrying value of unpaid claims was \$132.6 million. There is no active market for policy liabilities; hence market value is not determinable. The carrying value of unpaid claims does not take into consideration the time value of money or make explicit provisions for adverse deviation. Fair value of unpaid claims would include such considerations.

NOTE 12 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Legal proceedings:

In connection with its operations, the Company and its 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.

(b) Collateral pledged:

As of December 31, 2010, bonds and term deposits with an estimated fair value of \$14.4 million (2009 - \$9.5 million) were on deposit with state and provincial regulatory authorities. Also, from time to time, the Company pledges securities to third parties to collateralize liabilities incurred under its policies of insurance. At December 31, 2010, the amount of such pledged securities was \$1.6 million (2009 - \$0.6 million). 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.

(c) Collateral held:

In the normal course of business, the Company receives collateral on certain business transactions to reduce its exposure to credit risk. As of December 31, 2010, the amount of such pledged securities was \$0.3 million (2009 - \$0.3

million). The Company is normally permitted to sell or repledge the collateral it receives under terms that are common and customary to standard collateral holding and are subject to the Company's standard risk management controls.

(d) Future minimum lease payments:

Future minimum annual lease payments under operating leases for premises/equipment are \$45,000 in 2011 and \$4,000 in 2012.

NOTE 13	CAPITAL MANAGEMENT
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Objectives, policies and procedures:

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 derives cash from its 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.

Throughout 2009 and 2010 the Company experienced losses from its insurance operations. Statutory net loss of the Operating Insurance Subsidiaries were \$6.8 million (unaudited) and \$22.0 million for the years ended December 31, 2010 and 2009, respectively. Statutory capital and surplus of the Operating Insurance Subsidiaries was \$45.6 million (unaudited) and \$32.3 million at December 31, 2010 and 2009, respectively.

A risk based capital formula is used by the National Association of Insurance Commissioners to identify property and casualty insurance companies that may not be adequately capitalized. The National Association of Insurance Commissioners requires that capital and surplus not fall below 200% of the authorized control level. As of December 31, 2010, based on the unaudited statutory basis financial statements, both the insurance subsidiaries are above the required risk based capital levels, with risk based capital ratio estimates for American Country and American Service of 322% and 536%, and estimated capital in excess of the 200% level of approximately \$3.7 million and \$22.4 million, respectively.

NOTE 14	SHARE CAPITAL
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Share capital as of December 31, 2010 and 2009 is as follows (in '000's):

	Shares Authorized	Shares Issued	Amount
Ordinary voting common shares,	800,000	4,554	\$ 8,010
Restricted voting common shares,	100,000	13,805	\$27,760
Preferred shares, par value,	100,000	18,000	\$18,000
Total			\$53,770

The above table reflects the shares issued in connection with the merger on December 31, 2010. Under continuation accounting, applicable in a reverse merger, the above shares are assumed to be outstanding for all periods presented.

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

All of the issued and outstanding restricted voting common shares are beneficially owned or controlled by Kingsway Financial Services Inc. or entities affiliated with it. 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 common voting shares, the restricted voting common shares shall be mandatorily converted into fully paid and non-assessable ordinary voting shares.

The 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. Voting by restricted voting common share holders is limited to 30% of the issued and outstanding restricted voting common shares.

Preferred shares are not entitled to vote. They accrue dividends on a cumulative basis at the rate of C\$0.045 per share per year and in liquidation, dissolution or winding-up of the Company, 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 shares or ordinary voting shares immediately prior to liquidation. Preferred shares are convertible into ordinary voting shares at the option of the holder at any date that is after the fifth year after issuance at the rate of 0.3808 ordinary voting share for each preferred share. The conversion rate is subject to change if the number of ordinary voting shares or restricted voting common shares changes. The preferred shares are redeemable at the option of the Company at a price of US\$1.00 per share plus accrued and unpaid dividends commencing at the earlier of two years from issuance date or the date at which Kingsway's beneficial interest is less than 10%.

NOTE 15	MISCELLANEOUS (LOSS) INCOME
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Miscellaneous (loss) income was a net loss of \$(0.6) million for 2010 and net income of \$2.0 million for 2009, respectively.

In 2010 the Company wrote off a mortgage receivable from Kingsway for a loss of \$(1.7) million and booked impairment on a Mobile, Alabama property held for sale of \$(0.4) million. For further information on these items see Note 20 – Related Party Transactions and Note 8 – Assets Held for Sale.

Also included in this category was policy fee income of \$1.6 million for 2010 and \$2.1 million for 2009, respectively. These fees include installment payment fees, non-sufficient funds fees and certain required regulatory report filing and preparation fees received from insurance customers.

Other smaller items included in miscellaneous (loss) income accounted for net losses of (\$46) thousand in 2010 and (\$97) thousand in 2009, respectively.

NOTE 16	STOCK OPTIONS
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On March 18, 2010, JJR VI issued options to purchase 250,000 common shares to the agent that assisted JJR VI in raising capital and options to purchase 1,070,000 shares to directors. All of the options were vested at the date of grant. Options to purchase 214,000 shares held by directors expired before the merger as a result of a director resignation. All outstanding JJR VI options were exchanged for Atlas options without modification on the basis of 1 Atlas option for each 10 JJR VI options and the exercise price was changed from C\$0.10 to C\$1.00, which was on the same basis as the JJR VI exchange ratio for shares, and thus did not represent any additional value or related expense. This resulted in 25,000 and 85,600 Atlas options for the agent and former JJR VI directors, respectively, outstanding after the merger. The following table summarizes

information about options outstanding as of December 31, 2010:

Exercise Price	Date of Grant	Expiration Date	Remaining Contractual Life (Years)	Number Outstanding	Number Exercisable
C\$1.00	March 18, 2010	March 31, 2012	1.3	25,000	25,000
C\$ 1.00	March 18, 2010	March 18, 2020	9.3	32,100	32,100
C\$ 1.00	March 18, 2010	December 31, 2011	1.0	53,500	53,500
Total			3.5 Average	110,600	110,600

On February 1, 2011, the IPO agent exercised 15,703 options.

On November 1, 2010 American Acquisition closed a private placement and issued 3,983,502 subscription receipts for ordinary voting common shares of Atlas and warrants to purchase 3,983,502 Ordinary Voting Common shares of Atlas for C\$2.00 per share in connection with the merger. The warrants expire on December 31, 2013.

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

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

NOTE 17 DEFINED CONTRIBUTION BENEFIT PLANS

Kingsway, as the former parent, - maintained a defined contribution 401(k) plan for all of its qualified employees, including employees of American Service and American Country. Qualifying employees can choose to voluntarily contribute up to 60% of their annual earnings to the Company 401(K) plan. These deferrals were subject to a limitation of \$16,500 in both 2010 and 2009; however, qualifying employees age 50 and older could also contribute an additional \$5,500 in both years. The Company matches 50% of the employee contribution amount each payroll period up to 5%. Company contributions are discretionary. The contributions for the plan vest based on years of service with 100% vesting after five years of service. Contributions are expensed as paid and for the years ended December 31, 2010 and 2009 totaled \$130,200 and \$219,777 respectively. All Company obligations to the plan were fully funded as of December 31, 2010. A similar plan was established by Atlas subsequent to the Qualifying Transaction.

Kingsway, as the former parent, maintained an employee share purchase plan whereby qualifying employees could contribute up to 5% of their annual base earnings to purchase the common shares of KFSI. Some subsidiary participants, including American Service matched 50% of the employee contribution amount, and those contributions vested immediately. All contributions were used by the plan administrator to purchase common shares in the open market. Total expense to the Company as a result of those matching contributions was \$3,879 and \$49,750 in 2010 and 2009, respectively. Atlas does not have a similar plan in place at this time, but plans to implement one in 2011.

NOTE 18	DEFINED BENEFIT PENSION PLAN
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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 Plan). Benefits were based on the employee's length of service and wages and benefits, as defined by the Plan. The funding policy of the 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 Plan was frozen.

Pension expense was \$59,154 and \$120,800 in 2010 and 2009, respectively. The measurement date for the pension plan is December 31.

The summary of assets, obligations, and assumptions of the pension plan is as follows at December 31,

	2010	2009
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 4,913	\$ 4,628
Interest cost	263	270
Actuarial loss (gain)	192	211
Benefits paid	(258)	(196)
Projected benefit obligation at end of year	\$ 5,110	\$ 4,913
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 3,869	\$ 3,234
Actual return on plan assets	244	624
Employer contributions	138	207
Benefits paid	(258)	(196)
Fair value of plan assets at end of year	\$ 3,993	\$ 3,869
Funded status:		
Unrecognized net loss	\$ (2,474)	\$ (2,321)
Net accrued liabilities	(1,116)	(1,043)
Accumulated benefit obligation for vested employees	5,110	4,913
Components of net periodic cost:		
Interest cost	\$ 263	\$ 270
Expected return on plan assets	(268)	(222)
Amount of recognized losses	64	73
Total net periodic benefit cost	\$ 59	\$ 121
Increase (decrease) in additional minimum pension liability included in accumulated other comprehensive loss:		
Weighted average assumptions used to determine net periodic benefit cost as of December 31:		
Discount rate	5.50%	6.00%
Expected long-term rate of return on assets:	7.00%	7.00%
Weighted average discount rate assumption used to determine projected benefit obligations as of December 31	5.25%	5.50%

The Plan's asset allocation as of the measurement date, December 31 and the target asset allocation presented as a percentage of total plan assets were as follows:

	2010		2009		Target allocation as of December 31, 2010	
Cash and cash equivalents	100.0	%	1.0	%	100.0	%
Mutual funds- fixed income	-		52.3		-	
Mutual funds-equity	-		46.7		-	
Total	100.0	%	100.0	%	100.0	%

The Plan's investment mix is targeted to achieve minimum risk since the Plan is near complete liquidation. The Plan's trustees have deemed this investment strategy as prudent in order to minimize principal risk as a result of market volatility. Analysis of investment performance and its impact on the Plan's assets and liabilities is performed at least annually and reviewed by the Plan's trustees.

The expected long-term rate of return has been determined as a weighted average of market indices, applied to asset mix percentages, based on trust assets anticipated to be held for the year, with an adjustment for expected payment of expenses from plan assets and expected future experience. The long-term rate of return is left unchanged if it falls within a range of reasonable rates.

The estimated benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are as follows (000's omitted):

Year:	Benefits Expected to be paid	
2011	\$	257
2012		286
2013		303
2014		326
2015		332
2016-2020		1,656

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

NOTE 19 EARNINGS PER SHARE

The Company's basic net loss per share is calculated as net loss divided by the number of ordinary voting and restricted voting common shares outstanding at each year end as required by continuation accounting. Ordinary voting and restricted voting common shares outstanding were 18,358,363 as of December 31, 2010 and under continuation accounting this was used as shares outstanding for earnings per share for 2010 and 2009. For diluted net loss per share, net income is divided by the number of ordinary voting and restricted voting common shares outstanding at each year end plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Company's common stock equivalents consist solely of 110,600 outstanding stock options and warrants to purchase 3,983,502 shares of ordinary voting common shares. The effects of options and warrants to issue common stock are excluded from the computation of diluted earnings per share in periods in which the effect would be anti-dilutive. For the years 2010 and 2009 common stock equivalents were anti-dilutive.

Related party transactions, including services provided to or received by the Company's subsidiaries, are carried out in the normal course of operations and are measured at the amount of consideration paid or received as established and agreed by the parties. Management believes that consideration paid for such services approximates fair value.

Prior to the December 31, 2010 reverse triangular merger transaction and in 2009, subsidiaries of Atlas entered into, or were a party to, the following related party transactions:

- 1 **Reinsurance Agreements** – American Service and American Country entered into 50% quota-share reinsurance agreements with a Kingsway affiliate effective January 1, 1998 and June 30, 2002, respectively. On October 1, 2004 for American Service and January 1, 2006 for American Country, modifications were made to these quota-share agreements to increase their shares of the ceding percentages to 75%. Also, American Country entered into a loss portfolio transfer agreement effective June 30, 2002, which ceded 50% of its reserves for unpaid losses and 50% of the unearned premium reserve as of the effective date to a Kingsway affiliate in exchange for a ceding commission. These quote-share and loss portfolio transfer agreements were both commuted effective July 1, 2009, and no balances relating to those agreements remained. Collectively, these insurance subsidiaries recognized gains of \$4.6 million related to the commutations, which is included in incurred loss and loss adjustment expense for the year ended December 31, 2009. Ceded reinsurance activity with Kingsway in 2009 for both entities combined, which includes ceded unearned premiums through the July 1, 2009 commutation date, included: a) premiums written of \$10.8 million, b) premiums earned of \$36.2 million, c) loss and loss adjustment expenses incurred of \$34.6 million, and d) ceding commissions totaling \$10.5 million;
- 2 **Mortgages and Rent** - In 2003, American Service and American Country, entered into separate mortgage agreements whereby mortgage loans totaling \$4.1 million were made to Kingsway to finance the purchase of an Elk Grove Village office building and land, which served as the home office of these three companies and various other Kingsway subsidiaries. The same building is currently the home office of the Company. The loans were to be repaid in 300 monthly principal and interest installments commencing on June 1, 2003 with final payments due May 1, 2028 and carried a fixed interest rate of 6%. For the six months ended June 2010 and calendar 2009, American Service and American Country received total mortgage payments from Kingsway of \$157,918 and \$315,836, respectively, and paid rent as one component of a larger management services agreement (discussed below). On June 30, 2010, Kingsway contributed the building and land to American Service as a capital contribution. In the second half of 2010, American Service received rent of \$763,312 from Kingsway affiliates. American Service listed the Elk Grove Village office building for sale in July 2010. See Note 8 -Assets Held For Sale, for additional information;;
- 3 **Management Services** – Under various intercompany management services agreements between American Country, American Service and various Kingsway affiliates, services were provided including management, underwriting, claims service and accounting to the parties to the agreement during 2010 and 2009. American Country and American Service remitted total fees for management services and rent to Kingsway totaling \$2,642,760 and \$5,034,000 in 2010 and 2009, respectively. American Country also paid \$1,574 and \$25,859 in 2010 and 2009, respectively, as commission and fees to Northeast Alliance Insurance Agency, LLC, another Kingsway affiliate. American Country received management fees from Kingsway affiliated companies totaling \$277,062 and \$2,073,963, in 2010 and 2009, respectively;
- 4 **Surplus Notes Payable** - \$13.5 million principal amount surplus notes payables were issued by American Service and American Country to Kingsway dated September 30, 2009 with a maturity date of September 30, 2039. These were forgiven effective December 3, 2010. Unpaid accrued interest on surplus notes payable was \$973,629 as of December 31, 2010 and was paid in the first quarter of 2011. See NOTE 9 – Surplus Notes Payable, for additional information;

- 5 **Tax Allocation Agreements** –American Service and American Country were parties to an amended and restated Kingsway affiliated group tax allocation agreement effective October 30, 2009 between Kingsway and its subsidiaries pursuant to which the parties filed a U.S. consolidated income tax return for the tax year ended December 31, 2009 and will similarly file for 2010. In 2010 and 2009, pursuant to the tax allocation agreements, the two Atlas insurance subsidiaries received \$226,516 and \$404,820, respectively, for settlement of prior year's income tax returns;
- 6 **KFS Capital, LLC Investment** - At December 31, 2009 American Service owned 23.6% of KFS Capital, LLC, a Kingsway affiliated organization, through an investment of \$2,093,000 which was included in other assets. In December 2010, KFS Capital, LLC redeemed this investment at American Service book value of \$2,005,368.
- 7 **Avalon Commissions and Marketing** - In 2010 and 2009, the Atlas insurance subsidiaries paid \$4,462,540 and \$2,668,517, respectively, as commissions to Avalon Risk Management, Inc. In 2010 they also paid Avalon \$125,000 for marketing services. Avalon Risk Management, Inc. (Avalon) was a Kingsway subsidiary through October 2009, and has investors and directors in common with Atlas.

Other than the pooling agreement between the Operating Insurance Subsidiaries and related fiduciary and reinsurance agreement, all of the foregoing related party transactions were terminated effective with the completion of the reverse triangular merger transaction on December 31, 2010.

As a result of the transactions noted above, the Company reported net amounts receivable from Kingsway affiliates of \$1.3 million and \$0.1 million as of December 31, 2010 and 2009, respectively, which are included in accounts receivable and other assets in the balance sheet. In the first quarter of 2011, the Company received payment for all of the net receivables from Kingsway as of December 31, 2010.

The reverse triangular merger transaction was negotiated on an arm's length basis and is not a Non-Arm's Length Qualifying Transaction under the policies of the Toronto Stock Exchange; therefore, approval of the merger by the shareholders of the JJR VI Acquisition Corp was not required.

On or about the date of the reverse triangular merger, Atlas and certain of its subsidiaries entered into, or have agreed in substance and anticipate entering into, certain commercial related party agreements in connection with the business, including:

1. American Service entered into a lease agreement with a Kingsway affiliate in respect of a portion of the office building owned by American Service;
2. Kingsway and Atlas have entered into a transitional services agreement in respect of certain services to be performed by or on behalf of the parties for the benefit of each other;
3. Kingsway has entered into a building expense subsidy agreement pursuant to which Kingsway will reimburse American Service to the extent certain expenses exceed revenues in connection with the building owned by American Service;
4. Kingsway, American Country and American Service have entered into an adverse development agreement pursuant to which Kingsway will provide purchase price protection to Atlas in respect of adverse claims in excess of the amounts reserved by American Country and American Service. This agreement provides contractual quota share protection for 90% of \$10.0 million of adverse claims beyond \$1.0 million, based on the carried reserves at September 30, 2010. Kingsway's maximum obligation to the company is \$9.0 million.

NOTE 21	RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
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These consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"). In the preparation of these financial statements there are no significant differences between US GAAP and generally accepted accounting principles followed in Canada ("Canadian GAAP"). Accordingly, net loss, total comprehensive income (loss), total accumulated other comprehensive income (loss) and total shareholders' equity reported under US GAAP are the same as would be reported under Canadian GAAP.

On January 5, 2011, the TSX Venture Exchange accepted the reverse merger transaction effectively creating the Company as discussed in Note 1- Nature of Operations by allowing a name change from JJR VI Acquisition Corp to Atlas Financial Holdings, Inc. and combining American Country and American Service within that organization. The TSX Venture Exchange also approved the listing of the ordinary shares of the Company on Tier 2 of the TSX Venture Exchange under the symbol "AFH". Trading on that exchange commenced on January 6, 2011.

As discussed in Note 8 - Assets Held for Sale, on January 24, 2011 a contract for the sale of an office building in Mobile, Alabama with a December 31, 2010 net book value of \$2.0 million was executed. The sale is expected to be consummated in the second quarter of 2011.

Subsequent events have been evaluated through April 15, 2011, the date the Board of Directors approved the financial statements for issuance. .