

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

**For the quarterly period ended:**

March 31, 2021

**COMMISSION FILE NUMBER:**

000-54627



**ATLAS FINANCIAL HOLDINGS, INC.**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

Cayman Islands

27-5466079

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

953 American Lane, 3<sup>rd</sup> Floor

60173

Schaumburg, IL

(Zip Code)

(Address of principal executive offices)

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

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act: None

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

There were 12,047,334 shares of the registrant's common stock outstanding as of April 30, 2021, all of which are ordinary voting common shares. There are no restricted voting common shares outstanding. Of the registrant's ordinary voting common shares outstanding, 10,701,784 shares as of April 30, 2021 were held by non-affiliates of the registrant.

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

**Atlas Financial Holdings, Inc.**  
**Index to Quarterly Report on Form 10-Q**  
**March 31, 2021**

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**Part I. Financial Information**

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Item 1.	Financial Statements and Supplemental Schedules	
	Condensed Consolidated Statements of Financial Position as of March 31, 2021 (unaudited) and December 31, 2020	1
	Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2021 and 2020 (unaudited)	2
	Condensed Consolidated Statements of Shareholders' Deficit for the Three Months Ended March 31, 2021 and 2020 (unaudited)	3
	Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2021 and 2020 (unaudited)	4
	Notes to Condensed Consolidated Financial Statements (unaudited)	5
Item 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	
	I. Company Overview	20
	II. Operating Results	22
	III. Financial Condition	26
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	28

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**Part II. Other Information**

---

Item 1.	Legal Proceedings	29
Item 1A.	Risk Factors	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	29
Item 3.	Defaults Upon Senior Securities	29
Item 4.	Mine Safety Disclosures	29
Item 5.	Other Information	29
Item 6.	Exhibits	30
	Signature	31

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## Part I. Financial Information

### Item 1. Financial Statements and Supplemental Schedules

#### Atlas Financial Holdings, Inc. Condensed Consolidated Statements of Financial Position

(\$ in '000s, except for share and per share data)	March 31, 2021	December 31, 2020
Assets	(unaudited)	
Cash and cash equivalents	\$ 2,960	\$ 5,238
Restricted cash	3,879	5,287
Premiums receivable (net of allowance of \$800 and \$800)	12,986	13,442
Intangible assets, net	2,137	2,235
Property and equipment, net	18,131	18,815
Right-of-use asset	728	888
Notes receivable	18,017	18,017
Other assets	2,278	1,895
Assets held for sale	48,101	53,885
<b>Total assets</b>	<b>\$ 109,217</b>	<b>\$ 119,702</b>
Liabilities		
Premiums payable	\$ 17,955	\$ 19,416
Lease liability	880	1,091
Due to deconsolidated affiliates	19,091	19,170
Notes payable, net	38,029	36,168
Other liabilities and accrued expenses	3,071	4,342
Liabilities held for sale	53,794	60,407
<b>Total liabilities</b>	<b>\$ 132,820</b>	<b>\$ 140,594</b>
<b>Commitments and contingencies (see Note 7)</b>		
Shareholders' Deficit		
Ordinary voting common shares, \$0.003 par value, 266,666,667 shares authorized, shares issued: March 31, 2021 - 12,302,839 and December 31, 2020 - 12,248,798; shares outstanding: March 31, 2021 - 12,047,334 and December 31, 2020 - 11,993,293	\$ 37	\$ 37
Restricted voting common shares, \$0.003 par value, 33,333,334 shares authorized, shares issued and outstanding: March 31, 2021 and December 31, 2020 - 0	—	—
Additional paid-in capital	81,850	81,840
Treasury stock, at cost: 255,505 shares of ordinary voting common shares at March 31, 2021 and December 31, 2020, respectively	(3,000)	(3,000)
Retained deficit	(102,749)	(100,199)
Accumulated other comprehensive income, net of tax	259	430
<b>Total shareholders' deficit</b>	<b>\$ (23,603)</b>	<b>\$ (20,892)</b>
<b>Total liabilities and shareholders' deficit</b>	<b>\$ 109,217</b>	<b>\$ 119,702</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

# Atlas Financial Holdings, Inc.

## Condensed Consolidated Statements of Operations

### Condensed Consolidated Statements of Operations

(\$ in '000s, except for share and per share data)

	Three months ended March 31,	
	2021	2020
	(unaudited)	
Commission income	\$ 1,693	\$ 2,052
Net realized gains	12	—
Other income	636	154
<b>Total revenue</b>	<b>2,341</b>	<b>2,206</b>
Acquisition costs	894	1,409
Other underwriting expenses	3,482	3,509
Amortization of intangible assets	98	98
Interest expense, net	569	320
<b>Total expenses</b>	<b>5,043</b>	<b>5,336</b>
<b>Loss from operations before income taxes</b>	<b>(2,702)</b>	<b>(3,130)</b>
Income tax expense	—	104
<b>Loss from continuing operations</b>	<b>(2,702)</b>	<b>(3,234)</b>
Income (loss) from discontinued operations, net of tax	152	(57)
<b>Net loss</b>	<b>\$ (2,550)</b>	<b>\$ (3,291)</b>
<b>Basic net (loss) income per share attributable to common shareholders</b>		
Continuing operations	\$ (0.22)	\$ (0.27)
Discontinued operations	0.01	—
<b>Net loss</b>	<b>\$ (0.21)</b>	<b>\$ (0.27)</b>
<b>Diluted net (loss) income per share attributable to common shareholders</b>		
Continuing operations	\$ (0.22)	\$ (0.27)
Discontinued operations	0.01	—
<b>Net loss</b>	<b>\$ (0.21)</b>	<b>\$ (0.27)</b>
Basic weighted average common shares outstanding	12,023,655	11,914,849
Diluted weighted average common shares outstanding	12,023,655	11,914,849

### Condensed Consolidated Statements of Comprehensive Loss

Net loss	\$ (2,550)	\$ (3,291)
<b>Other comprehensive loss:</b>		
Changes in net unrealized investment losses	(13)	(58)
Reclassification to net loss	(158)	(91)
<b>Other comprehensive loss</b>	<b>(171)</b>	<b>(149)</b>
<b>Total comprehensive loss</b>	<b>\$ (2,721)</b>	<b>\$ (3,440)</b>

See accompanying Notes to Condensed Consolidated Financial Statements.



## Atlas Financial Holdings, Inc.

### Condensed Consolidated Statements of Shareholders' Deficit

(\$ in '000s)	Ordinary Voting Common Shares	Restricted Voting Common Shares	Additional Paid-In Capital	Treasury Stock	Retained Deficit	Accumulated Other Comprehensive Income	Total Share- holders' Equity (Deficit)
<b>Balance December 31, 2019</b>	\$ 36	\$ —	\$ 81,548	\$ (3,000)	\$ (87,469)	\$ 424	\$ (8,461)
Net loss	—	—	—	—	(3,291)	—	(3,291)
Other comprehensive loss	—	—	—	—	—	(149)	(149)
Share-based compensation	—	—	179	—	—	—	179
<b>Balance March 31, 2020 (unaudited)</b>	<b>36</b>	<b>—</b>	<b>81,727</b>	<b>(3,000)</b>	<b>(90,760)</b>	<b>275</b>	<b>(11,722)</b>
<b>Balance December 31, 2020</b>	\$ 37	\$ —	\$ 81,840	\$ (3,000)	\$ (100,199)	\$ 430	\$ (20,892)
Net loss	—	—	—	—	(2,550)	—	(2,550)
Other comprehensive loss	—	—	—	—	—	(171)	(171)
Share-based compensation	—	—	10	—	—	—	10
<b>Balance March 31, 2021 (unaudited)</b>	<b>37</b>	<b>—</b>	<b>81,850</b>	<b>(3,000)</b>	<b>(102,749)</b>	<b>259</b>	<b>(23,603)</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

# Atlas Financial Holdings, Inc.

## Condensed Consolidated Statements of Cash Flows

(\$ in '000s)	Three months ended March 31,	
	2021	2020
	(unaudited)	
<b>Operating activities:</b>		
Net loss	\$ (2,550)	\$ (3,291)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Income from discontinued operations, net of taxes	(152)	57
Depreciation and amortization	684	869
Share-based compensation expense	10	179
Amortization of intangible assets	98	98
Net realized gains	(12)	—
Amortization of financing costs	56	56
Net changes in operating assets and liabilities:		
Premiums receivable, net	(444)	9,854
Other assets	(383)	(1,935)
Premiums payable	(1,461)	(12,169)
Due to deconsolidated affiliates	(78)	902
Other liabilities and accrued expenses	(1,271)	(1,601)
<b>Net cash flows used in operating activities - continuing operations</b>	<b>(5,503)</b>	<b>(6,981)</b>
<b>Net cash flows used in operating activities - discontinued operations</b>	<b>(494)</b>	<b>(6,602)</b>
<b>Net cash flows used in operating activities</b>	<b>(5,997)</b>	<b>(13,583)</b>
<b>Investing activities:</b>		
Purchases of:		
Property, equipment and other	—	(121)
Proceeds from sale of:		
Property, equipment and other	12	—
<b>Net cash flows provided by (used in) investing activities - continuing operations</b>	<b>12</b>	<b>(121)</b>
<b>Net cash flows provided by investing activities - discontinued operations</b>	<b>2,705</b>	<b>5,933</b>
<b>Net cash flows provided by investing activities</b>	<b>2,717</b>	<b>5,812</b>
<b>Financing activities:</b>		
Proceeds from notes payable	2,000	—
Repayment of notes payable	(195)	(186)
<b>Net cash flows provided by (used in) financing activities - continuing operations</b>	<b>1,805</b>	<b>(186)</b>
<b>Net cash flows provided by financing activities - discontinued operations</b>	<b>—</b>	<b>—</b>
<b>Net cash flows provided by (used in) financing activities</b>	<b>1,805</b>	<b>(186)</b>
<b>Net change in cash and cash equivalents and restricted cash - continuing operations</b>	<b>(3,686)</b>	<b>(7,288)</b>
Cash and cash equivalents and restricted cash, beginning of period	13,554	23,859
Less: cash and cash equivalents of discontinued operations - beginning of period	3,029	7,712
Cash and cash equivalents and restricted cash of continuing operations, beginning of period	10,525	16,147
<b>Cash and cash equivalents and restricted cash of continuing operations, end of period</b>	<b>\$ 6,839</b>	<b>\$ 8,859</b>
<b>Supplemental disclosure of cash information:</b>		
Cash (recovered) paid for:		
Income taxes	\$ —	\$ 52
Interest	499	509

See accompanying Notes to Condensed Consolidated Financial Statements.

# **Atlas Financial Holdings, Inc.**

## **Notes to Condensed Consolidated Financial Statements**

### **(unaudited)**

## **1. Nature of Operations and Basis of Presentation**

Atlas Financial Holdings, Inc. (“Atlas” or “We” or the “Company”) commenced operations on December 31, 2010. The primary business of Atlas focuses on a managing general agency strategy, primarily through our wholly owned subsidiary, Anchor Group Management, Inc. (“AGMI”). AGMI focuses on a niche market orientation for the “light” commercial automobile sector. This sector includes taxi cabs, non-emergency para-transit, limousine, livery, including certain transportation network companies (“TNC”) drivers/operators, and business autos. Automobile insurance products provide insurance coverage in three major areas: liability, accident benefits and physical damage.

Atlas’ business is carried out through its non-insurance company subsidiaries: AGMI, UBI Holdings Inc. (“UBI Holdings”) and UBI Holdings’ wholly-owned subsidiaries, optOn Digital IP Inc. (“OOIP”) and optOn Insurance Agency Inc. (“optOn” and together with OOIP and UBI Holdings, “UBI”).

Prior to a strategic transition, our core business was the underwriting of commercial automobile insurance policies, focusing on the “light” commercial automobile sector, through American Country Insurance Company (“American Country”), American Service Insurance Company, Inc. (“American Service”) and Gateway Insurance Company (“Gateway” and together with American Country and American Service, the “ASI Pool Companies”) and Global Liberty Insurance Company of New York (“Global Liberty” and together with the ASI Pool Companies, our “Insurance Subsidiaries”), along with our wholly owned managing general agency, AGMI. The ASI Pool Companies were placed into rehabilitation under the statutory control of the Illinois Department of Insurance during the second half of 2019 and were subsequently placed into liquidation and have been deconsolidated from our consolidated financial statements as of October 1, 2019 as a result of these actions. Other regulatory actions were taken in certain states, including restriction, suspension, or revocation of certain state licenses and certificates of authority held by the ASI Pool Companies preceding and following the initiation of rehabilitation.

During the fourth quarter of 2019, the Company began actively pursuing the potential sale of Global Liberty Insurance Company of New York (“Global Liberty”), and as a result, Global Liberty has been classified as a discontinued operation since.

Atlas’ ordinary common shares are listed on the OTC Markets system under the symbol “AFHIF”.

### **Basis of Presentation**

These statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include the accounts of Atlas and the entities it controls. Equity investments in entities that we do not consolidate, including corporate entities in which we have significant influence and partnership and partnership-like entities in which we have more than minor influence over operating and financial policies, are accounted for under the equity method unless we have elected the fair value option. All significant intercompany accounts and transactions have been eliminated.

The results for the three months ended March 31, 2021 are not necessarily indicative of the results expected for the full calendar year.

The accompanying unaudited condensed consolidated financial statements, in accordance with Securities and Exchange Commission (“SEC”) rules for interim periods, do not include all of the information and notes required by GAAP for complete financial statements and should be read in conjunction with Atlas’ Annual Report on Form 10-K for the year ended December 31, 2020, which provides a more complete understanding of the Company’s accounting policies, financial position, operating results, business properties, and other matters. Atlas has consistently applied the same accounting policies throughout all periods presented.

## Estimates and Assumptions

The preparation of financial statements 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. Significant estimates in the accompanying financial statements include revenue recognition, evaluation of assets for impairment, deferred tax asset valuation, and allowances on premiums receivable.

## Revenue Recognition

Revenues from contracts with customers include both commission and fee income. The recognition and measurement of revenue is based on the assessments of individual contract terms. As a managing general agency (an “MGA”), AGMI has contracts with various insurance carriers which determines AGMI’s commission income revenue. Each contract specifies what our performance obligations are as an MGA and what determines our commission income revenue, generally gross written premiums, net of cancellations and refunds. Under these contracts there are a number of performance obligations; however, it is the bundle of these services and not a single obligation that results in the performance of the MGA under the contracts. The Company considers these performance obligations as a non-bifurcated bundle of services where the performance obligations are satisfied simultaneous to the point in time where the Company issues a policy, or cancels a policy to an insured. The commission rate stated in the individual contract is the standalone selling price of these non-bifurcated services, which is allocated to the service bundle and not to any individual obligation under the various contracts.

## Seasonality

The property and casualty (“P&C”) insurance business is seasonal in nature. Our ability to generate commission income is also impacted by the timing of policy effective periods in the states in which we operate and products provided by our business partners. For example, January 1<sup>st</sup> and March 1<sup>st</sup> are common taxi cab renewal dates in Illinois and New York, respectively.

## Operating Segments

The Company operates in one business segment, the Managing General Agency segment.

## 2. New Accounting Standards

There have been no recent pronouncements or changes in pronouncements during the three months ended March 31, 2021, as compared to those described in our Annual Report on Form 10-K for the twelve months ended December 31, 2020, that are of significance or potential significance to Atlas. Pertinent Accounting Standard Updates (“ASUs”) are issued from time to time by the Financial Accounting Standards Board (“FASB”) and are adopted by the Company as they become effective. All recently issued accounting pronouncements with effective dates prior to April 1, 2021 have been adopted by the Company.

## 3. Intangible Assets

### Intangible Assets by Major Asset Class

(\$ in '000s)		Economic Useful Life	Gross Carrying Amount	Accumulated Amortization	Net			
As of March 31, 2021								
Trade name and trademark	15 years	\$	1,800	\$	734	\$	1,066	
Customer relationship	10 years		2,700		1,629		1,071	
			\$	4,500	\$	2,363	\$	2,137
As of December 31, 2020								
Trade name and trademark	15 years	\$	1,800	\$	703	\$	1,097	
Customer relationship	10 years		2,700		1,562		1,138	
			\$	4,500	\$	2,265	\$	2,235

## 4. Loss From Continuing Operations per Share

### Computations of Basic and Diluted Loss per Common Share from Continuing Operations

(\$ in '000s, except share and per share amounts)

	Three months ended March 31,	
	2021	2020
<b>Basic</b>		
Loss from continuing operations before income taxes	\$ (2,702)	\$ (3,130)
Income tax expense	—	104
Net loss attributable to common shareholders from continuing operations	\$ (2,702)	\$ (3,234)
Basic weighted average common shares outstanding	12,023,655	11,914,849
Loss per common share basic from continuing operations	\$ (0.22)	\$ (0.27)
<b>Diluted</b>		
Basic weighted average common shares outstanding	12,023,655	11,914,849
<i>Dilutive potential ordinary shares:</i>		
Dilutive stock options outstanding	—	—
Diluted weighted average common shares outstanding	12,023,655	11,914,849
Loss per common share diluted from continuing operations	\$ (0.22)	\$ (0.27)

Common shares are defined as ordinary voting common shares, restricted voting common shares and participative restricted stock units ("RSUs"). Earnings per common share diluted is computed by dividing net income by the weighted average number of common shares outstanding for each period plus the incremental number of shares added as a result of converting dilutive potential ordinary voting common shares, calculated using the treasury stock method. Atlas' potential dilutive ordinary voting common shares consists of outstanding stock options to purchase ordinary voting common shares and warrants to purchase 2,387,368 ordinary voting common shares of Atlas for \$0.69 per share.

Atlas' dilutive potential ordinary voting common shares consist of outstanding stock options to purchase ordinary voting common shares. The effects of these convertible instruments are excluded from the computation of earnings per common share diluted from continuing operations in periods in which the effect would be anti-dilutive. For the three months ended March 31, 2021 and 2020, all exercisable stock options were deemed to be anti-dilutive.

## 5. Contracts with Customers

The revenue included as commission income for three months ended March 31, 2021 and 2020 totaled \$1.7 million and \$2.1 million, respectively.

The balance of receivables related to contracts with customers, which is recorded as part of premiums receivable on the Consolidated Statements of Financial Position as of March 31, 2021 and December 31, 2020:

### Components of Commission Receivables

(\$ in '000s)	Three months ended		Twelve months ended	
	March 31, 2021		December 31, 2020	
Commission receivable, beginning of period	\$	2,577	\$	1,428
Commission revenue		1,693		5,195
Net change in cash received		(1,904)		(4,046)
Commission receivable, end of period	\$	2,366	\$	2,577

## 6. Income Taxes

### Reconciliation of U.S. Statutory Marginal Income Tax Rate to the Effective Tax Rate - Continuing Operations

(\$ in '000s)	Three months ended March 31,			
	2021		2020	
	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate	\$ (568)	21.0 %	\$ (657)	21.0 %
Provision for deferred tax assets deemed unrealizable (valuation allowance)	560	(20.7)	791	(25.2)
Nondeductible expenses	1	—	—	—
Stock compensation	7	(0.3)	12	(0.4)
Tax rate differential	—	—	(42)	1.3
Provision for income taxes for continuing operations	\$ —	— %	\$ 104	(3.3)%

### Reconciliation of U.S. Statutory Marginal Income Tax Rate to the Effective Tax Rate - Discontinued Operations

(\$ in '000s)	Three months ended March 31,			
	2021		2020	
	Amount	%	Amount	%
Provision for taxes at U.S. statutory marginal income tax rate	\$ 32	21.0 %	\$ (122)	21.0 %
Provision for deferred tax assets deemed unrealizable (valuation allowance)	(32)	(21.0)	(202)	34.9
Nondeductible expenses	—	—	2	(0.1)
Tax rate differential	—	—	(200)	34.3
Provision for income taxes for discontinued operations	\$ —	— %	\$ (522)	90.1 %

### Components of Income Tax Expense - Continuing Operations

(\$ in '000s)	Three months ended March 31,	
	2021	2020
	Amount	Amount
Current tax expense	\$ —	\$ 104

### Components of Income Tax Benefit - Discontinued Operations

(\$ in '000s)	Three months ended March 31,	
	2021	2020
	Amount	Amount
Current tax benefit	\$ —	\$ (522)

During 2013 and 2019, due to shareholder activity, “triggering events” as determined under IRC Section 382 may have occurred. As a result, under IRC Section 382, the use of the Company’s net operating loss and other carryforwards generated prior to the “triggering events” will be subject to a yearly limitation as a result of this “ownership change” for tax purposes, which is defined as a cumulative change of more than 50% during any three-year period by shareholders owning 5% or greater portions of the Company’s shares. Due to the mechanics of the Section 382 calculation when there are multiple triggering events the Company’s losses will generally be limited based on the thresholds of the 2019 triggering event. The Company has established a valuation allowance against the NOLs that will expire unused as a result of the yearly limitation.

## Components of Deferred Income Tax Assets and Liabilities

(\$ in '000s)	March 31, 2021	December 31, 2020
<b>Gross deferred tax assets:</b>		
Losses carried forward	\$ 16,844	\$ 16,408
Claims liabilities and unearned premium reserves	495	496
Investment in affiliates	23,870	23,870
Bad debts	168	168
Stock compensation	272	279
Other	319	203
Valuation allowance	(33,984)	(33,420)
<b>Total gross deferred tax assets</b>	<b>7,984</b>	<b>8,004</b>
<b>Gross deferred tax liabilities:</b>		
Deferred policy acquisition costs	55	134
Investments	84	122
Fixed assets	1,224	1,344
Intangible assets	449	469
Other	6,172	5,935
<b>Total gross deferred tax liabilities</b>	<b>7,984</b>	<b>8,004</b>
<b>Net deferred tax assets</b>	<b>\$ —</b>	<b>\$ —</b>

## Net Operating Loss Carryforward as of March 31, 2021 by Expiry

(\$ in '000s)	Year of Occurrence	Year of Expiration	Amount
	2011	2031	\$ 1
	2012	2032	70
	2015	2035	1
	2017	2037	13,649
	2018	2038	8,903
	2018	Indefinite	8,245
	2019	2039	4,973
	2019	Indefinite	6,306
	2020	2040	31,300
	2020	Indefinite	4,687
	2021	2041	533
	2021	Indefinite	1,543
<b>Total</b>			<b>\$ 80,211</b>

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which they can be utilized. When considering the extent of the valuation allowance on Atlas' deferred tax assets, weight is given by management to both positive and negative evidence. GAAP states that a cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets. Based on Atlas' cumulative loss in recent years and certain deferred tax assets subject to a yearly limitation under Section 382 which will likely result in expiration before utilization, Atlas has recorded a valuation allowance of \$34.0 million and \$33.4 million for its gross future deferred tax assets as of March 31, 2021 and December 31, 2020, respectively.



Atlas accounts for uncertain tax positions in accordance with the income taxes accounting guidance. Atlas has analyzed filing positions in the federal and state jurisdictions where it is required to file tax returns, as well as the open tax years in these jurisdictions. Atlas believes that its federal and state income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain federal and state income tax positions have been recorded. Atlas would recognize interest and penalties related to unrecognized tax benefits as a component of the provision for federal income taxes. Atlas did not incur any federal income tax related interest income, interest expense or penalties for the three months ended March 31, 2021 and 2020. Tax year 2017 and years thereafter are subject to examination by the Internal Revenue Service (“IRS”).

## 7. Commitments and Contingencies

In the ordinary course of its business, Atlas is involved in legal proceedings, including lawsuits, regulatory examinations and inquiries.

Atlas is exposed to credit risk on balances receivable from insureds and agents. Credit exposure to any one individual insured is not material. The policies placed with risk taking partners are distributed by agents who may manage cash collection on its behalf pursuant to the terms of their agency agreement. Atlas has procedures to monitor and minimize its exposure to delinquent agent balances, including, but not limited to, reviewing agent account statements, processing policy cancellations for non-payment and other collection efforts deemed appropriate.

## 8. Property and Equipment

<b>Property and Equipment Held</b>			
(\$ in ‘000s)		<b>March 31, 2021</b>	<b>December 31, 2020</b>
Buildings <sup>1</sup>	\$	7,425	\$ 7,425
Land <sup>1</sup>		1,840	1,840
Building improvements		9,031	9,031
Leasehold improvements		193	193
Internal use software		12,795	12,795
Computer equipment		1,838	1,838
Furniture and other office equipment		1,097	1,121
Total	\$	34,219	\$ 34,243
Accumulated depreciation and amortization		(16,088)	(15,428)
Total property and equipment, net	\$	18,131	\$ 18,815

<sup>1</sup> Listed for sale

Depreciation expense and amortization from continuing operations was \$684,000 and \$869,000 for the three months ended March 31, 2021 and 2020, respectively. For the year ended December 31, 2020, depreciation expense and amortization from continuing operations was \$3.2 million.

For the three months ended March 31, 2021 and 2020, the Company capitalized \$0 and \$110,000, respectively, of costs incurred, consisting primarily of external consultants and internal labor costs incurred during the application development stage for internal-use software. Substantially all of the costs incurred during the period were part of the application development stage. Amortization expense recorded for projects in the post-implementation/operation stage was \$302,000 and \$402,000 for the three months ended March 31, 2021 and 2020, respectively.

During 2016, Atlas purchased a building and land to serve as its new corporate headquarters to replace its former leased office space. Atlas’ Chicago area staff moved into this space in late October 2017 and occupies approximately 70,000 square feet in the building. An unrelated tenant occupies the remaining office space in the building. Rental income related to this lease agreement was \$119,000 and \$154,000 for the three months ended March 31, 2021 and 2020, respectively. Depreciation expense related to the building and its improvements was \$284,000 and \$265,000 for the three months ended March 31, 2021 and 2020, respectively.

Realized gains on disposals of fixed assets totaled \$12,000 and \$0 for three months ended March 31, 2021 and 2020, respectively.



## 9. Share-Based Compensation

On January 6, 2011, Atlas adopted a stock option plan (“Stock Option Plan”) in order to advance the interests of Atlas by providing incentives to eligible persons defined in the plan. In the second quarter of 2013, a new equity incentive plan (“Equity Incentive Plan”) was approved by the Company’s common shareholders at the Annual General Meeting, and Atlas ceased to grant new stock options under the preceding Stock Option Plan. The Equity Incentive Plan is a securities based compensation plan, pursuant to which Atlas may issue restricted stock grants for ordinary voting common shares, restricted stock, stock grants for ordinary voting common shares, stock options and other forms of equity incentives to eligible persons as part of their compensation. The Equity Incentive Plan is considered an amendment and restatement of the Stock Option Plan, although outstanding stock options issued pursuant to the Stock Option Plan will continue to be governed by the terms of the Stock Option Plan.

### Stock Options

<b>Stock Option Activity</b>				
(prices in Canadian dollars designated with “C\$” and U.S. dollars designated with “US\$”)		Three months ended March 31,		
	2021		2020	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
<b>C\$ Denominated:</b>				
Outstanding, beginning of period	—	C\$—	27,195	C\$6.00
Granted	—	—	—	—
Exercised	—	—	—	—
Canceled	—	—	—	—
Outstanding, end of period	—	C\$—	27,195	C\$6.00
<b>US\$ Denominated:</b>				
Outstanding, beginning of period	181,500	US\$13.51	375,000	US\$17.01
Granted	—	—	—	—
Exercised	—	—	—	—
Canceled	—	—	(193,500)	18.73
Outstanding, end of period	181,500	US\$13.51	181,500	US\$13.51

There are no stock options that are exercisable as of March 31, 2021. The stock option grants outstanding have a weighted average remaining life of 2.97 years and have a fair value of \$0 as of March 31, 2021.

On March 12, 2015, the Board of Directors of Atlas granted equity awards of (i) 200,000 restricted stock grants for ordinary voting common shares of the Company and (ii) 200,000 options to acquire ordinary voting common shares to the executive officers of the Company as part of the Company’s annual compensation process. The awards were made under the Company’s Equity Incentive Plan. The awards vest in five equal annual installments of 20%, provided that an installment shall not vest unless an annual performance target based on specific book value growth rates linked to return on equity goals is met. In the event the performance target is not met in any year, the 20% installment for such year shall not vest, but such non-vested installment shall carry forward and can become vested in future years (up to the fifth year from the date of grant), subject to achievement in a future year of the applicable performance target for such year. For the three months ended March 31, 2021 and 2020, no shares of either of the restricted stock grants for ordinary voting common shares or the options to acquire ordinary voting common shares vested due to not meeting annual performance targets. During the first quarter of 2020, 140,000 of the option awards were canceled as a result of not meeting the annual performance targets. Also during the first quarter of 2020, an additional 53,500 options were canceled due to the departure of a former officer. The Monte-Carlo simulation model was used, for both the options and restricted stock grants for ordinary voting common shares, to estimate the fair value of compensation expense as a result of the performance based component of these grants. Utilizing the Monte-Carlo simulation model, the fair values were \$1.5 million and \$1.9 million for the options and restricted stock grants for ordinary voting common shares, respectively. This expense will be amortized over the anticipated vesting period.

On December 31, 2018, the Company awarded restricted stock unit grants for ordinary voting common shares of the Company to its external directors pursuant to a director equity award agreement dated December 31, 2018. The awards, which were approved by the Company's Board of Directors in March 2018, were valued at \$40,000 per external director ("Aggregate Award") and were made under the Company's Equity Incentive Plan. The number of restricted stock units awarded was determined by dividing (A) the Aggregate Award by (B) the closing price of a Company ordinary voting common share at the close of market on April 4, 2018, which was \$10.50 per share. For new directors, the Aggregate Award is proportionate to the director's start date and priced as of that same day. During 2018, the Company awarded 17,524 RSU grants having an aggregate grant date fair value of \$179,000. As of March 31, 2021 all of the RSU grants have vested.

## Restricted Shares

### Restricted Stock Grants for Ordinary Voting Common Shares and Restricted Share Unit Activity

	Three months ended March 31,			
	2021		2020	
	Number of Shares	Weighted Average Fair Value at Grant Date	Number of Shares	Weighted Average Fair Value at Grant Date
Non-vested, beginning of period	\$ 3,301	\$ 10.22	\$ 171,682	\$ 17.46
Granted	—	—	—	—
Vested	(3,301)	0.12	(5,841)	10.22
Canceled	—	—	(160,000)	9.62
Non-vested, end of period	\$ —	\$ —	\$ 5,841	\$ 10.22

During the first quarter of 2020, 140,000 ordinary voting restricted common shares were canceled as a result of not meeting annual performance targets. Also during the first quarter of 2020, an additional 20,000 restricted common shares were canceled due to the departure of a former officer.

In accordance with Accounting Standards Codification ("ASC") 718 (Stock-Based Compensation), Atlas has recognized share-based compensation expense on a straight-line basis over the requisite service period of the last separately vesting portion of the award. Share-based compensation expense is a component of other underwriting expenses on the condensed consolidated statements of operations. Atlas recognized \$10,000 and \$179,000 in share-based compensation expense, including income tax expense, for the three months ended March 31, 2021 and 2020. As of March 31, 2021, there was no unrecognized total compensation expense related to restricted stock and restricted stock units for ordinary voting common shares.

## 10. Other Employee Benefit Plans

### Defined Contribution Plan

Atlas has a defined contribution 401(k) plan covering all qualified employees of Atlas and its subsidiaries. Contributions to this plan are limited based on IRS guidelines. Atlas may match up to 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 2.5% of annual earnings, for a total maximum expense of 3.75% of annual earnings per participant. Atlas' matching contributions are discretionary. Employees are 100% vested in their own contributions and vest in Atlas contributions based on years of service equally over 5 years with 100% vested after 5 years. Company contributions were \$0 and \$10,000 for the three months ended March 31, 2021 and 2020, respectively. The matching portion of this plan was suspended during the third quarter of 2020.

### Employee Stock Purchase Plan

The Atlas Employee Stock Purchase Plan ("ESPP") encourages employee interest in the operation, growth and development of Atlas and provides an additional investment opportunity to employees. Full time and permanent part time employees working more than 30 hours per week are allowed to invest up to 7.5% of adjusted salary in Atlas ordinary voting common shares. Atlas may match up to 100% of the employee contribution up to 2.5% of annual earnings, plus 50% of additional contributions up to 5% of annual earnings, for a total maximum expense of 5% of annual earnings per participant. Atlas' matching contributions are discretionary. Atlas also pays all administrative costs related to this plan. Atlas' costs incurred related to the matching portion of the ESPP were \$0 and \$3,000 for the three months ended March 31, 2021 and 2020, respectively. The matching portion of this plan was suspended during the third quarter of 2020.

# 11. Share Capital and Mezzanine Equity

## Share Capital

### Share Capital Activity

	Shares Authorized	March 31, 2021			December 31, 2020		
		Shares Issued	Shares Outstanding	Amount (\$ in '000s)	Shares Issued	Shares Outstanding	Amount (\$ in '000s)
Ordinary voting common shares	266,666,667	12,302,839	12,047,334	\$ 37	12,248,798	11,993,293	\$ 37
Restricted voting common shares	33,333,334	—	—	—	—	—	—
Total common shares	300,000,001	12,302,839	12,047,334	\$ 37	12,248,798	11,993,293	\$ 37

There were 0 and 3,301 non-vested RSUs as of March 31, 2021 and December 31, 2020, respectively. These RSUs are participative and are included in the computations of earnings per common share and book value per common share for these periods.

During the three months ended March 31, 2021, the Company issued 54,041 ordinary voting common shares of which 50,740 ordinary voting common shares were issued under the near term incentive program while 3,301 ordinary voting common shares were issued as a result of the vesting of RSUs. During the year ended December 31, 2020, the Company issued 210,481 ordinary voting common shares of which 202,100 ordinary voting common shares were issued under the near term incentive program while 8,381 ordinary voting common shares were issued as a result of the vesting of RSUs. Also, during the year ended December 31, 2020, 140,000 ordinary voting restricted common shares were canceled due to not meeting performance targets, and 20,000 ordinary voting restricted common shares were canceled due to the departure of a former officer.

## Warrants

The Schedule 13G/A filed by American Financial Group, Inc. a parent holding company, on February 2, 2021 states that as of December 31, 2020, it has sole voting power to vote and sole power to dispose of 2,387,368 ordinary voting common shares. These shares are represented by warrants to purchase 2,387,368 ordinary voting common shares until June 10, 2024, under a Warrant Agreement dated June 10, 2019 (the "Warrant Agreement"), at an initial exercise price of \$0.69 per share, with both the number of ordinary voting common shares subject to the Warrant Agreement and the exercise price subject to adjustment as set forth in the Warrant Agreement.

## Mezzanine Equity

There were no preferred shares outstanding as of March 31, 2021 and December 31, 2020.

## 12. Leases

We currently lease real estate space, automobiles, and certain equipment under non-cancelable operating lease agreements. Leases with an initial term of 12 months or less, which are immaterial to the Company, are not recorded in the condensed consolidated statement of financial position. The Company has elected the practical expedient to account for each separate lease component of a contract and its associated non-lease components as a single lease component, thus causing all fixed payments to be capitalized. The Company also elected the package of practical expedients permitted within the new standard, which among other things, allows the Company to carry forward historical lease classification. Variable lease payment amounts that cannot be determined at the commencement of the lease, such as increases to lease payments based on changes in index rates or usage, are not recorded in the condensed consolidated statement of financial position.

Certain agreements include an option to extend or renew the lease term at our option. The operating lease liability includes lease payments related to options to extend or renew the lease term if the Company is reasonably certain of exercising those options. Lease payments are discounted using the implicit discount rate in the lease. If the implicit discount rate for the lease cannot be readily determined, the Company uses an estimate of its incremental borrowing rate. The Company did not have any contracts accounted for as finance leases as of March 31, 2021 or 2020.

**Lease Expense**

(\$ in '000s)	Three months ended March 31,	
	2021	2020
Operating leases	\$ 169	\$ 190
Variable lease cost	92	89
Total	\$ 261	\$ 279

**Other Operating Lease Information**

(\$ in '000s)	Three months ended March 31,	
	2021	2020
Cash paid for amounts included in the measurement of lease liabilities reported in operating cash flows	\$ 261	\$ 279
Right-of-use assets obtained in exchange for new lease liabilities	—	—
Total	\$ 261	\$ 279

The following table presents the undiscounted contractual maturities of the Company's operating lease liability:

**Contractual Operating Lease Liabilities**

(\$ in '000s)	As of March 31, 2021
Remainder of 2021	\$ 672
2022	179
2023	23
Total lease payments	\$ 874
Impact of discounting	6
Operating lease liability	\$ 880

**Supplemental Balance Sheet Disclosures**

(\$ in '000s)		As of March 31, 2021
Lease Component	Balance Sheet Classification	
Lease right-of-use asset	Right-of-use asset	\$ 728
Weighted-average remaining lease term		1.0 year
Weighted-average discount rate		3.6 %

**13. Related Party Transactions**

During the year-ended December 31, 2020, a portion of Global Liberty's investment portfolio, which is included in "Assets held for sale" on the Condensed Consolidated Statements of Financial Position, included investment vehicles that were considered related-party transactions. As of December 31, 2020, these related-party transactions made up approximately 22.5%, of the Company's investment portfolio. In these transactions, one or more of the Company's former directors or entities affiliated with such directors invest in and/or manage these vehicles. These related-party transactions are consistent with the Company's investment guidelines and have been reviewed and approved by the Investment Committee of the Company's Board of Directors. With the retirement of these former directors from the Atlas Board of Directors during 2020, these investments are no longer considered related-party transactions.

## 14. Notes Payable

On April 26, 2017, Atlas issued \$25 million of five-year 6.625% senior unsecured notes and received net proceeds of approximately \$23.9 million after deducting underwriting discounts and commissions and other estimated offering expenses. Interest on the senior unsecured notes is payable quarterly on each January 26, April 26, July 26 and October 26. Atlas may, at its option, beginning with the interest payment date of April 26, 2020, and on any scheduled interest payment date thereafter, redeem the senior unsecured notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. The senior unsecured notes will rank senior in right of payment to any of Atlas' existing and future indebtedness that is by its terms expressly subordinated or junior in right of payment to the senior unsecured notes. The senior unsecured notes will rank equally in right of payment to all of Atlas' existing and future senior indebtedness, but will be effectively subordinated to any secured indebtedness to the extent of the value of the collateral securing such secured indebtedness. In addition, the senior unsecured notes will be structurally subordinated to the indebtedness and other obligations of Atlas' subsidiaries.

The senior unsecured notes were issued under an indenture and supplemental indenture that contain covenants that, among other things, limit: (i) the ability of Atlas to merge or consolidate, or lease, sell, assign or transfer all or substantially all of its assets; (ii) the ability of Atlas to sell or otherwise dispose of the equity securities of certain of its subsidiaries; (iii) the ability of certain of Atlas' subsidiaries to issue equity securities; (iv) the ability of Atlas to permit certain of its subsidiaries to merge or consolidate, or lease, sell, assign or transfer all or substantially all of their respective assets; and (v) the ability of Atlas and its subsidiaries to incur debt secured by equity securities of certain of its subsidiaries.

On November 10, 2016, American Insurance Acquisition, Inc. ("AIAI") entered into a ten-year 5.0% fixed rate mortgage agreement with the Insurance Subsidiaries totaling \$10.7 million with principal and interest payments due monthly. The mortgage rate is secured by the Company's headquarters and was previously eliminated in consolidation. The amounts payable as of March 31, 2021 are due to the ASI Pool Companies.

On May 1, 2020, AIAI entered into a Paycheck Protection Program Promissory Note (the "PPP Note") with respect to a loan of \$4,600,500 (the "PPP Loan") from Fifth Third Bank, National Association ("Fifth Third"). The PPP Loan was obtained pursuant to the Paycheck Protection Program (the "PPP") of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") administered by the U.S. Small Business Administration ("SBA"). The PPP Loan matures on May 1, 2022 and bears interest at a rate of 1.0% per annum. The PPP Loan is payable in 18 equal monthly payments of \$257,611.48 which was to commence December 1, 2020. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. AIAI has applied for loan forgiveness pursuant to the terms of the PPP as certain of the criteria have been met and is awaiting the results of the forgiveness decision, and as a result, monthly payments will be deferred until final resolution of the forgiveness application process.

On February 7, 2021, AIAI entered into a Paycheck Protection Program Promissory Note with respect to a loan of \$2,000,000 (the "Second PPP Loan") from Fifth Third. The Second PPP Loan was obtained pursuant to the SBA's Paycheck Protection Program Second Draw Loans under the Small Business Act ("SB Act") and is subject to the terms and conditions of the SB Act, the CARES Act and related legislation and regulations (the "PPP Rules"). The Company was eligible for this Second PPP Loan because our equity securities are not a National Markets System stock traded on a national securities exchange as defined by Section 6 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Second PPP Loan matures on February 7, 2026 and bears interest at a rate of 1.0% per annum. The Company will not be obligated to make any payments of principal or interest if the Company submits a loan forgiveness application to Fifth Third within 10 months after the end of the Company's covered loan forgiveness period (as defined and interpreted by the PPP Rules) and such loan forgiveness is allowed. If the Company does not submit a loan forgiveness application within 10 months after the end of the Company's loan forgiveness covered period (or such forgiveness is not allowed), the Company must begin paying principal and interest after that period (or after notice that such forgiveness is not allowed).

Interest expense on notes payable was \$569,000 and \$564,000 for the three months ended March 31, 2021 and 2020, respectively.



## Notes Payable Outstanding

(\$ in '000s)	March 31, 2021	December 31, 2020
6.625% Senior Unsecured Notes due April 26, 2022	\$ 25,000	\$ 25,000
1.0% PPP Loan due May 1, 2022	4,601	4,601
1.0% Second PPP Loan due February 7, 2026	2,000	—
5.0% Mortgage due November 10, 2026	6,668	6,863
Total outstanding borrowings	38,269	36,464
Unamortized issuance costs	(240)	(296)
Total notes payable	\$ 38,029	\$ 36,168

## 15. Deconsolidation and Discontinued Operations

### Deconsolidation

As part of the deconsolidation of the ASI Pool Companies which occurred on October 1, 2019, notes receivable from the ASI Pool Companies with an outstanding principal and accrued interest balances of \$18.0 million due to AIAI are resented on the condensed consolidated statements of financial position. On May 1, 2015, AIAI entered into subordinated surplus debentures ("Surplus Notes") with the ASI Pool Companies that had a maturity date of April 30, 2020 carrying a variable interest equal to the corporate base rate as reported by the largest bank (measured in assets) with its head office located in Chicago, Illinois, in effect on the first business day of each month for the term of the Surplus Notes plus two percent per annum on the unpaid principal balance with a maximum variable interest rate for any month not to exceed the initial rate for the Surplus Notes by more than ten percent per annum. These Surplus Notes are subject to various terms and conditions as set forth by the Illinois Department of Insurance and require prior written approval for the payment of interest and/or a reduction in principal. AIAI stopped accruing the interest receivable on these notes at their maturity date. These Surplus Notes could be used at some point by AIAI to offset future amounts payable due to the ASI Pool Companies related to income tax settlements and various other amounts due to the estates of the ASI Pool Companies that are in liquidation.

### Discontinued Operations

During the fourth quarter of 2019, the Company began actively pursuing the potential sale of Global Liberty, and as a result, Global Liberty has been classified as a discontinued operation and the assets and liabilities are reported as held for sale and results of Global Liberty's operations are reported separately for all periods presented. Global Liberty has not been sold within the one year guidance as set forth by ASC 205-20 to continue classifying Global Liberty as a discontinued operations. However, due to the confluence of events and circumstances beyond the Company's control, ASC 205-20 provides for an exception to the one year guidance which the Company believes fits its situation. As a result of the Company applying the exception guidance, Global Liberty remains a discontinued operation as of March 31, 2021. The Company continues to move forward with the plans of selling Global Liberty pending certain regulatory and other matters occur prior to such sale.

Summary financial information for Global Liberty included in income (loss) from discontinued operations, net of tax in the condensed consolidated statements of operations for the three months ended March 31, 2021 and 2020 is presented below:

### **Income (Loss) from Discontinued Operations**

(\$ in '000s)	Three months ended March 31,	
	2021	2020
Net premiums earned	\$ 2,598	\$ 4,867
Net investment loss	(64)	(29)
Net realized gains (losses)	145	(1,565)
<b>Total revenue</b>	<b>2,679</b>	<b>3,273</b>
Net claims incurred	883	596
Acquisition costs	910	2,068
Other underwriting expenses	734	1,188
<b>Total expenses</b>	<b>2,527</b>	<b>3,852</b>
<b>Income (loss) from operations before income taxes</b>	<b>152</b>	<b>(579)</b>
Income tax benefit	—	(522)
<b>Net income (loss)</b>	<b>\$ 152</b>	<b>\$ (57)</b>

### **Statements of Comprehensive Loss**

(\$ in '000s)	Three months ended March 31,	
	2021	2020
Net income (loss)	\$ 152	\$ (57)
<b>Other comprehensive income:</b>		
Changes in net unrealized investments gains	(13)	(58)
Reclassification to net income (loss)	(158)	(91)
<b>Other comprehensive loss</b>	<b>(171)</b>	<b>(149)</b>
<b>Total comprehensive loss</b>	<b>\$ (19)</b>	<b>\$ (206)</b>

The assets and liabilities of Global Liberty are presented as discontinued operations and included in assets and liabilities held for sale in the condensed consolidated statements of financial position at March 31, 2021 and December 31, 2020 and are detailed as follows:

(\$ in '000s)	March 31, 2021	December 31, 2020
<b>Assets</b>		
Investments		
Fixed income securities, available for sale, at fair value (amortized cost \$1,795 and \$4,315)	\$ 1,853	\$ 4,544
Other investments	1,307	1,319
Total investments	3,160	5,863
Cash and cash equivalents	5,240	3,029
Accrued investment income	13	29
Reinsurance recoverables on amounts paid	1,172	581
Reinsurance recoverables on amounts unpaid	33,443	31,958
Prepaid reinsurance premiums	3,697	9,739
Deferred policy acquisition costs	264	637
Other assets	1,112	2,049
<b>Total assets</b>	<b>\$ 48,101</b>	<b>\$ 53,885</b>
<b>Liabilities</b>		
Claims liabilities	\$ 38,037	\$ 38,499
Unearned premium reserves	8,588	14,545
Due to reinsurers	—	10
Other liabilities and accrued expenses	7,169	7,353
<b>Total liabilities</b>	<b>\$ 53,794</b>	<b>\$ 60,407</b>

## 16. Going Concern

Under ASC 205-40 (Going Concern), we have the responsibility to evaluate whether conditions and/or events raise substantial doubt about our ability to meet our future financial obligations as they become due within one year after the date that the condensed consolidated financial statements are issued. As required by this standard, our evaluation shall initially not take into consideration the potential mitigating effects of our plans that have not been fully implemented as of the date the condensed consolidated financial statements are issued.

In complying with the requirements under ASC 205-40 to complete an evaluation without considering mitigating factors, the Company considered several conditions or events including (1) uncertainty around the continued impact of the COVID-19 pandemic on the Company's operations and consolidated financial results, (2) the \$25 million of Senior Unsecured Notes maturing on April 26, 2022, (3) recurring operating losses for fiscal periods through March 31, 2021, (4) the Company's negative equity, and (5) the Company's working capital limitations. The above conditions raise substantial doubt about the Company's ability to continue as a going concern for the 12-month period following the date of the issuance of the March 31, 2021 interim financial statements.

In performing the second step of this assessment, we are required to evaluate whether our plans to mitigate the conditions above alleviate the substantial doubt about our ability to meet our obligations as they become due within one year after the date that the condensed consolidated financial statements are issued. Our future plans may potentially include, without limitation, one or more of the following: (1) securing incremental capital with the objective of potentially repurchasing some or all of the Senior Unsecured Notes at a discount to par, in the open market or otherwise, (2) securing equity or debt capital in private or public transactions, or (3) offering to exchange some or all of the Senior Unsecured Notes for debt, equity and/or other securities or other consideration, through privately negotiated transactions or otherwise. The constraints and requirements related to the Company's current senior notes coupled with market conditions could create limitations with respect to such alternatives.



Management believes that the Company's capital requirements will depend on many factors including the success of the Company's business development efforts. Management also believes the Company may need to raise additional capital for working capital purposes. There is no assurance that such financing will be available in the future. The conditions described above raise substantial doubt about our ability to continue as a going concern. The condensed consolidated financial statements of the Company do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

There is no assurance that sufficient funds required during the next year or thereafter will be generated from operations or that funds will be available through external sources. The lack of additional capital resulting from the inability to generate cash flow from operations or to raise capital from external sources would force the Company to substantially curtail or cease operations and would, therefore, have a material effect on the business. Furthermore, there can be no assurance that any such required funds, if available, will be available on attractive terms or they will not have a significant dilutive effect on the Company's existing shareholders. In the absence of the successful execution of one or more of the Company's previously mentioned mitigating actions, we have therefore concluded there is substantial doubt about our ability to continue as a going concern through or beyond 12 months of the issue date of these interim financial statements.

The accompanying condensed consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from our failure to continue as a going concern.

## **17. Subsequent Event**

On April 22, 2021, the Company granted an aggregate of 1,016,000 options ("Options") with an exercise price of \$0.49 per common share of the Company to directors and managers, and executives. This exercise price is the average of the high bid and low asked prices on the date of the grant quoted on the OTC Bulletin Board Service.

The Options granted to management shall vest in three equal installments, with each installment vesting on the 1st, 2nd and 3rd anniversary of the date of the grant. The Options granted to independent directors vested immediately upon the date of the grant. The Options will expire on the 7th anniversary of the date of the grant. In the event of a change of control of the Company, or should a director or employee's service with the Company be terminated other than for cause or voluntary resignation, any unvested Options will immediately vest.

All grants are made pursuant to the Company's 2013 Equity Incentive Plan (the "Plan") as previously approved by shareholders, and the description set forth herein is qualified in its entirety by the terms of such Plan.

## **Item 2. Management’s Discussion and Analysis (“MD&A”) of Results of Operations and Financial Condition**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes that appear elsewhere in this report. In this discussion and analysis, the term “common share” refers to the summation of ordinary voting common shares, restricted voting common shares and participative restricted stock units when used to describe earnings (loss) or book value per common share. All amounts are in U.S. dollars, except for amounts preceded by “C” as Canadian dollars, share and per share amounts.

### **Forward-Looking Statements**

In addition to the historical consolidated financial information, this report contains “forward-looking statements,” within the meaning of the Private Securities Litigation Reform Act of 1995, which may include, but are not limited to, statements with respect to estimates of future expenses, revenue and profitability; trends affecting financial condition, cash flows and results of operations; the availability and terms of additional capital; dependence on key suppliers and other strategic partners; industry trends; the competitive and regulatory environment; the successful integration of acquisitions; the impact of losing one or more senior executives or failing to attract additional key personnel; and other factors referenced in this report. Factors that could cause or contribute to these differences include those discussed below and elsewhere, particularly in the “Risk Factors” section of our Annual Report on Form 10-K for the year ended December 31, 2020.

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,” “believes” or variations (including negative variations) of such words and phrases, or state that certain actions, events or results “may,” “could,” “would,” “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Atlas to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, general business, economic, competitive, political, regulatory and social uncertainties.

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

## **I. Company Overview**

We are a technology and analytics driven financial services holding company incorporated under the laws of the Cayman Islands. Our primary business is generating, underwriting and servicing commercial automobile insurance policies in the United States, with a niche market orientation and focus on insurance for the “light” commercial automobile sector.

Our business currently focuses on a managing general agency strategy. Primarily through our wholly owned subsidiary, Anchor Group Management, Inc. (“AGMI”), we are focused on maintaining and recapturing business we have historically written in the taxi, livery/limo, paratransit and transportation network company sectors as well as generating new business that fits our current underwriting parameters. We are also actively pursuing additional programs in the “light” commercial auto space where we believe our expertise, infrastructure and insurance technology will enable us to increase scale and profitability, but there can be no assurance that these programs will materialize. We believe that the specialized infrastructure and technology platforms we have developed over the years to support our traditional business will enable us to provide comparative advantages as a managing general agency in other commercial auto segments. In particular, we believe our ability to efficiently manage large numbers of small or highly transactional accounts through our technology platform and workflows is a differentiator. We are also evaluating opportunities to leverage our optOn<sup>TM</sup> insurtech platform, which was developed to provide micro-duration commercial automobile insurance for gig-economy drivers via a proprietary mobile app based ecosystem.

The sector on which we traditionally focused included taxi cabs, non-emergency para-transit, limousine, livery, including certain full-time transportation network company (“TNC”) drivers/operators, and business auto. Our goal is to always be the preferred specialty insurance business in any markets where our value proposition delivers benefit to all stakeholders. AGMI distributes our products through a network of independent retail agents and actively wrote insurance in 41 states and the District of Columbia during 2020. We embrace continuous improvement, analytics and technology as a means of building on the strong heritage our subsidiary companies cultivated in the niche markets we serve.

## Factors Affecting Our Results of Operations

We generate commission revenue from selling insurance policies in the commercial auto markets on behalf of our insurance carrier partners, which compensate us through first year and renewal commissions. We use our proprietary technology and processes to generate and obtain consumer leads and allocate those leads to agents whom we believe are best suited for those consumers. As a result, one of the primary factors affecting our growth is our total number of agents, comprised of both existing core agents and the number of new agents that we contract to sell new policies. We view agents as a critical component of helping consumers through the purchasing process to enable them to identify the most appropriate coverage that suits their needs. Through our years of experience, we have expanded our recruiting efforts and enhanced our training programs, both of which have allowed us to expand our agent force. We have also developed proprietary technologies and processes that enable us to expand our lead acquisition efforts to maintain agent productivity.

The amount of revenue we expect to recognize is based on multiple factors, including our commission rates with our insurance carrier partners and the market demand for the types of products we offer. The higher our hit ratios on new policies and the higher our retention ratios on our renewal policies, the more revenue we expect to generate. Additionally, we may earn certain volume-based compensation from some unrelated risk taking partners, which can include a renewal rights component. Our goal is to maximize policyholder lifetime value by optimizing efficiency and scale, which starts by providing consumers with a transparent, valuable and best-in-class consumer experience by endeavoring to support our distribution channel effectively and providing insurance solutions that meet the specific needs of our customers.

## Recent Events

In March 2020, the World Health Organization formally declared the novel coronavirus (“COVID-19”) outbreak a pandemic. With social distancing measures that have been implemented to curtail the spread of the virus, we enacted a robust business continuity plan, including a work-from-home policy for all our employees. We believe our technology platform and pre-existing remote agent capabilities have allowed for a seamless transition to a remote working environment and that our technology platforms continue to provide agents with tools and company contacts necessary to quote our products to our markets.

COVID-19 has dramatically reduced the addressable market. At the time of filing, it is difficult to estimate the near and longer-term impact on market size and potential revenue, and the impact of COVID-19 on our customers appears to have resulted in an approximate reduction of trips and vehicles in operation in the range of 52% to as much as 88% as compared to the end of 2019. This directly impacts our revenue and the ability to generate new business.

The Company’s current strategy focuses on AGMI’s managing general agency operation as the primary go-forward business. During 2019 and 2020, we worked with insurance regulators and advisors to evaluate and take steps intended to achieve the best outcome for stakeholders in connection with our Insurance Subsidiaries pursuant to regulatory actions. As a result of management no longer having financial control of the ASI Pool Companies, they have been deconsolidated from our results since October 1, 2019 while Global Liberty has been classified as discontinued operations since October 1, 2019. The following metrics discussed in the MD&A have changed as a result of the deconsolidation of the ASI Pool Companies and classification of Global Liberty as a discontinued operation.

## II. Operating Results

### Highlights

- Commission income was \$1.7 million for the three months ended March 31, 2021 compared to \$2.1 million for the three months ended March 31, 2020.
- Total revenue was \$2.3 million for the three months ended March 31, 2021, an increase of 6.1% from \$2.2 million for the three months ended March 31, 2020.
- Loss from operating activities was \$2.8 million in first quarter 2021 compared to a loss from operating activities of \$3.0 million in first quarter 2020.
- Net loss from continuing operations was \$2.7 million, or \$0.22 loss per common share diluted, in first quarter 2021 compared to a net loss from continuing operations of \$3.2 million, or \$0.27 loss per common share diluted, in first quarter 2020.
- Net income from discontinued operations was \$152,000, or \$0.01 earnings per common share diluted, in first quarter 2021 compared to net loss from discontinued operations of \$57,000, or \$0.00 earnings per common share diluted, in first quarter 2020.

### Consolidated Performance

(\$ in '000s, except per share data)

	Three months ended March 31,	
	2021	2020
Commission income	\$ 1,693	\$ 2,052
Underwriting expense:		
Acquisition costs	894	1,409
Share-based compensation	10	179
Other underwriting expenses	3,570	3,428
<b>Total underwriting expenses</b>	<b>4,474</b>	<b>5,016</b>
<b>Loss from operating activities, before income taxes</b>	<b>(2,781)</b>	<b>(2,964)</b>
Interest expense, net	(569)	(320)
Realized gains and other income	648	154
<b>Net loss before income taxes</b>	<b>(2,702)</b>	<b>(3,130)</b>
Income tax expense	—	104
Income (loss) from discontinued operations, net of tax	152	(57)
<b>Net loss</b>	<b>\$ (2,550)</b>	<b>\$ (3,291)</b>

### Key Financial Ratios

Continuing operations loss per common share diluted	\$ (0.22)	\$ (0.27)
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## Revenues

Our commission and fee income is derived from policies and premium produced by AGMI on behalf of unrelated strategic risk-taking partners (“insurance carrier partners”). Our underwriting approach is to price our products with the objective of generating underwriting profit for the insurance companies with whom we partner. The Company’s philosophy is to prioritize the improvement in profit margin over top line growth. As with all P&C insurance businesses, the impact of price changes, other underwriting activities and market conditions is reflected in our financial results over time. Underwriting changes on our in-force policies occur as they are renewed. This cycle generally takes twelve months for our entire book of business and up to an additional twelve months to earn a full year of premium and recognize commissions at the renewal rate.

## Expenses

Acquisition costs consist principally of brokerage and agent commissions paid to our external producers.

Other underwriting expenses consist primarily of personnel related expenses (including salaries, benefits and certain costs associated with awards under our equity compensation plans, such as share-based compensation expense) and other general operating expenses incurred primarily in connection with our MGA and holding company operations. Approximately \$2.7 million of our other underwriting expenses in the quarter related to the continuing operations of AGMI (which includes non-cash depreciation and amortization of \$213,000) and the remaining \$799,000 relates to the Company’s headquarters building, which is listed for sale, and other holding company expenses. We believe that because a portion of our personnel and other expenses are relatively fixed in nature, changes in premium production may impact our operating scale and operating expense ratios. Commissions and other fee related revenue were earned and recognized in connection with policies managed by AGMI.

## Commission Income

AGMI earns commission for the sale of first year and renewal policies from our insurance carrier partners, which are presented in our condensed consolidated statements of operations as commission revenue. Our contracts with our insurance carrier partners contain a commission percentage that is used to compute the total commission due per policy written. We also generate fee income in connection with individual policies as well as professional services provided to our business partners under contractual arrangements. Our commission revenue is recognized upon the sale or renewal of a policy. Certain of our contractual arrangements also include a profit related contingent commission component. After a policy is sold, we have policy management obligations to the policyholder and the insurance carrier partner, including, but not limited to, policy endorsements, policy cancellations and policy restatements. Therefore, we do incur additional expense related to our policy management requirements. Most costs associated with the sale of an individual policy are incurred prior to or at the time of the initial sale of an individual policy and are characterized in our financial statements as Other Underwriting Expenses.

Commission income for the three months ended March 31, 2021 totaled \$1.7 million compared to \$2.1 million for the three months ended March 31, 2020. The decrease was mainly attributed to the following:

- \$1.3 million decrease in commission income related to the sale of renewal rights on large paratransit accounts in 2020, offset by:
- \$544,000 increase due to policy credits issued during Q1 2020 as part of COVID-19 state mandates and directives; and
- \$428,000 increase in commission income relating to new programs.

## Geographic Concentration

### Gross Premiums Produced by State

(\$ in '000s)	Three months ended March 31,			
	2021		2020	
New York	\$ 3,227	34.9 %	\$ 3,207	27.7 %
Minnesota	1,441	15.6	311	2.7
California	1,214	13.1	1,812	15.7
Virginia	1,189	12.9	1,420	12.3
Illinois	332	3.6	(61)	(0.5)
Indiana	252	2.7	458	4.0
South Carolina	228	2.5	335	2.9
Nevada	159	1.7	—	—
Wisconsin	141	1.5	78	0.7
New Jersey	134	1.4	342	3.0
Other	918	10.1	3,676	31.7
<b>Total</b>	<b>\$ 9,235</b>	<b>100.0 %</b>	<b>\$ 11,578</b>	<b>100.0 %</b>

### Acquisition Costs

Acquisition costs for the three months ended March 31, 2021 were \$894,000 compared to \$1.4 million for the three months ended March 31, 2020, respectively, and represent commissions paid to retail agents who sell insurance policies. The decrease in acquisition costs resulted from the decrease in production of \$2.3 million for the three months ended March 31, 2021 compared to the three months ended March 31, 2020.

### Other Underwriting Expenses

Other underwriting expenses for the three months ended March 31, 2021 and 2020 were \$3.5 million and \$3.5 million, respectively. Although the other underwriting expenses appear flat quarter over quarter, there were some shifts in expenses that are outlined as follows:

- \$3.2 million increase related to the elimination of shared services related to the deconsolidated entities;
- \$413,000 increase in the reduction of shared services related to Global Liberty;
- \$1.5 million decrease in salaries and benefits related to the reduction in force;
- \$761,000 decrease related to the Employee Retention Credit of the Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted December 27, 2020, which amended and extended the employee retention credit (and the availability of certain advance payments of the tax credits) under section 2301 of the CARES Act;
- \$744,000 decrease in professional services related to the strategic shift of the Company;
- \$184,000 decrease in depreciation and amortization;
- \$220,000 decrease in corporate insurance costs due to the decline in enterprise value;
- \$144,000 decrease in occupancy costs due to the impact from COVID-19 and the Company's work-force working from home; and
- \$98,000 decrease in all other expenses mainly due to the impact from COVID-19 and the Company's work-force working from home.

### Interest Expense, net

On April 26, 2017, Atlas issued \$25.0 million of five-year 6.625% senior unsecured notes and received net proceeds of approximately \$23.9 million after deducting underwriting discounts and commissions and other offering expenses. Interest expense related to the senior unsecured notes was \$470,000 and \$470,000 for the three months ended March 31, 2021 and 2020, respectively. On November 10, 2016, AIAI entered into a ten-year 5.0% fixed rate mortgage agreement with the Insurance Subsidiaries totaling \$10.7 million with principal and interest payments due monthly. Interest expense for the three months ended March 31, 2021 and 2020 was \$85,000 and \$94,000, respectively. On May 1, 2020, AIAI entered into a PPP Loan pursuant to the the CARES Act that bears interest at a rate of 1.0% per annum. Interest expense on the PPP Loan for the three



months ended March 31, 2021 was \$11,000. On February 7, 2021, AIAI entered into the Second PPP Loan pursuant to the PPP Rules that bears interest at a rate of 1.0% per annum. Interest expense on the Second PPP Loan for the three months ended March 31, 2021 was \$3,000. AIAI entered into subordinated surplus debentures (“Surplus Notes”) with the ASI Pool Companies in April 2015 that had a maturity date of April 30, 2020. Interest income related to the Surplus Notes for the three months ended March 31, 2021 and 2020 was \$0 and \$241,000, respectively.

## **Other Income**

Atlas recorded other income of \$636,000 and \$154,000 for the three months ended March 31, 2021 and 2020, respectively. The increase resulted from professional services income received by AGMI.

## **Income Taxes**

Atlas recorded income tax expense of \$0 and \$104,000 for the three months ended March 31, 2021 and 2020, respectively, as a result of having a 100% valuation allowance on the Company’s net deferred tax assets .

During 2013 and 2019, due to shareholder activity, “triggering events” as determined under IRC Section 382 occurred. As a result, under IRC Section 382, the use of the Company’s net operating loss and other carryforwards generated prior to the “triggering events” will be subject to a yearly limitation as a result of this “ownership change” for tax purposes, which is defined as a cumulative change of more than 50% during any three-year period by shareholders owning 5% or greater portions of the Company’s shares. Due to the mechanics of the Section 382 calculation, when there are multiple triggering events the Company’s losses will generally be limited based on the thresholds of the 2019 triggering event. The Company has established a valuation allowance against the NOLs that will expire unused as a result of the yearly limitation.

In assessing the need for a valuation allowance, Atlas considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets.

Positive evidence evaluated when considering the need for a valuation allowance includes:

- current year profit;
- management’s expectations of future profit; and
- positive growth trends in gross premiums produced.

Negative evidence evaluated when considering the need for a valuation allowance includes:

- net losses generated in the three most recent years; and
- yearly limitation as required by IRC Section 382 on net operating loss carryforwards generated prior to 2013.

## **Net Loss and Loss per Common Share**

Atlas had a net loss of \$2.6 million during the three months ended March 31, 2021 compared to net loss of \$3.3 million during the three months ended March 31, 2020. Loss per common share diluted was \$0.21 for the three months ended March 31, 2021 compared to a net loss per common share diluted of \$0.27 during the three months ended March 31, 2020, respectively.

## III. Financial Condition

### Deficit and Book Value per Common Share

<b>Book Value per Common Share</b>		
(\$ in '000s, except for share and per share data)		
	<b>March 31, 2021</b>	<b>December 31, 2020</b>
Common deficit	\$ (23,603)	\$ (20,892)
Common shares:		
Common shares outstanding	12,047,334	11,993,293
Restricted stock units	—	3,301
Total common shares	12,047,334	11,996,594
Book value per common share outstanding	\$ (1.96)	\$ (1.74)

The change to book value per common share is attributed to the combined effects of the reasons cited in the 'Commission Income,' 'Acquisition Costs,' 'Other Underwriting Expenses,' 'Interest Expense, net,' and 'Other Income' subsections of the 'Operating Results' section.

### Liquidity and Capital Resources

#### Liquidity Management

The purpose of liquidity management is to ensure there is sufficient cash to meet all financial commitments and obligations as they become due. The liquidity requirements of Atlas' business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for payment of claims, commissions and general expenses. The sources and uses of cash have changed as a result of the Company's strategic shift from a traditional insurance carrier based operation to a managing general agency.

As a holding company, Atlas may derive cash from its subsidiaries generally in the form of dividends and in the future may charge management fees to the extent allowed by statute or other regulatory approval requirements to meet its obligations. AGMI funds its obligations primarily through commission revenue generated by the production of insurance premiums for related and third party entities. Global Liberty funds their obligations primarily through premiums collected, investment income and proceeds from the sales and maturity of investments and capital contributions from its parent. Global Liberty requires regulatory approval for the return of capital and, in certain circumstances, payment of dividends. In the event that dividends and management fees available to Atlas are inadequate to service its obligations, Atlas would need to raise capital, sell assets or incur debt obligations.

On April 26, 2017, Atlas issued \$25 million of five-year 6.625% senior unsecured notes and received net proceeds of approximately \$23.9 million after deducting underwriting discounts and commissions and other estimated offering expenses. Interest on the senior unsecured notes is payable quarterly on each January 26, April 26, July 26 and October 26. Atlas may, at its option, beginning with the interest payment date of April 26, 2020, and on any scheduled interest payment date thereafter, redeem the senior unsecured notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest to, but excluding, the date of redemption. The senior unsecured notes will rank senior in right of payment to any of Atlas' existing and future indebtedness that is by its terms expressly subordinated or junior in right of payment to the senior unsecured notes. The senior unsecured notes will rank equally in right of payment to all of Atlas' existing and future senior indebtedness, but will be effectively subordinated to any secured indebtedness to the extent of the value of the collateral securing such secured indebtedness. In addition, the senior unsecured notes will be structurally subordinated to the indebtedness and other obligations of Atlas' subsidiaries. From time to time the Company may seek to repurchase Company debt through cash repurchases in the open market or otherwise. Such repurchases, if any, will be on terms and prices determined by the Company and will depend upon market conditions, liquidity needs and other factors. The amount of such repurchases may be material.

The senior unsecured notes were issued under an indenture and supplemental indenture that contain covenants that, among other things, limit: (i) the ability of Atlas to merge or consolidate, or lease, sell, assign or transfer all or substantially all of its assets; (ii) the ability of Atlas to sell or otherwise dispose of the equity securities of certain of its subsidiaries; (iii) the ability of certain of Atlas' subsidiaries to issue equity securities; (iv) the ability of Atlas to permit certain of its subsidiaries to merge or consolidate, or lease, sell, assign or transfer all or substantially all of their respective assets; and (v) the ability of Atlas and its subsidiaries to incur debt secured by equity securities of certain of its subsidiaries.



## Summary of Cash Flows

(\$ in '000s)	Three months ended March 31,	
	2021	2020
Net cash flows used in operating activities	\$ (5,997)	\$ (13,583)
Net cash flows provided by investing activities	2,717	5,812
Net cash flows used in financing activities	1,805	(186)
<b>Net decrease in cash</b>	<b>\$ (1,475)</b>	<b>\$ (7,957)</b>

Cash used in operations during the three months ended March 31, 2021 was \$6.0 million, compared to \$13.6 million during the three months ended March 31, 2020. Cash used in the three months ended March 31, 2021 resulted from the change in operating assets and liabilities used for managing general agency operations.

Cash provided by investing activities during the three months ended March 31, 2021 was \$2.7 million and resulted from the net sales and maturities of fixed income securities. Sales of investments were needed to fund payments to policyholders and claimants. Cash provided by investing activities during the three months ended March 31, 2020 was \$5.8 million and resulted from the net sales and maturities of fixed income securities, the net sales of equity securities and other investments partially offset by the purchase of short-term investments and property and equipment purchases.

Cash provided in financing activities during the three months ended March 31, 2021 was a result of the Company receiving a Second PPP Loan (see “Part I, Item 1, Note 14, Notes Payable” offset by mortgage payments made to the ASI Pool Companies. Cash used in financing activities during the three months ended March 31, 2020 was cash used for mortgage payments to the ASI Pool Companies.

## Capital Resources

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.

As a holding company, Atlas may derive cash from its subsidiaries generally in the form of dividends to meet its obligations, which will primarily consist of operating expense payments and debt payments. Atlas subsidiaries fund their obligations primarily through commission and fee income.

Atlas did not declare or pay any dividends to its common shareholders during the three months ended March 31, 2021 or during the year ended December 31, 2020.

## Ability to Meet Financial Obligations

As discussed in greater detail in “Part I, Item 1, Note 16”, Going Concern, there is substantial doubt about whether the Company will have sufficient capital to operate through or beyond 12 months of the issue date of these interim financial statements unless the Company is successful in taking certain mitigating action (see Part I, Item 1, Note 16).

## Application of Critical Accounting Policies and Estimates

There have been no material changes to the application of critical accounting estimates and policies that were discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020. For a complete summary of our significant accounting policies, see the notes to the consolidated financial statements and our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

# Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

As of March 31, 2021, our president and chief executive officer and vice president and chief financial officer carried out an evaluation of the effectiveness of our disclosure controls and procedures as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act and concluded as of the end of the period covered by this report that our disclosure controls and procedures were are effective to ensure that the information required to be disclosed by us in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and is accumulated and communicated to our management, including our president and chief executive officer and our vice president and chief financial officer to allow timely decisions regarding required disclosure.

### **Changes in Internal Control**

There were no changes to our internal control over financial reporting during the fiscal quarter ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Part II. Other Information**

### **Item 1. Legal Proceedings**

On March 5, 2018, a complaint was filed in the U.S. District Court for the Northern District of Illinois asserting claims under the federal securities laws against the Company and two of its executive officers on behalf of a putative class of purchasers of the Company's securities, styled *Fryman v. Atlas Financial Holdings, Inc., et al.*, No. 1:18-cv-01640 (N.D. Ill.). Plaintiffs filed amended complaints on July 30, 2018, April 9, 2019, and June 12, 2019. In the third amended complaint, the plaintiffs asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder on behalf of a putative class consisting of purchasers of the Company's securities between February 22, 2017 and April 30, 2019, alleging that the defendants made allegedly false and misleading statements regarding the adequacy of the Company's insurance reserves.

Defendants filed a motion to dismiss the third amended complaint, which the Court granted, with leave to amend, in an opinion and order entered on May 26, 2020. In its opinion, the Court held that plaintiffs had failed to adequately allege any false or misleading misstatement of material fact concerning the Company's insurance reserves and failed to allege facts that would support the required strong inference of scienter. Plaintiffs filed a fourth amended complaint on June 30, 2020, in which the claims asserted are substantially similar to those asserted in the third amended complaint. Defendants filed a motion to dismiss the fourth amended complaint on August 17, 2020. Briefing was completed on November 2, 2020.

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

### **Item 1A. Risk Factors**

Not applicable.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

Not applicable.

### **Item 5. Other Information**

None.

## Item 6. Exhibits

10.1 <sup>(1)</sup>	<a href="#"><u>Paycheck Protection Program Promissory Note dated February 7, 2021, between American Insurance Acquisition Inc. and Fifth Third Bank, National Association</u></a>
31.1	<a href="#"><u>Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
31.2	<a href="#"><u>Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>
32.1	<a href="#"><u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
32.2	<a href="#"><u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u></a>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

<sup>1</sup> Incorporated by reference from our Current Report on Form 8-K filed on February 16, 2021

## Signature

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

Date: May 17, 2021 Atlas Financial Holdings, Inc.  
(Registrant)

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