Kingsway Reports Net Income of $6.3 Million in the Second Quarter

Toronto, Ontario (August 7, 2008) – Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced its financial results for the second quarter ended June 30, 2008 (results are in U.S. dollars). The Company reported net income of $6.3 million or $0.11 diluted per share for the quarter, marking a significant improvement over the net loss of $34.4 million reported in the first quarter of 2008 but below net income of $41.7 million reported in the second quarter of 2007. Gross premiums written were $443.2 million, 16% lower than a year ago.

The Company's securities portfolio continued to provide steady income despite challenging economic trends and volatile financial markets in the U.S. and Canada. Investment income, excluding net realized gains, was $33.6 million, virtually unchanged from a year ago. During the quarter, the investment portfolio produced net realized gains of $10.9 million which is net of an adjustment of $9.9 million for the write-down of securities held which were deemed to be other than temporarily impaired. Book value per share decreased 4% during the quarter to $15.49 (Cdn$15.80) as a result of the change in the market value of the securities portfolio which decreased book value by $0.81.

Compared with the first quarter of this year, operating results improved despite challenging industry conditions. Quarterly results reflect improved reserving experience and the benefit of the termination of unprofitable programs since year-end. There was estimated net unfavourable reserve development of $7.3 million ($4.6 million in Canada and $2.7 million in the U.S.) or $0.14 per share on an after-tax basis in the second quarter of 2008, 88% lower than in the first quarter of 2008 which compares with net favourable reserve development of $1.4 million in the second quarter of 2007. The combined ratio was 107.0% in the second quarter, marking an improvement over the first quarter but above the 100.8% reported in Q2 2007. Lincoln General's claims management has been steadily moved in-house in recent years, and the benefit of the completion of this transition is being reflected in improved pricing and claims management. U.S. operations reported a combined ratio of 106.7% in the second quarter and, excluding terminated programs at Lincoln General, would have reported a combined ratio of 101.0% in the second quarter of 2008.

Gross premiums declined $92.4 million (or 26%) in the quarter and by $118.4 million (or 16%) year to date in the U.S., reflecting the impact of termination of unprofitable programs and also the soft market conditions for commercial automobile business. Lincoln General's premium volume declined by $90.7 million in the quarter and $160.0 million year to date compared to the same periods last year. In Canada, premiums were 2% lower when adjusted for the stronger Canadian dollar, reflecting slowness in the trucking line of business as fleet operators have been reducing their cross border operations due to the slowing of the U.S. economy. Motorcycle premiums in Canada were $56.5 million, an increase of 18% for the first six months of 2008 compared to the same period last year. This reflects consumers movement to more fuel efficient vehicles. For the quarter, U.S. operations represented 59% of gross premiums compared with 68% a year ago, while Canadian operations represented 41% compared with 32% a year ago.

"The return to overall profitability in the second quarter resulted from consistent income from our investment portfolio, despite challenging market conditions, and improving performance in our insurance operations, where we have established more conservative reserving practices. We have moved decisively to identify and remedy underperforming businesses in order to stabilize and then improve the future performance of our insurance operations," said Shaun Jackson, President and Chief Executive Officer. "During the quarter, we made several executive changes to strengthen our leadership team, to better align management responsibilities and to involve the broader management group in developing the corporate strategy. Kingsway will continue to focus on its core profitable business lines and will exit non-core underperforming businesses, thus better positioning it to restore profitability to acceptable levels while building a solid foundation for future growth."

On July 21, 2008, the Company repaid $89.8 million, which was the entire amount outstanding under its three-year revolving credit facility, and also repaid C$19.9 million of the C$69.8 million outstanding under the 365-day credit agreement. Total bank debt has been reduced to $48.8 million from $157.9 million and on a proforma basis the Company thus improved its senior debt to total capital ratio to 25.5% from 31.2% prior to the payment.

Mr. Jackson commented: "We have experienced a reduction in premium volumes. As a result, this created a situation where we had significant surplus capital which was not required for the Company's needs in the near term. It is a sign of Kingsway's strength that it was able to utilize its surplus capital to repay the majority of its short-term debt, reduce future interest expense and significantly de-leverage its balance sheet."

Six month results

For the six months ended June 30, 2008, Kingsway reported a net loss of $28.1 million ($0.51 per share diluted) compared with net income of $61.4 million ($1.09 per share diluted) in the same period of 2007. Investment income, excluding net realized gains, was $71.0 million, 9% above a year ago, while operations recorded a loss of $30.0 million which compares with operating income of $32.5 million in the same period of 2007. Gross premiums written were $900.3 million, 10% lower than the comparable six month period of 2007.

Dividend

The Board of Directors has declared a quarterly dividend of C$0.075 per common share, payable on September 30, 2008 to shareholders of record on September 15, 2008.

Conference Call and Webcast

You are invited to participate in our quarterly results conference call that will take place on August 7, 2008 at 8:30 a.m. EDT. To access please dial 1-800-732-0232 about 5 minutes before the start of the call. An audio webcast will also be broadcast live and can be accessed through our website at http://www.kingsway-financial.com or directly at http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=2321440

About the Company

Kingsway Financial Services Inc. “Kingsway” is one of the largest non-standard automobile insurers and truck insurers in North America based on A.M. Best data that we have compiled. Kingsway's primary business is the insuring of automobile risks for drivers who do not meet the criteria for coverage by standard automobile insurers and trucking insurance. The Company currently operates through thirteen wholly-owned insurance subsidiaries in Canada and the U.S. Canadian subsidiaries include Kingsway General Insurance Company, York Fire & Casualty Insurance Company and Jevco Insurance Company. U.S. subsidiaries include Universal Casualty Company, American Service Insurance Company, Southern United Fire Insurance Company, Lincoln General Insurance Company, U.S. Security Insurance Company, American Country Insurance Company, Zephyr Insurance Company, Mendota Insurance Company, Mendakota Insurance Company and Avalon Risk Management, Inc. The Company also operates reinsurance subsidiaries in Barbados and Bermuda.

The common shares of Kingsway Financial Services Inc. are listed on the Toronto Stock Exchange and the New York Stock Exchange, under the trading symbol "KFS"

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Financial Summary and Highlights:

(in millions of dollars except per share amounts)	Quarter to June 30: 2008	2007	Change	6 months to June 30: 2008	2007	Change
Gross premiums written	$ 443.2	$ 525.2	(16%)	$ 900.3	$ 1,004.6	(10%)
Underwriting loss	(29.3)	(3.7)	692%	(98.4)	(24.5)	302%
Investment income	33.6	33.8	(1%)	71.0	65.4	9%
Net realized gains	10.9	30.8	(65%)	5.5	39.9	(86%)
Operating earnings (loss)	(0.4)	20.6	(102%)	(30.0)	32.5	(192%)
Net income (loss)	6.3	41.7	(85%)	(28.1)	61.4	(146%)
Diluted earnings (loss) per share	0.11	0.74	(85%)	(0.51)	1.09	(147%)
Book value per share				15.49	17.77	(13%)
Combined ratio	107.0%	100.8%	6.2%	111.5%	102.7%	8.8%

- Gross premiums written decreased 16% to $443.2 million in the quarter compared to $525.2 million in Q2 last year, and for the first half of the year was $900.3 million compared to $1,004.6 million for the same period last year, primarily as a result of the impact of the soft market and termination of business at Lincoln General. Lincoln General's premium volume declined by $90.7 million in the quarter and $160.0 million year to date compared to the same periods last year.

- For the quarter the Company reported net income of $6.3 million compared to net income of $41.7 million in Q2 last year and a net loss of $28.1 million for the first half of the year compared to a net income of $61.4 million for the same period last year.

- For the quarter and year to date the Company reported operating losses of $0.4 million and $30.0 million, respectively, compared to operating income in Q2 of last year of $20.6 million and $32.5 million last year to date.

- Diluted earning per share was $0.11 for the quarter compared to earnings of $0.74 per share for Q2 last year and diluted loss per share of $0.51 for the first half of 2008 compared to diluted earnings per share of $1.09 for the same period last year.

- The combined ratio was 107.0% in the quarter compared to 100.8% same quarter last year, with Canadian operations reporting a combined ratio of 107.7% and U.S. operations a combined ratio of 106.7%.

- Estimated net unfavourable reserve development was $7.3 million in the quarter ($66.1 million for the year to date) which increased the combined ratio by 1.8% for the quarter (7.7% for the year to date). The impact of this development on an after tax basis was $0.14 per share for the quarter ($1.08 for the year to date).

- Investment income, excluding net realized gains dropped marginally by 1% to $33.6 million compared to $33.8 million for the same quarter of 2007. For the year to date investment income, excluding net realized gains, has increased by 9% to $71.0 million compared to $65.4 million for the corresponding period last year. Included in net realized gains were adjustments to the carrying values of securities for declines in market value considered other than temporary of $9.9 million ($18.8 million for the year to date) or $0.18 per share for the quarter ($0.34 per share for the year to date).

- The fair value of the securities portfolio per share decreased by 5% since the beginning of the year to $59.96.

- As at June 30, 2008 the securities portfolio did not include any collateralized debt obligations nor any direct exposure to any asset backed commercial paper. The securities portfolio has an exposure of approximately $2.7 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities.

The following management's discussion and analysis (MD&A) should be read in conjunction with the Company's unaudited interim consolidated financial statements for the second quarter of fiscal 2008 and 2007; with the MD&A set out on pages 12 to 57 in the Company's 2007 Annual Report, including the section on risk factors; and with the notes to the interim consolidated financial statements for the second quarter of fiscal 2008 and the notes to the audited consolidated financial statements for fiscal 2007 set out on pages 68 to 85 of the Company's 2007 Annual Report.

The Company's financial results are reported in U.S. dollars. Unless otherwise indicated, all amounts are in U.S. dollars and have been derived from financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP).

Non-GAAP Financial Measures

The Company uses both GAAP and certain non-GAAP financial measures to assess performance. Securities regulators require that companies caution readers about non-GAAP financial measures that do not have a standardized meaning under GAAP and are unlikely to be comparable to similar measures used by other companies. Kingsway, like many insurance companies, analyzes performance based on underwriting ratios such as combined, expense and loss ratios. These terms are defined in the glossary of terms section beginning on page 87 of the 2007 Annual Report. Although there is not a property and casualty industry defined standard that is consistently applied in calculating these ratios, Kingsway has historically included costs such as corporate office expenses and excluded premium finance revenues whereas other public companies have done otherwise in the calculation of their expense and combined ratios. Readers are therefore cautioned when comparing Kingsway's combined ratios to those of other public companies as they may not have been calculated on a comparable basis.

The Company also uses securities portfolio per share information which is calculated based on the fair value of the securities portfolio divided by the number of issued and outstanding common shares. The Company uses operating earnings which are calculated as net income excluding after-tax net realized gains and losses on securities to assess the profitability of its operations. A reconciliation of net income to operating earnings is presented in the section titled 'Operating Earnings'.

Premiums

(in millions of dollars)	Quarter to June 30:			6 Months to June 30:		
	2008	2007	Change	2008	2007	Change
Gross premiums written						
Canada	$ 179.9	$ 169.5	6%	$ 299.6	$ 285.5	5%
U.S.	263.3	355.7	(26%)	600.7	719.1	(16%)
Total	$ 443.2	$ 525.2	(16%)	$ 900.3	$ 1,004.6	(10%)
Net premiums written						
Canada	$ 174.1	$ 162.7	7%	$ 288.1	$ 272.5	6%
U.S.	234.0	326.7	(28%)	543.6	661.0	(18%)
Total	$ 408.1	$ 489.4	(17%)	$ 831.7	$ 933.5	(11%)
Net premiums earned						
Canada	$ 136.2	$ 133.2	2%	$ 267.8	$ 250.9	7%
U.S.	280.1	340.8	(18%)	591.1	641.3	(8%)
Total	$ 416.3	$ 474.0	(12%)	$ 858.9	$ 892.2	(4%)

The U.S. operations reported a decrease in premiums written of $92.4 million (or 26%) during the quarter and $118.4 million (or 16%) year to date. Lincoln General's premium volume declined by $90.7 million in the quarter ($160.0 million year to date) compared to the same period last year due to the impact of terminations of unprofitable programs and the soft market conditions for the trucking business in the U.S.

As a result of the strengthening Canadian dollar, gross premiums written for the Canadian operations increased 6% in the quarter (5% year to date) compared to last year. In Canadian dollars, gross premiums written from Canadian operations declined by 2% for the quarter (declined 6% year to date) compared to last year. Canadian operations experienced a decline of 26% in gross premiums written in the trucking line of business as fleet operators have been reducing their cross-border operations due to the slowing North American economy.

U.S. operations represented 59% of gross premiums written in the quarter (67% year to date) compared with 68% in the same quarter (72% year to date last year) last year. Non-standard automobile, trucking, and commercial automobile premiums represented 39%, 16% and 16%, respectively, of gross premiums written for the quarter compared with 31%, 22% and 18% last year. Mendota writes primarily non-standard automobile insurance which primarily accounts for the increase in the percentage of non-standard automobile for the year to date.

Investment Income

	Quarter to June 30:			6 months to June 30:		
(in millions of dollars)	2008	2007	Change	2008	2007	Change
Investment income	$ 33.6	$ 33.8	(1%)	$ 71.0	$ 65.4	9%

Investment income has decreased by 1% in the quarter primarily due to lower short-tem yields in Canada and the U.S., partially offset by the impact of the stronger Canadian dollar which increases the investment income from Canadian operations reported in U.S. dollars. Investment income has increased by 9% for the six months to June 30 as a result of the higher short term yields in the first quarter of 2008 compared to the first quarter of 2007. The cost based yield on the fixed income portfolio decreased to 4.5% compared to 4.7% for the same quarter last year, primarily attributable to the drop in short-term yields described above. The cost based yield represents the total interest income before expenses divided by the average amortized cost base of fixed income securities held in the portfolio during the period.

Net Realized Gains

The table below presents a summary of the net realized gains (losses) for the current quarter and year to date with comparative figures:

	Quarter to June 30:			6 months to June 30:		
(in millions of dollars)	2008	2007	Change	2008	2007	Change
Fixed income	$ 2.0	$ (1.8)	(211%)	$ 4.9	$ (1.6)	(406%)
Equities	18.8	34.4	(45%)	19.4	42.0	(54%)
Capital assets	-	-	-	-	5.4	(100%)
Impairments	(9.9)	(1.8)	450%	(18.8)	(5.9)	219%
Total	$ 10.9	$ 30.8	(65%)	$ 5.5	$ 39.9	(86%)

For the three months ended June 30, 2008, sales from the securities portfolio and the write-down of securities that are considered to be other than temporarily impaired resulted in a net realized gain of $10.9 million ($5.5 million for year to date) compared to a net realized gain of $30.8 million for the three months ended June 30, 2007 ($39.9 million for year to date). The challenging fixed income and equity markets which began in the third quarter of 2007 have continued into 2008 resulting in the write-down of $9.9 million of securities in the second quarter of 2008 ($18.8 million for year to date) compared to $1.8 million in the second quarter of 2007 ($5.9 million for year to date). The net realized gain in the first half of 2007 included a $5.4 million gain on the sale of the Company's former head office building and a gain of $17.7 million on an investment in the Canadian portfolio which was the subject of a completed takeover.

Underwriting Results

	Quarter to June 30:			6 months to June 30:		
(in millions of dollars)	2008	2007	Change	2008	2007	Change
Underwriting profit (loss)						
Canada	$ (10.5)	$ 5.5	(291%)	$ (27.1)	$ 11.4	(338%)
U.S.	(18.8)	(9.2)	(104%)	(71.3)	(35.9)	(99%)
Total	$ (29.3)	$ (3.7)	692%	$ (98.4)	$ (24.5)	302%
Combined ratio						
Canada	107.7%	95.9%	11.8%	110.1%	95.4%	14.7%
U.S.	106.7%	102.7%	4.0%	112.0%	105.6%	6.4%
Total	107.0%	100.8%	6.2%	111.5%	102.7%	8.8%
Expense ratio						
Canada	34.9%	34.6%	0.3%	36.4%	35.2%	1.2%
U.S.	34.0%	30.2%	3.8%	31.7%	28.7%	3.0%
Total	34.3%	31.5%	2.8%	33.2%	30.4%	2.8%
Loss ratio						
Canada	72.8%	61.3%	11.5%	73.7%	60.2%	13.5%
U.S.	72.7%	72.5%	0.2%	80.3%	76.9%	3.4%
Total	72.7%	69.3%	3.4%	78.3%	72.3%	6.0%

The Canadian operations experienced estimated net unfavourable reserve development of $4.6 million ($15.3 million year to date) or 3.4% to the Canadian operations combined ratio for the quarter (5.7% year to date) compared to favourable reserve development of $12.1 million for the second quarter last year ($17.6 million year to date). The loss ratio in the quarter was 72.8% (73.7% year to date) compared to 61.3% in Q2 (60.2% year to date) 2007.

The U.S. operations experienced estimated unfavourable reserve development of $2.7 million for the quarter ($50.9 million for the year to date) compared with $10.7 in the same quarter ($55.4 million year to date) last year. Lincoln General accounts for $6.7 million for the quarter ($59.6 million year to date) or $0.13 per share for the quarter ($1.00 per share year to date) of this reserve development. Lincoln has been actively terminating and repricing underperforming business as previously indicated. Combined ratio was 160.3% for the quarter on Lincoln's terminated (run-off) programs including unfavourable development (or 137.4% excluding unfavourable development), compared with 99.4% on active programs (or 98.9% excluding unfavourable development) for the quarter. The earned premium on Lincoln's active programs was $116.7 million and $26.9 million on the terminated programs in the second quarter of 2008.

	Quarter to June 30:		6 months to June 30:	
(in millions of dollars)	2008	2007	2008	2007
Favourable (unfavourable) change in estimated unpaid claims for prior accident years (note 1):				
Canada	$ (4.6)	$ 12.1	$ (15.3)	$ 17.6
U.S.	(2.7)	(10.7)	(50.8)	(55.4)
Total	$ (7.3)	$ 1.4	$ (66.1)	$ (37.8)
As a % of net premiums earned (note 2):				
Canada	3.4%	(9.1%)	5.7%	(7.0%)
U.S.	1.0%	3.1%	8.6%	8.6%
Total	1.8%	(0.3%)	7.7%	4.2%
As a % of unpaid claims (note 3):				
Canada			1.7%	(2.2%)
U.S.			3.8%	4.9%
Total			2.9%	1.9%

Note 1 - (Increase) decrease in estimates for unpaid claims from prior accident years reflected in current financial year results

Note 2 - Increase (decrease) in current financial year reported combined ratio

Note 3 - Increase (decrease) compared to estimated unpaid claims at the end of the preceding fiscal year

Expenses

The overall expenses increased in the quarter due to the acquisition of Mendota and the increased operating costs of the U.S. assigned risk business. Higher operating costs and depreciation expense of the new Head Office building in Canada also impacted the expenses. The general expense ratio increased to 15.3% (15.1% year to date) compared to 11.8% (12.1% year to date 2007) in Q2 2007 primarily due to lower premium volume at Lincoln General.

Interest Expense

Interest expense in the second quarter of 2008 decreased to $8.9 million, compared to $9.7 million for the second quarter of 2007 as a result of the repayment of a portion of our debt. On a year to date basis, interest expense was $18.8 million compared to $17.9 million last year as a result of the issuance of the C$100 million 6% debentures on July 10, 2007. As a result of the repayment of $109.7 million of bank indebtedness, it is anticipated that interest expense will decrease for the remaining six months of 2008.

Income Taxes

Income taxes recovery for the second quarter was $1.0 million ($15.4 million year to date) as a result of losses recognized in the U.S. domiciled subsidiaries and the fully taxable status of the Canadian subsidiaries. This compares with a tax charge of $8.5 million or 17% for the same quarter last year (recovery of $0.3 million for the first half of last year)

Net Income (Loss) and Earnings (Loss) Per Share

Net income decreased by 85% in the second quarter to $6.3 million (decreased 146% to a loss of $28.1 million year to date), compared to income of $41.7 million in the second quarter of last year ($61.4 million year to date 2007). Diluted earnings per share was $0.11 for the quarter (diluted loss per share of $0.51 year to date), compared to diluted earnings per share of $0.74 for the second quarter of 2007 ($1.09 year to date 2007).

Operating Earnings

Operating earnings are calculated as net income excluding after-tax net realized gains and losses on securities to assess the profitability of the operations.

	Quarter to June 30:			6 months to June 30:		
(in millions of dollars except per share amounts)	2008	2007	Change	2008	2007	Change
Net income (loss)	$ 6.3	$ 41.7	(85%)	$ (28.1)	$ 61.4	(146%)
Net realized gains after tax:						
Net realized gains before tax	10.9	30.8	(65%)	5.5	39.9	(86%)
Tax effect on realized gains	4.2	9.7	(57%)	3.6	11.0	(67%)
	6.7	21.1	(68%)	1.9	28.9	(93%)
Operating earnings (losses)	(0.4)	20.6	(102%)	(30.0)	32.5	(192%)
Average outstanding shares diluted (in millions)	55.2	56.0	(1%)	55.4	56.2	(1%)
Operating earnings (losses) per share	(0.01)	0.37	(103%)	(0.54)	0.58	(193%)

Balance Sheet

The table below shows a review of selected categories from the balance sheet reported in the financial statements at the end of Q2 2008 compared to December 31, 2007.

	As at		
(in millions of dollars except per share amounts)	June 30, 2008	December 31, 2007	Change
Assets			
Securities	$ 3,015.7	$ 3,256.4	(7%)
Accounts receivable and other assets	358.1	365.4	(2%)
Income taxes recoverable	14.4	1.3	1,008%
Future income taxes	131.5	114.1	15%
Capital assets	128.2	133.4	(4%)
Goodwill and intangible assets	113.9	116.8	(2%)
Liabilities			
Bank indebtedness	157.9	172.4	(8%)
Unearned premiums	719.1	758.5	(5%)
Unpaid claims	2,228.5	2,267.1	(2%)
Senior unsecured debentures	200.8	220.1	(9%)
Shareholders' Equity	854.4	940.8	(9%)
Book value per share	15.49	16.95	(9%)

(U.S. dollars)

Securities:
The fair value of the securities portfolio including cash decreased 6% to $3.3 billion, compared to $3.5 billion as at December 31, 2007. This decrease is primarily due to the decrease in unrealized gains on the fixed income portfolio as yield spreads on corporate fixed income holdings have increased. Also contributing to the drop in the securities portfolio is the net use of cash as the Company elected to reduce its borrowings as well as the impact of a slightly weaker Canadian dollar at the balance sheet date on the conversion of the Canadian dollar portfolio to U.S. dollars.

The fair value of the securities portfolio including cash decreased 5% to $59.96 per common share at June 30, 2008 compared to $63.22 at December 31, 2007.

The table below summarizes the fair value by contractual maturity of the fixed income securities portfolio, which includes term deposits and bonds, split between Canadian and U.S. operations:

Maturity Profile:

	Canadian Operations	U.S. Operations	Total
Due in less than one year	37.0%	13.0%	21.5%
Due in one through five years	33.4	55.3	47.6
Due in five through ten years	25.7	23.5	24.2
Due after ten years	3.9	8.2	6.7
Total	100.0%	100.0%	100.0%

There were net unrealized losses of $11.8 million on the total securities portfolio or $0.21 per share outstanding at June 30, 2008 which is included as a component of "accumulated other comprehensive income", as compared to net unrealized gains of $34.6 million or $0.62 per share outstanding at December 31, 2007. Net unrealized losses on the common share portfolio were $15.3 million or $0.28 per share outstanding at June 30, 2008 compared to net unrealized gains of $16.0 million or $0.29 per share outstanding at December 31, 2007.

For a quantitative analysis of the impact to the fair value to the fixed income portfolio of a change in interest rates see Note 6 to the financial statements.

As at June 30, 2008 the securities portfolio did not include any collateralized debt obligations nor any direct exposure to any asset backed commercial paper. The securities portfolio has a small exposure of approximately $2.7 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities. As at June 30, 2008, these securities had an aggregate net unrealized loss of $0.4 million.

For a quantitative analysis of the credit exposure of the Company from its securities in fixed income securities and term deposits by rating as assigned by S&P or Moody's Investor Services see Note 6 to the financial statements.

Accounts receivable and other assets:
Accounts receivable and other assets decreased by 2% to $358.1 million, primarily as a result of the settlement of reinsurance receivables.

Income taxes recoverable:
Income taxes recoverable increased as a result of the recording of the Canadian operations tax loss carry back in 2008.

Future income taxes:
Future income taxes increased due to tax losses recognized by the U.S. operations which can be utilized in future periods up to twenty years.

Capital assets:
Capital assets decreased by 4% since the end of last year.

Goodwill and intangible assets:
Goodwill and intangible assets decreased by 2% since the end of last year due to the amortization of definite life intangible assets in certain of our U.S. subsidiaries.

Bank indebtedness:
Bank indebtedness decreased from $172.4 million at December 31, 2007 to $157.9 million. During the first half of the year the Company repaid approximately $12.5 million of outstanding debt under its credit facilities.

Subsequent to quarter end, the Company repaid $109.7 million of bank indebtedness utilizing the surplus capital resources held in its reinsurance subsidiaries.

Bank indebtedness is subject to compliance with financial covenants and other provisions of the credit agreement. For the remaining $48.8 million of bank indebtedness due December 20, 2008, the Company has obtained a waiver to September 30, 2008 from lender over non-compliance with certain covenants. The Company is in the process of renegotiating the terms and covenants of the bank indebtedness.

Unearned premiums:
Unearned premiums decreased 5% since December 31, 2007 as a result of decreased premium volume.

Unpaid claims:
The following table presents a summary of the provision for unpaid claims by line of business:

(in millions of dollars)

Line of Business		June 30, 2008		December 31, 2007
Non – Standard Automobile	$	561.0	$	575.2
Standard Automobile		140.5		144.5
Commercial Automobile		235.3		239.2
Trucking		790.2		811.6
Motorcycle		134.3		126.8
Property & Liability		296.1		303.3
Other		71.1		66.5
Total	$	2,228.5	$	2,267.1

The provisions for unpaid claims decreased by 2% to $2.23 billion at the end of the second quarter compared to $2.27 billion at the end of 2007. At June 30, 2008 the provision for unpaid claims comprised case reserves for individual claims was unchanged from $1.31 billion ($1.31 billion at December 31, 2007) and a provision for Incurred But Not Reported (IBNR) claims which decreased 4% to $918.6 million ($952.8 million at December 31, 2007). IBNR at Lincoln General now represents $1.01 for every $1 of case reserves recorded.

Senior unsecured debentures:
On July 10, 2007 the Company through its newly formed wholly-owned subsidiary Kingsway 2007 General Partnership issued C$100 million 6% senior unsecured debentures with a maturity date of July 11, 2012.

Book value per share:
Book value per share decreased by 9% to $15.49 at June 30, 2008 from $16.95 at December 31, 2007 as a result of the diluted loss per share of $0.51 and the decline of $0.84 in the "accumulated other comprehensive income" component of shareholders' equity .

Contractual Obligations

Information concerning contractual obligations as at June 30, 2008 is shown in Note 6 of the financial statements. For further details on the Company's long term debt and interest obligations, refer to Note 10 – Bank Indebtedness of the accompanying financial statements and Note 15 of the Company's 2007 audited consolidated financial statements and pages 39 to 43 of the 2007 Annual Report which sets out the Company's contractual obligations as at December 31, 2007.

Liquidity and Capital Resources

During the three and six months ended June 30, 2008, the cash used in operating activities was $14.5 million and $78.7 million respectively, as a result of reduced premium volume and an acceleration of claims payments. The Company believes that the cash generated from the operating activities will be sufficient to meet its ongoing cash requirements, including interest payment obligations and dividend payments.

During the six months ended June 30, 2008, the Company repurchased 368,200 common shares under the normal course issuer bid for a total purchase price of $4.4 million at an average price of $11.87 (Cdn $11.93).

As at June 30, 2008 the Company's subsidiaries were adequately capitalized to support their premium volume. For a more detailed discussion of the capital adequacy of the Companies insurance and reinsurance subsidiaries see Note 7 to the financial statements.

Off-Balance Sheet Financing

The Company entered into an off-balance sheet transaction through the Kingsway Linked Return of Capital Trust transaction that was completed on July 14, 2005 which is more fully described in Note 15(d) of the 2007 audited consolidated financial statements and page 42 of the 2007 Annual Report. The Company has one other off-balance sheet financing arrangement as described on page 43 of the 2007 Annual Report.

International Financial Reporting Standards (IFRS)

In 2006, the Accounting Standards Board (AcSB) published a new plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publically-listed companies to use IFRS, replacing existing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

Summary of Quarterly Results

The following table presents the financial results over the previous eight quarters.

	2008		**2007**				**2006**	
(in millions of dollars except per share)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Gross premiums written	$ 443.2	$ 457.1	$ 449.0	$ 509.1	$ 525.2	$ 479.4	$ 409.1	$ 483.9
Net premiums earned	416.3	442.6	464.5	485.3	474.0	418.2	425.0	458.3
Total revenue	460.8	474.5	510.1	528.1	538.6	458.9	466.6	498.2
Net income (loss)	6.3	(34.4)	(103.5)	23.6	41.7	19.6	16.8	37.4
Earnings (loss) per share								
Basic	0.11	(0.62)	(1.86)	0.43	0.75	0.35	0.30	0.67
Diluted	0.11	(0.62)	(1.84)	0.42	0.74	0.35	0.30	0.66

Supplementary Financial Information

Financial Strength Indicators:

Some of the key indicators of the Company's financial strength are as follows:

	June 30, 2008	December 31, 2007
Rolling four quarter calculations:		
Net premiums written to estimated statutory surplus ratio	1.6x	1.6x
Interest coverage ratio	n/a	0.9x
Total bank and senior debt to capitalization ratio*	31.2%	31.0%

*The Company's repayment of $109.7 million of bank indebtedness subsequent to the balance sheet date has reduced this ratio to approximately 25.5%.

Selected Financial Information expressed in Cdn. dollars, except for per share amounts

The selected financial information disclosed below has been translated using the Bank of Canada monthly average exchange rate for the income statement and the month end rate for the balance sheet. Readers should be cautioned as to the limited usefulness of the selected financial information presented below.

	Quarter to June 30:		6 months to June 30:	
(in millions of dollars except per share amount)	**2008**	**2007**	**2008**	**2007**
Gross premiums written	$ 447.5	$ 576.6	$ 906.5	$ 1,138.1
Net premiums earned	420.3	520.4	864.8	1,010.4
Net income	6.1	45.3	(28.3)	68.3
Earnings per share – diluted	0.11	0.81	(0.51)	1.22
Underwriting profit (loss)	(29.7)	(4.2)	(98.9)	(28.4)
Book value per share			15.80	18.93

Outlook

The Company's 2007 Annual Report includes description and analysis of the key factors and events that could impact future earnings under the heading Risks Factors in the Management's Discussion and Analysis section. These factors and events have, for the most part, remained substantially unchanged.

Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining disclosure controls and procedures for the Company as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer by others within those entities, particularly during the period in which the annual filings are being prepared.

Internal Controls over Financial Reporting

Management of the Company is responsible for designing internal controls over financial reporting for the Company as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP. There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent interim period that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Forward Looking Statements

This press release (including the Management's Discussion and Analysis) includes "forward looking statements" that are subject to risks and uncertainties. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward looking statements, see Kingsway's securities filings, including its 2007 Annual Report under the heading Risk Factors in the Management's Discussion and Analysis section. The securities filings can be accessed on the Canadian Securities Administrators' website at www.sedar.com, and on the EDGAR section of the U.S. Securities and Exchange Commission's website at www.sec.gov or through the Company's website at www.kingsway-financial.com. The Company disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands of U.S. dollars, except for per share amounts)

(Unaudited)	Quarter to June 30:		6 months to June 30:	
	2008	2007	**2008**	2007
Gross premiums written	**$ 443,234**	$ 525,245	**$ 900,334**	$ 1,004,599
Net premiums written	**$ 408,066**	$ 489,356	**$ 831,672**	$ 933,477
Revenue:				
Net premiums earned	**$ 416,249**	$ 474,042	**$ 858,864**	$ 892,231
Investment income	**33,599**	33,815	**70,976**	65,371
Net realized gains	**10,946**	30,754	**5,469**	39,870
	460,794	538,611	**935,309**	997,472
Expenses:				
Claims incurred	**$ 302,741**	$ 328,652	**$ 672,169**	$ 644,706
Commissions and premiums taxes	**78,887**	92,978	**155,747**	164,142
General and administrative expenses	**63,900**	56,162	**129,315**	107,841
Interest expense	**8,872**	9,731	**18,788**	17,950
Amortization of intangibles	**1,059**	876	**2,770**	1,752
	455,459	488,399	**978,789**	936,391
Income (loss) before income taxes	**5,335**	50,212	**(43,480)**	61,081
Income taxes (recovery)	**(986)**	8,496	**(15,402)**	(276)
Net income (loss)	**$ 6,321**	$ 41,716	**$ (28,078)**	$ 61,357
Earnings (loss) per share:				
Basic:	**$ 0.11**	$ 0.75	**$ (0.51)**	$ 1.10
Diluted:	**$ 0.11**	$ 0.74	**$ (0.51)**	$ 1.09
Weighted average shares outstanding (in ‘000s):				
Basic:	**55,159**	55,620	**55,284**	55,709
Diluted:	**55,231**	56,016	**55,357**	56,193

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED BALANCE SHEETS
(In thousands of U.S. dollars)

	June 30 2008 (unaudited)	December 31 2007
ASSETS		
Cash and cash equivalents	**$ 188,548**	$ 161,635
Securities	**3,015,745**	3,256,365
Accrued investment income	**28,387**	33,186
Financed premiums	**102,900**	91,851
Accounts receivable and other assets	**358,062**	365,410
Due from reinsurers and other insurers	**202,799**	207,137
Deferred policy acquisition costs	**166,202**	176,202
Income taxes recoverable	**14,421**	1,348
Future income taxes	**131,533**	114,066
Capital assets	**128,225**	133,431
Goodwill and intangible assets	**113,934**	116,774
	$ 4,450,756	$ 4,657,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Bank indebtedness	**$ 157,918**	$ 172,436
Loans payable	**66,222**	66,222
Accounts payable and accrued liabilities	**136,481**	144,940
Unearned premiums	**719,072**	758,490
Unpaid claims	**2,228,469**	2,267,082
Senior unsecured debentures	**200,785**	220,080
Subordinated indebtedness	**87,368**	87,354
	3,596,315	3,716,604
SHAREHOLDERS' EQUITY		
Share capital	**323,102**	326,151
Issued and outstanding number of common shares		
55,158,528 – June 30, 2008		
55,515,728– December 31, 2007		
Contributed surplus	**8,287**	7,619
Retained earnings	**483,598**	521,165
Accumulated other comprehensive income	**39,454**	85,866
	854,441	940,801
	$ 4,450,756	$ 4,657,405

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(In thousands of U.S. dollars)

	Quarter to June 30:		6 months to June 30:	
(Unaudited)	**2008**	2007	**2008**	2007
Share capital				
Balance at beginning of period	**$ 323,530**	$ 326,430	**$ 326,151**	$ 328,473
Issued during the period	**-**	769	**48**	1,047
Repurchased for cancellation	**(428)**	-	**(3,097)**	(2,321)
Balance at end of period	**323,102**	327,199	**323,102**	327,199
Contributed surplus				
Balance at beginning of period	**$ 7,647**	$ 5,571	**$ 7,619**	$ 5,352
Stock option expense	**640**	573	**668**	792
Balance at end of period	**8,287**	6,144	**8,287**	6,144
Retained earnings				
Balance at beginning of period	**$ 481,506**	$ 572,452	**$ 521,165**	$ 560,126
Net income (loss) for the period	**6,321**	41,716	**(28,078)**	61,357
Common share dividends	**(4,069)**	(3,917)	**(8,208)**	(7,491)
Repurchase of shares for cancellation	**(160)**	-	**(1,281)**	(3,741)
Balance at end of period	**483,598**	610,251	**483,598**	610,251
Accumulated other comprehensive income				
Balance at beginning of period	**$ 81,265**	$ 35,048	**$ 85,866**	$ 7,011
Cumulative effect of adopting new accounting policies	-	-	-	17,672
Other comprehensive income (loss)	**(41,811)**	9,827	**(46,412)**	20,192
Balance at end of period	**39,454**	44,875	**39,454**	44,875
Total shareholders' equity at end of period	**$ 854,441**	$ 988,469	**$ 854,441**	$ 988,469

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(In thousands of U.S. dollars)

	Quarter to June 30:		6 months to June 30:	
(Unaudited)	**2008**	2007	**2008**	2007
Comprehensive income				
Net income (loss)	**$ 6,321**	$ 41,716	**$ (28,078)**	$ 61,357
Other comprehensive income, net of taxes:				
• Change in unrealized gains (losses) on available-for securities:				
Unrealized gains arising during the period, net of income taxes [1]	**(44,433)**	(7,865)	**(31,962)**	(3,907)
Recognition of realized gains to net income, net of income taxes [2]	**(1,399)**	(12,364)	**(4,265)**	(9,251)
• Unrealized gains (losses) on translating financial statement of self-sustaining foreign operations	**4,021**	30,056	**(10,185)**	33,350
Other comprehensive income (loss)	**(41,811)**	9,827	**(46,412)**	20,192
Comprehensive income	**$ (35,490)**	$ 51,543	**$ (74,490)**	$ 81,549

[1] Net of income tax of $(6,281) for the quarter to June 30, 2008($(6,995) for Year to date) and $(3,103) for the quarter to June 30, 2007 ($1,093) for year to date).
[2] Net of income tax of $(1,219) for the quarter to June 30, 2008 ($(2,724) for year to date) and $(6,398) for the quarter to June 30, 2007 ($(3,722) for year to date).

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of U.S. dollars)

	Quarter to June 30:		6 months to June 30:	
(Unaudited)	**2008**	2007	**2008**	2007
Cash flows from operating activities				
Net income	**$ 6,321**	$ 41,716	**$ (28,078)**	$ 61,357
Items not affecting cash:				
Amortization	**6,308**	3,533	**11,239**	6,432
Future and current income taxes	**(949)**	2,332	**(7,149)**	(14,759)
Net realized gains	**(10,946)**	(30,754)	**(5,469)**	(39,870)
Amortization of bond premiums and discounts	**(1,562)**	(1,417)	**(4,032)**	(3,412)
Net change in other non-cash balances	**(13,647)**	67,009	**(45,189)**	44,572
	(14,475)	82,419	**(78,678)**	54,320
Cash flows from financing activities				
Increase in share capital	**-**	769	**48**	1,047
Repurchase of common shares for cancellation	**(588)**	-	**(4,378)**	(6,062)
Dividends paid	**(4,069)**	(3,917)	**(8,208)**	(7,491)
Increase (decrease) in bank indebtedness and loans payable	**(4,628)**	(7)	**(15,283)**	106,944
Decrease in senior unsecured indebtedness	**(228)**	-	**(17,517)**	-
	(9,513)	(3,155)	**(45,338)**	94,438
Investing activities				
Purchase of securities	**(872,409)**	(1,199,988)	**(1,592,080)**	(2,190,614)
Proceeds from sale of securities	**958,539**	1,130,102	**1,759,812**	2,101,411
Financed premiums receivable, net	**(16,409)**	(10,896)	**(13,253)**	(7,595)
Acquisitions, net of cash acquired	**-**	(26,823)	**(212)**	(40,683)
Net change to capital assets	**(1,864)**	(14,752)	**(3,338)**	(14,827)
	67,857	(122,357)	**150,929**	(152,308)
Net change in cash and cash equivalents	**43,869**	(43,093)	**26,913**	(3,550)
Cash and cash equivalents at beginning of period	**144,679**	169,249	**161,635**	129,706
Cash and cash equivalents at end of period	**$ 188,548**	$ 126,156	**$ 188,548**	$ 126,156

NOTE 1 Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies as were used for the Company's consolidated financial statements for the year ended December 31, 2007 except for the changes in accounting policies as noted below. These interim consolidated financial statements do not contain all disclosures required by generally accepted accounting principles and accordingly should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2007 as set out on pages 63 to 85 of the Company's 2007 Annual Report. The results of the operations for the interim periods are not necessarily indicative of the full-year results.

NOTE 2 Change In Accounting Polices

On January 1, 2008, the Company adopted CICA Handbook Section 1535 Accounting Changes – Capital Disclosures, Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation.

Handbook Section 1535 requires the following disclosures: (i) qualitative information about an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity manages as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. See Note 7 for additional details.

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements but not changing the existing presentation requirements for financial instruments. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Handbook Section 3862 requires qualitative and quantitative disclosure of: (i) exposures to risks arising from financial instruments, how they arose and the potential impact on the amount, timing and certainty of future cash flows; (ii) information about the risk management function and the reporting and measurement systems used; (iii) the entity's policies for hedging or mitigating risk and avoiding concentrations of risk; and (iv) the sensitivity to individual market risk factors together with the methodology for performing the analysis. Handbook Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. See Note 6 for additional details.

NOTE 3 Stock-based Compensation

As reported on pages 74 – 75 of the Company's 2007 Annual Report, effective January 1, 2003 the Company adopted on a prospective basis the fair-value method of accounting for stock-based compensation awards granted to employees and non-employee directors. During the second quarter 2008, the Company recorded $640,000 ($668,000 year to date) of stock-based compensation expense included in employee compensation expense.

Per share weighted average fair value of options granted during 2008 was C$2.88 in February and C$2.43 in May. Per share weighted average fair value of options granted during 2007 was C$5.34 February and C$2.38 in December. The fair value of the options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

(Unaudited – tabular amounts in thousands of U.S. dollars)

	As at June 30:	
	2008	2007
Risk-free interest rate	3.22%	4.11%
Dividend yield	2.23%	1.30%
Volatility of the expected market price of the Company's common shares	27.8%	25.2%
Expected option life (in years)	4.0	3.7

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options which have no vesting restrictions and are fully transferable. As the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the above pro forma adjustments are not necessarily a reliable single measure of the fair value of the Company's employee stock options.

NOTE 4 **Segmented Information**

The Company provides property and casualty insurance and other insurance related services in three reportable segments, Canada, the United States and corporate and other insurance related services. The Company's Canadian and United States segments include transactions with the Company's reinsurance subsidiaries. At the present time, other insurance related services are not significant. Results for the Company's operating segments are based on the Company's internal financial reporting systems and are consistent with those followed in the preparation of the consolidated financial statements.

	Three months ended June 30, 2008			
	Canada	United States	Corporate and other	Total
Gross premiums written	$ 179,878	$ 263,356	$ -	$ 443,234
Net premiums earned	136,242	280,007	-	416,249
Investment income (loss)	13,880	19,925	(206)	33,599
Net realized gains	10,455	491	-	10,946
Interest expense	-	8,002	870	8,872
Amortization of capital assets	536	2,052	1,396	3,984
Amortization of intangible assets	-	1,059	-	1,059
Net income tax expense (recovery)	(2,134)	(3,719)	4,867	(986)
Net income (loss)	15,789	(3,717)	(5,751)	6,321

(Unaudited – tabular amounts in thousands of U.S. dollars)

	Three months ended June 30, 2007			
	Canada	United States	Corporate and other	Total
Gross premiums written	$ 169,494	$ 355,751	$ -	$ 525,245
Net premiums earned	133,225	340,817	-	474,042
Investment income (loss)	13,564	21,072	(821)	33,815
Net realized gains	23,856	6,898	-	30,754
Interest expense	-	7,632	2,099	9,731
Amortization of capital assets	499	1,223	750	2,472
Amortization of intangible assets	-	876	-	876
Net income tax expense (recovery)	9,379	(5,957)	5,074	8,496
Net income (loss)	32,251	16,164	(6,699)	41,716

	Six months ended June 30, 2008			
	Canada	United States	Corporate and other	Total
Gross premiums written	$ 299,607	$ 600,727	$ -	$ 900,334
Net premiums earned	267,808	591,056	-	858,864
Investment income (loss)	28,794	42,925	(743)	70,976
Net realized gains (losses)	8,849	(3,380)	-	5,469
Interest expense	-	16,588	2,200	8,788
Amortization of capital assets	1,079	3,760	2,535	7,374
Amortization of intangible assets	-	2,770	-	2,770
Net income tax expense (recovery)	(9,101)	(13,265)	6,964	(15,402)
Net income (loss)	11,586	(37,811)	(1,853)	(28,078)
Capital assets	$ 60,091	$ 60,527	$ 7,607	$ 128,225
Goodwill and intangible assets	9,014	104,920	-	113,934
Total assets	1,701,912	2,713,557	35,287	4,450,756

(Unaudited – tabular amounts in thousands of U.S. dollars)

	Six months ended June 30, 2007			
	Canada	United States	Corporate and other	Total
Gross premiums written	$ 285,549	$ 719,050	$ -	$1,004,599
Net premiums earned	250,927	641,304	-	892,231
Investment income (loss)	26,719	39,601	(949)	65,371
Net realized gains	25,331	14,539	-	39,870
Interest expense	-	13,977	3,973	17,950
Amortization of capital assets	847	2,466	1,129	4,442
Amortization of intangible assets	-	1,752	-	1,752
Net income tax expense (recovery)	11,370	(19,611)	7,965	(276)
Net income (loss)	48,018	22,140	(8,801)	61,357
Capital assets	$ 58,275	$ 59,783	$ 11,072	$ 129,130
Goodwill and intangible assets	8,627	105,433	-	114,060
Total assets	1,868,407	2,625,910	35,644	4,529,961

NOTE 5 Securities

The table below provides the amortized cost and fair values of securities:

		June 30, 2008			
		Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits		$ 334,262	$ 801	$ 602	$ 334,461
Bonds:					
Canadian	- Government	220,854	3,788	807	223,835
	- Corporate	361,643	1,949	6,959	356,633
U.S	- Government	107,344	2,256	408	109,192
	- Corporate	1,464,379	19,507	16,811	1,467,075
Other	- Government	11,981	12	-	11,993
	- Corporate	145,317	3,756	424	148,649
Sub-total		**$ 2,645,780**	**$ 32,069**	**$ 26,011**	**$ 2,651,838**
Common shares	- Canadian	196,165	14,327	15,412	195,080
	- U.S	177,015	6,912	21,076	162,851
Preferred shares	- Canadian	7,982	-	2,595	5,387
	- U.S	635	-	46	589
		$ 3,027,577	**$ 53,308**	**$ 65,140**	**$ 3,015,745**

(Unaudited – tabular amounts in thousands of U.S. dollars)

		December 31, 2007			
		Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits		$ 393,788	$ 836	$ 69	$ 394,555
Bonds:					
Canadian	- Government	260,309	4,164	115	264,358
	- Corporate	368,243	1,834	6,464	363,613
U.S	- Government	90,305	2,270	13	92,562
	- Corporate	1,461,177	23,153	8,657	1,475,673
Other	- Government	15,492	-	106	15,386
	- Corporate	204,876	4,381	812	208,445
Sub-total		**$2,794,190**	**$ 36,638**	**$ 16,236**	**$2,814,592**
Common shares	- Canadian	224,086	25,624	12,786	236,924
	- U.S	194,545	16,045	12,847	197,743
Preferred shares	- Canadian	8,211	-	1,828	6,383
	- U.S	780	-	57	723
		$3,221,812	**$ 78,307**	**$ 43,754**	**$3,256,365**

Fair values of term deposits, bonds and common and preferred shares are considered to approximate quoted market values based on the latest bid prices.

Net investment income for the quarter and period ended is comprised as follows:

	Quarter to June 30:		6 months to June 30	
	2008	2007	2008	2007
Investment income				
Interest on short term securities	$ 3,196	$ 5,725	$ 7,619	$ 10,424
Interest on Bonds	28,797	26,418	58,545	50,811
Dividends	1,676	2,958	4,512	6,185
Premium Finance	1,668	1,180	3,264	2,284
Other	(3)	(483)	803	(354)
Gross Investment Income	**$ 35,334**	**$ 35,798**	**$ 74,743**	**$ 69,350**
Investment Expenses	1,735	1,983	3,767	3,979
Net Investment Income	**$ 33,599**	**$ 33,815**	**$ 70,976**	**$ 65,371**

Net realized gains for the quarter ended June 30, 2008 were $10.9 million ($5.5 million for year to date) compared to net realized gains of $30.8 million for the quarter ended June 30, 2007 ($39.9 million for year to date). Included in net realized gains were adjustments to the carrying values of securities for declines in market value considered other than temporary of $9.9 million for the quarter ended June 30, 2008 ($18.8 million for year to date) compared to $1.8 million for the quarter ended June 30, 2007 ($5.9 million for year to date).

(Unaudited – tabular amounts in thousands of U.S. dollars)

NOTE 6 Financial Instruments

Risk Management

The Company's risk management policies and practices are described on pages 23, 47 and 72 to 73 of the Company's 2007 Annual Report. There has been no significant change in the risk management framework.

In addition, the Company has provided herein the disclosures required under the Canadian Institute of Chartered Accountants (CICA) handbook section 3862, "Financial Instruments – Disclosures" related to the nature and extent of risks arising from financial instruments. These disclosures form an integral part of the interim consolidated financial statements.

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

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

	June 30, 2008			December 31, 2007		
AAA/ Aaa	$1,484,990	56.0	%	$1,516,064	53.9	%
AA/Aa2	509,555	19.2		661,891	23.5	
A/A2	504,228	19.0		470,909	16.7	
BBB/Baa2	95,668	3.6		96,076	3.4	
BB/Ba2	6,265	0.2		8,081	0.3	
B/B2	12,620	0.5		12,629	0.4	
CCC/Caa or lower	1,425	0.1		1,724	0.1	
Not rated	37,087	1.4		47,218	1.7	
Total consolidated	**$2,651,838**	**100.0**	**%**	**$2,814,592**	**100.0**	**%**

As at June 30, 2008, 94.2% of the fixed income portfolio is rated 'A' or better. The 'not rated' category consists primarily of investments in money market instruments.

Market risk:
Our primary market risk exposures continue to be the changes in interest rates and equity prices. Because most of the securities portfolio is comprised of fixed income securities that are usually held to maturity, periodic changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. Also, during periods of rising interest rates, the market value of the existing fixed income securities will generally decrease and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that an immediate hypothetical 100 basis point or 1 percent parallel increase in interest rates would decrease the market value of the fixed income securities by $86.0 million at June 30, 2008, representing 3.2% of the $2.7 billion fair value fixed income securities portfolio.

(Unaudited – tabular amounts in thousands of U.S. dollars)

Fluctuations in value of the equity securities due to changes in general economic or stock market conditions affect the carrying value of these securities and the level and timing of recognition of gains and losses on securities held, causing changes in realized and unrealized gains and losses.

We have a smaller exposure to changes in the U.S. to Canadian dollar foreign currency exchange rate. We do not hedge any foreign currency exposure that may exist in the securities portfolio. Our U.S. operations generally hold their investments in U.S. dollar denominated securities, and the Canadian operations in Canadian dollar denominated securities.

Liquidity risk:
Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavorable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements. To meet these cash requirements, the Company has policies to limit and monitor its exposure to individual issuers or related groups and to ensure that assets and liabilities are broadly matched in terms of their duration and currency. The Company believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill the cash requirements, including the quarterly dividend, during the current financial year and also to satisfy regulatory capital requirements.

The following table summarizes carrying amounts of financial instruments by contractual maturity or expected cash flow dates (the actual re pricing dates may differ from contractual maturity because certain securities and debentures have the right to call or prepay obligations with or without call or prepayment penalties):

As at June 30, 2008	One year or less	One to five years	Five to ten years	More than ten years	No specific date	Total
Assets:						
Cash & cash equivalents	$ 188,548	$ -	$ -	$ -	$ -	$ 188,548
Securities	570,449	1,260,061	642,963	178,032	364,240	3,015,745
Accrued Investment Income	28,387	-	-	-	-	28,387
Finance Premiums	102,900	-	-	-	-	102,900
Accounts receivable and other assets	358,062	-	-	-	-	358,062
Due from reinsurers and other insurers	65,396	115,162	19,138	3,103		202,799
Liabilities:						
Bank Indebtedness	157,918	-	-	-	-	157,918
Loans payable	-	-	66,222	-	-	66,222
Accounts payable and accrued liabilities	136,481	-	-	-	-	136,481
Unpaid claims	718,609	1,265,466	210,298	34,096	-	2,228,469
Senior unsecured debentures	-	96,985	103,800	-	-	200,785
Subordinated indebtedness	-	-	-	87,368	-	87,368

(Unaudited – tabular amounts in thousands of U.S. dollars)

As at December 31, 2007	One year or less	One to five years	Five to ten years	More than ten years	No specific date	Total
Assets:						
Cash & cash equivalents	$ 161,635	$ -	$ -	$ -	$ -	$ 161,635
Securities	714,339	1,242,667	720,464	137,122	441,773	3,256,365
Accrued Investment Income	33,186	-	-	-	-	33,186
Finance Premiums	91,851	-	-	-	-	91,851
Accounts receivable and other assets	365,410	-	-	-	-	365,410
Due from reinsurers and other insurers	(5,999)	181,135	27,676	4,325	-	207,137
Liabilities:						
Bank Indebtedness	172,436	-	-	-	-	172,436
Loans payable	-	-	66,222	-	-	66,222
Accounts payable and accrued liabilities	144,940	-	-	-	-	144,940
Unpaid claims	735,534	1,284,106	213,264	34,178	-	2,267,082
Senior unsecured debentures	-	99,680	120,400	-	-	220,080
Subordinated indebtedness	-	-	-	87,354	-	87,354

Collateral pledged: As at June 30, 2008, bonds and term deposits with an estimated fair value of $49.7 million were on deposit with state and provincial regulatory authorities. Also, from time to time, the Company pledges securities to third parties to collateralize liabilities incurred under its policies of insurance. At June 30, 2008, the amount of such pledged securities was $85.1 million. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's standard risk management controls.

On October 4, 2002 the Company entered into an annually renewable syndicated $350 million letter of credit facility. The letter of credit facility is principally used to collateralize inter-company reinsurance balances for statutory capital management purposes. The Company pledges securities to collateralize the utilized portion of the letter of credit facility. At June 30, 2008 the letter of credit facility utilization was $273.2 million.

Past due loans but not impaired: Past due loans are loans where repayment of principal or payment of interest is contractually in arrears. There are no such loans as at June 30, 2008.

Fair value:

Refer to Note 5 with respect to fair value disclosure on securities. The carrying value of unpaid claims does not take into consideration the time value of money or make an explicit provision for adverse deviation. In order to estimate the fair value of the unpaid claims, the Company uses an actuarial approach recognizing the time value of money which incorporates assumptions concerning projected cash flows and appropriate provisions for adverse deviation. As at June 30, 2008 the discounted value of the unpaid claims was $2,306.2 million ($2,159.3 million net of reinsurers' share of unpaid claims). There is no active market for policy liabilities, so a market value is not readily available.

The table below summarizes the fair valuation of debt liabilities:

	June 30, 2008		
	Total fair value*	Total carrying value	Favorable (Unfavorable)
Loans Payable	$ 50,538	$ 66,222	$ 15,684
Senior unsecured debentures	175,288	200,785	25,497
Subordinated indebtedness	90,500	87,368	(3,132)

	December 31, 2007		
	Total fair value*	Total carrying value	Favorable (Unfavorable)
Loans Payable	$ 54,493	$ 66,222	$ 11,729
Senior unsecured debentures	221,517	220,080	(1,437)
Subordinated indebtedness	90,500	87,354	(3,146)

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

The Company uses fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information (Level 3) in the valuation of securities as at June 30, 2008 were as follows:

($ in 000s)

Description	June 30, 2008	Quoted prices in active markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 3,015,745	$ 363,907	$ 2,651,838	$ -

NOTE 7 Capital Management

The Company has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy. The process is aimed to achieve three major objectives: Meet regulatory requirements, maintain strong credit rating and maximize returns to shareholders. Senior executive management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics.

As at June 30, 2008 the Company was adequately capitalized to support the premium volume of the insurance subsidiaries. Canadian property and casualty insurance companies are regulated by the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Services Commission of Ontario (FSCO) and are required to maintain a level of capital sufficient to achieve a target of 150% of a minimum capital test (MCT) formula. As at June 30, 2008 the MCT's of the Canadian subsidiaries are above the target MCT level, with MCT margins ranging between 192% and 219% and aggregate available capital of approximately $64.3 million in excess of required capital.

In the United States, a risk based capital (RBC) formula is used by the National Association of Insurance Commissioners (NAIC) to identify property and casualty insurance companies that may not be adequately capitalized. The NAIC requires that capital and surplus not fall below 200% of the authorized control level. As at June 30, 2008, all the U.S. subsidiaries are above the required RBC levels, with RBC ratios ranging between 249% and 1,437% and have aggregate available capital of approximately $121.1 million in excess of required capital.

The reinsurance subsidiaries, which are domiciled in Barbados and Bermuda, are required by the regulator in the jurisdictions in which they operate to maintain minimum capital levels. As at June 30, 2008 the capital maintained by Kingsway Reinsurance Corporation was approximately $224.1 million in excess of the regulatory requirements in Barbados and the capital maintained by Kingsway Reinsurance (Bermuda) Limited was approximately $55.6 million in excess of regulatory requirements.

Subsequent to the balance sheet date, the Company repatriated funds from the reinsurance subsidiaries for the primary purpose of repaying a significant portion of bank indebtedness. As a result, the capital in excess of regulatory requirements has been reduced to approximately $114.1 million and $36.0 million in Barbados and Bermuda respectively.

For additional details, refer to page 39 to 42 of the Company's 2007 Annual Report.

NOTE 8 Hedges

On July 10, 2007, a general partnership of the Company (Kingsway 2007 General Partnership) issued a five year C$100 million debt obligation due on July 11, 2012 with fixed semi-annual C$3 million interest payments. Kingsway 2007 General Partnership's risk management objective is to lock in the cash flow requirements on this debt obligation in U.S dollar terms which is the currency in which its cash inflows are received, thus mitigating exposure to variability in expected future cash flows. In order to meet this objective, Kingsway 2007 General Partnership has entered into a cross-currency swap with Bank of Nova Scotia to swap U.S. dollar cash flows into Canadian dollar cash flows providing the Company with the required Canadian dollar funds each semi-annual period and upon maturity to settle the senior debenture offering interest payments.

The swap transaction has been designated as a cash flow hedge. Any changes in the fair value of hedging instrument are recorded in other comprehensive income until the hedged item affects the Consolidated Statement of Income. Hedge ineffectiveness is measured and recorded in the current period in the Consolidated Statement of Income. The Company has recorded a nil gain during the quarter ($0.1 million year to date) due to the ineffective portion of the designated hedge. As at June 30, 2008, the time length of cash flow hedge outstanding was less than five years. When the hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income will be recognized in income over the remaining term of the original hedge, or when the hedged item is derecognized.

NOTE 9 Acquisitions

On April 1, 2007 the Company acquired 100% of the voting shares of Mendota Insurance Company ('Mendota') whose primary business is non-standard automobile insurance. This transaction includes Mendota's wholly owned subsidiaries, Mendakota Insurance Company and Mendota Insurance Agency, Inc. The earnings of Mendota have been included in the statement of operations from April 1, 2007.

During the first quarter of 2008, the final purchase price was determined at $51.1 million. The Company has recognized total goodwill $1.2 million related to this acquisition, of which $0.2 million was recorded in 2008 and $1.0 million during 2007.

The Company also recognized total intangible assets of $10.7 million related to this acquisition during 2007, of which $7.8 million was assigned to insurance licenses with an indefinite life and not subject to amortization, $1.1 million was assigned to computer software and is being amortized straight line over its defined useful life of 5 years and $1.8 million assigned to agent relationships and is also being amortized of a 5 year term but based on a pattern in which the economic benefits of the asset are expected to be consumed.

NOTE 10 Bank Indebtedness

Bank indebtedness decreased from $172.4 million at December 31, 2007 to $157.9 million. During the first half of the year the Company repaid approximately $12.5 million of outstanding debt under our credit facilities.

Subsequent to quarter end, the Company repaid $109.7 million of bank indebtedness utilizing the surplus capital resources held in its reinsurance subsidiaries. Bank indebtedness is subject to compliance with financial covenants and other provisions of the Credit Agreement. For the remaining $48.8 million of bank indebtedness due December 20, 2008, the Company has obtained a waiver to September 30, 2008 from lender over non-compliance with certain covenants. The Company is in the process of renegotiating the terms and covenants of the bank indebtedness.

(Unaudited – tabular amounts in thousands of U.S. dollars)

NOTE 11 Supplemental Condensed Consolidating Financial Information

On July 10, 2007, K2007GP issued C$100 million of 6% senior unsecured debentures unconditionally guaranteed by the Company ("KFSI") and Kingsway America Inc. ("KAI"), a wholly-owned subsidiary of the Company. The following is the condensed consolidating financial information for the Company as of June 30, 2008 and December 31, 2007, and for the period ended June 30, 2008 and 2007, with a separate column for each Guarantor, the issuer and the other businesses of the Company combined ("Non-Guarantor subsidiaries").

Condensed Consolidating Statement of Operations

For the six months ended June 30, 2008

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(a "Guarantor")	(the "Issuer")	(the "Non-Guarantor subsidiaries")		
Revenue:						
Net premiums earned	$ -	$ -	$ -	$ 866,319	$ (7,455)	$ 858,864
Investment related income	(742)	1,817	3,582	83,799	(12,009)	76,445
Management fees	51,440	9,158	-	-	(60,598)	-
	$ 50,698	$ 10,975	$ 3,582	$ 950,116	$ (80,062)	$ 935,309
Expenses:						
Claims incurred	$ -	$ -	$ -	$ 696,938	$ 24,769	$ 672,169
Commissions and premium taxes	-	-	-	155,747	-	155,747
Other expenses	43,869	12,961	117	126,931	(51,793)	132,085
Interest expense	2,200	14,142	3,064	2,882	(3,500)	18,788
	46,069	27,103	3,181	982,498	(80,062)	978,789
Income before income taxes	4,629	(16,128)	401	(32,382)	-	(43,480)
Income taxes	6,964	(5,483)	136	(17,019)	-	(15,402)
Equity in undistributed net income of subsidiaries	(25,743)	(39,287)	-	-	65,030	-
Net income (loss)	$ (28,078)	$ (49,932)	$ 265	$ (15,363)	$ 65,030	$ (28,078)

(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Statement of Operations

For the six months ended June 30, 2007

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Revenue:						
Net premiums earned	$ -	$ -	$ -	$ 892,231	$ -	$ 892,231
Investment related income	(949)	2,460	-	104,855	(1,125)	105,241
Management fees	39,342	6,756	-	-	(46,098)	-
	$ 38,393	$ 9,216	$ -	$ 997,086	$ (47,223)	$ 997,472
Expenses:						
Claims incurred	$ -	$ -	$ -	$ 656,098	$ (11,392)	$ 644,706
Commissions and premium taxes	-	-	-	164,147	-	164,142
Other expenses	36,178	8,756	-	100,490	(35,831)	109,593
Interest expense	3,973	11,434	-	2,543	-	17,950
	40,146	20,190	-	923,278	(47,223)	936,391
Income before income taxes	(1,753)	(10,974)	-	73,808	-	61,081
Income taxes	5,075	(3,731)	-	(1,620)	-	(276)
Equity in undistributed net income of subsidiaries	68,185	(31,431)	-	-	(36,754)	-
Net income (loss)	$ 61,357	$ (38,674)	$ -	$ 75,428	$ (36,754)	$ 61,357

(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Balance Sheet

As at June 30, 2008

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Assets						
Investments in subsidiaries	$ 878,083	$ 741,719	$ -	$ (340,624)	$ (1,279,178)	$ -
Cash	8,305	8,550	816	170,877	-	188,548
Securities	-	-	-	3,134,416	(15,771)	3,118,645
Goodwill and other assets	9,780	-	-	104,154	-	113,934
Other assets	17,708	71,344	109,493	3,109,314	(2,278,230)	1,029,629
	$ 913,875	$ 821,613	$ 110,309	$ 6,178,137	$ (3,573,179)	$4,450,756
Liabilities and Shareholders' Equity						
Liabilities:						
Bank Indebtedness	$ 37,000	$ 170,175	$ -	$ 120,918	$ (103,953)	$ 224,140
Other liabilities	3,934	28,094	4,609	293,652	(193,808)	136,481
Unearned premiums	-	-	-	1,128,688	(409,616)	719,072
Unpaid claims	-	-	-	3,702,914	(1,474,445)	2,228,469
Senior unsecured debentures	18,500	125,000	93,346	(19,184)	(16,877)	200,785
Subordinated indebtedness	-	90,500	-	-	(3,132)	87,368
	59,434	413,769	97,954	5,226,988	(2,201,831)	3,596,315
Shareholders' equity:						
Share capital	323,102	446,069	10,667	1,827,710	(2,284,446)	323,102
Contributed surplus	8,287	-	-	-	-	8,287
Retained Earnings	483,598	(38,225)	2,318	(906,776)	942,683	483,598
Accumulated other comprehensive income	39,454	-	(630)	30,215	(29,585)	39,454
	854,441	407,844	12,355	951,149	(1,371,348)	854,441
	$ 913,875	$ 821,613	$ 110,309	$ 6,178,137	$ (3,573,179)	$4,450,756

(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Balance Sheet

As at December 31, 2007

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "Issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Assets						
Investments in subsidiaries	$ 964,286	$ 682,266	$ -	$ (150,463)	$ (1,496,089)	$ -
Cash	13,716	6,960	566	140,393	-	161,635
Securities	-	-	-	3,348,216	-	3,348,216
Goodwill and other assets	-	-	-	116,774	-	116,774
Other assets	34,042	16,302	113,217	3,181,277	(2,314,058)	1,030,780
	$1,012,044	$ 705,528	$ 113,783	$ 6,636,197	$ (3,810,147)	$4,657,405
Liabilities and Shareholders' Equity						
Liabilities:						
Bank Indebtedness	$ 42,369	$ 170,175	$ -	$ 130,068	$ (103,954)	$ 238,658
Other liabilities	7,797	25,184	6,607	339,938	(234,586)	144,940
Unearned premiums	-	-	-	1,220,813	(462,323)	758,490
Unpaid claims	-	-	-	3,810,139	(1,543,057)	2,267,082
Senior unsecured debentures	21,077	125,000	94,429	(20,426)	-	220,080
Subordinated indebtedness	-	90,500	-	-	(3,146)	87,354
	71,243	410,859	101,036	5,480,532	(2,347,066)	3,716,604
Shareholders' equity:						
Share capital	326,151	342,450	10,667	1,773,287	(2,126,404)	326,151
Contributed surplus	7,619	-	-	-	-	7,619
Retained Earnings	521,165	(47,781)	2,053	(713,618)	759,346	521,165
Accumulated other comprehensive income	85,866	-	27	95,996	(96,023)	85,866
	940,801	294,669	12,747	1,155,665	(1,463,081)	940,801
	$1,012,044	$ 705,528	$ 113,783	$ 6,636,197	$ (3,810,147)	$4,657,405

(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Statement of Cash Flows

For the six months ended June 30, 2008

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Cash provided by (used in):						
Operating Activities:						
Net income	$ (28,078)	$ (49,932)	$ 265	$ (15,363)	$ 65,030	$ (28,078)
Adjustments to reconcile net income to net cash used by operating activities:						
Equity in undistributed earnings in subsidiaries	25,743	39,287	-	-	(65,030)	-
Other	7,552	(31,549)	(129)	(150,091)	123,617	(50,600)
	5,217	(42,194)	136	(165,454)	123,617	(78,678)
Financing Activities:						
Increase in share capital, net	48	103,619	-	-	(103,619)	48
Repurchase of common shares for cancellation	(4,378)	-	-	-	-	(4,378)
Common share dividend	(8,208)	-	-	-	-	(8,208)
Increase/(decrease) in bank indebtedness	6,552	-	114	(15,283)	6,438	(15,283)
Increase in senior unsecured indebtedness	-	-	-	-	(17,517)	(17,517)
	(19,090)	103,619	114	(15,283)	(114,698)	(45,338)
Investing Activities:						
Purchase of securities	-	-	-	(1,592,080)	-	(1,592,080)
Proceeds from sale of securities		-	-	1,759,812	-	1,759,812
Acquisitions	8,919	-	-	(212)	(8,919)	(212)
Other	(457)	(59,835)	-	43,701	-	(16,591)
	8,462	(59,835)	-	211,221	(8,919)	150,929
Increase (decrease) in cash during the year	(5,411)	1,590	250	30,484	-	26,913
Cash, beginning of year	13,716	6,960	566	140,393	-	161,635
	$ 8,305	$ 8,550	$ 816	$ 170,877	$ -	$ 188,548

(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Statement of Cash Flows

For the six months ended June 30, 2007

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Cash provided by (used in):						
Operating Activities:						
Net income	$ 61,357	$ (38,674)	$ -	$ 75,428	$ (36,754)	$ 61,357
Adjustments to reconcile net income to net cash used by operating activities:						
Equity in undistributed earnings in subsidiaries	(68,185)	31,431	-	-	36,754	-
Other	16,889	(3,503)	-	(20,423)	-	(7,037)
	10,061	(10,746)	-	55,005	-	54,320
Financing Activities:						
Increase in share capital, net	1,047	156,545	-	-	(156,545)	1,047
Repurchase of common shares for cancellation	(6,062)	-	-	-	-	(6,062)
Common share dividend	(7,491)	-	-	-	-	(7,491)
Increase/(decrease) in bank indebtedness	11,959	-	-	94,985	-	106,944
Increase in senior unsecured indebtedness	-	-	-	-	-	-
	(547)	156,545	-	94,985	(156,545)	94,438
Investing Activities:						
Purchase of securities	-	-	-	(2,358,631)	168,017	(2,190,614)
Proceeds from sale of securities	99	-	-	2,101,312	-	2,101,411
Acquisitions	11,472	(54,085)	-	13,402	(11,472)	(40,683)
Other	(8,642)	(89,051)	-	75,271	-	(22,422)
	2,929	(143,136)	-	(168,646)	156,545	(152,308)
Increase (decrease) in cash during the year	12,443	2,663	-	(18,656)	-	(3,550)
Cash, beginning of year	3,475	3,204	-	123,027	-	129,706
	$ 15,918	$ 5,867	$ -	$ 104,371	$ -	$ 126,156