Kingsway Reports Third Quarter Loss and Provides Update on Progress

President's Message to Shareholders

On behalf of the Board of Directors, I would like to report Kingsway's financial results for the third quarter and nine months ended September 30, 2009. The report also provided shareholders with an update on the Company's progress in executing its business transformation plan. All amounts are in U.S. dollars unless indicated otherwise.

The Company reported a third quarter net loss of $118.1 million or $2.19 per share diluted. This represents a loss of $128.8 million from run-off and discontinued businesses, including a loss of $95.5 million from Lincoln General Insurance Company ("Lincoln General").

It's important to put these results in context since the losses we're reporting for the quarter have come from businesses that are not part of our ongoing operations. I believe we reached an important turning point this quarter and we are now beginning to see the evidence that our transformation plan was the right one.

The following are highlights of what the Company accomplished since the release of its second quarter results, all aligned with the Company's strategy to exit unprofitable businesses, shed non-core assets, and free up liquidity in the group:

- Disposed of Lincoln General in order to protect the longer-term interests of the Kingsway group of companies' and Lincoln General's stakeholders.
- Completed the consolidation of Kingsway General Insurance Company and JEVCO Insurance Company operations in Canada under a single "JEVCO Insurance Company" marketing brand.
- Launched the consolidated Personal Lines and Commercial Lines businesses in the U.S. under a single "Kingsway America Inc." marketing brand.
- Improved Kingsway's working capital position by selling non-core assets such as HI Holdings Inc. and its subsidiary Zephyr Insurance Company Inc. ("Zephyr"), Avalon Risk Management Inc., and real estate assets in Calgary.
- 87% of gross premiums written were generated from core lines of business (non-standard auto/motorcycle, commercial auto and surety).
- Executed the planned reinsurance repatriation and debt and share buy-back activities in order to increase capital in the operating subsidiaries.
- Reduced expenses well ahead of schedule by accelerating the expense reduction timetable, achieving $11.3 million in cost savings in the quarter.
- Eliminated an additional 240 staff positions in the quarter for a total of 850 staff reductions year to date against a target of 1,000 by the end of 2010.

Investment income was $5.8 million in the quarter, a decrease of 82% compared to the same period a year ago, which was largely due to the impact of a stronger Canadian dollar on the Company's unhedged Canadian dollar debt, as well as lower interest income from a smaller fixed-income securities portfolio.

The Company is progressing with its business transformation plan, and is on track to achieve its annualized savings by year-end 2010:

- By accelerating execution of the transformation plan, the Company has already succeeded in achieving expense reductions of $45 million for 2009 – or almost 130% of the previously disclosed $34.8 million savings target for 2009. This represents an annual run rate of $70 million.
- Year-to-date, the Company has achieved 85% (850) of the 1,000 total staff reductions target for completion by the end of 2010. Approximately 73% of these reductions were in the U.S. operation and 27% in Canada.
- Workforce reduction alone will result in $22.0 million in savings this year, and an annual run rate of $50.4 million.
- The Company remains on target to incur approximately $22 million in transition costs. One-time costs of $18.4 million have been incurred to date.

There is still a lot of work ahead for the Company, but I believe we have turned the corner and we are on track to return the group to profitability in 2010. We have spent most of this year looking behind us and addressing the legacy problems that were holding us back. Now we can begin to look forward and start building the Kingsway of the future.

Board of Directors

Kingsway further announced that Gregory P. Hannon was appointed to the Board of Directors, effective September 16, 2009. William Andrus resigned from the Board effective August 2, 2009. Robert Cassels and Walter E. Farnam resigned from the Board effective September 16, 2009. J. Brian Reeve resigned from the Board effective November 3, 2009.

Dividend

The Board of Directors has decided that a quarterly dividend will not be declared for the third quarter of 2009.

Conference Call and Webcast

An archived copy of the audio webcast can be accessed:

- Through our website at http://www.kingsway-financial.com, or
- Directly at http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=2834920.

Sincerely,

Colin Simpson
President & Chief Executive Officer
November 06, 2009

Financial Summary:

The following information throughout the Financial Summary and Management's Discussion and Analysis presents the financial results as continuing operations unless otherwise specifically stated as discontinued operations:

	Three months ended September 30:			Nine months ended September 30:		
(in millions of dollars except per share values)	2009	2008	Change	2009	2008	Change
Gross premiums written	$ 184.4	$ 335.0	(45%)	$ 658.4	$ 1,151.9	(43%)
Underwriting loss	(126.8)	(49.5)	(156%)	(263.8)	(142.5)	(85%)
Investment income	5.8	31.9	(82%)	60.7	99.1	(39%)
Net realized gains (loss)	30.5	(29.1)	205%	10.5	(24.2)	143%
Write-down of investment in subsidiary	(23.6)	-	(100%)	(23.6)	-	(100%)
Loss from continuing operations	(117.1)	(42.1)	(178%)	(213.3)	(73.2)	(191%)
Net loss	(118.1)	(17.4)	(579%)	(214.8)	(45.5)	(372%)
Diluted loss per share - continuing operations	(2.17)	(0.76)	(186%)	(3.90)	(1.32)	(195%)
Diluted loss per share - net loss	(2.19)	(0.32)	584%	(3.93)	(0.82)	(379%)
Book value per share	5.31	14.02	(62%)	5.31	14.02	(62%)
Combined ratio	153.5%	113.3%	40.2%	133.4%	112.1%	21.3%

Segmented Results

		Three months ended September 30, 2009					
(in thousands of dollars)		Canada	United States	Corporate	**Sub Total**	Run-off	**Total**
Income (loss) from continuing operations		$10,410	$ 8,812	$ (8,543)	**$ 10,679**	$(127,823)	**$(117,144)**
Add:	Restructuring charges	68	80	5,400	**5,548**	313	**5,861**
	Write-down of intangible asset	-	-	-	**-**	1,575	**1,575**
	Write-down of investment in subsidiary	-	-	-	**-**	23,613	**23,613**
	Write-down on assets held for sale	1,743	-	-	**1,743**	-	**1,743**
	Accelerated software amortization and write-offs	-	-	-	**-**	3,800	**3,800**
Less:	Employees health insurance claims reserves for 2008 year	-	3,500	-	**3,500**	-	**3,500**
	Gains on sale of securities related to commuted reinsurance arrangements	-	10,689	-	**10,689**	-	**10,689**
	Gains on buy-back of senior notes	-	6,607	-	**6,607**	-	**6,607**
Normalized income (loss) from continuing operations		$12,221	$(11,904)	$ (3,143)	**$ (2,826)**	$ (98,522)	**$(101,348)**

		Nine months ended September 30, 2009					
(in thousands of dollars)		Canada	United States	Corporate	**Sub Total**	Run-off	**Total**
Income (loss) from continuing operations		$ 6,916	$ 7,137	$ (8,447)	**$ 5,606**	$(218,898)	**$(213,292)**
Add:	Restructuring charges	954	2,431	11,330	**14,715**	3,695	**18,410**
	Write-down of intangible asset	-	-	-	**-**	1,575	**1,575**
	Write-down of investment in subsidiary	-	-	-	**-**	23,613	**23,613**
	Write-down on assets held for sale	1,743	-	-	**1,743**	-	**1,743**
	Accelerated software amortization and write-offs	-	3,200	-	**3,200**	5,800	**9,000**
Less:	Employees health insurance claims reserves for 2008 year	-	3,500	-	**3,500**	-	**3,500**
	Gains on sale of securities related to commuted reinsurance arrangements	-	10,689	-	**10,689**	-	**10,689**
	Proceeds on settlement of lawsuits	3,850	7,150	-	**11,000**	-	**11,000**
	Gains on buy-back of senior notes	-	9,254	-	**9,254**	-	**9,254**
Normalized income (loss) from continuing operations		$ 5,763	$(17,825)	$ 2,883	**$ (9,179)**	$(184,215)	**$(193,394)**

- The tables above present the Company's financial performance, showing separately the contribution of each reporting segment adjusted for items the Company considers to be non-recurring. This information is provided to show what the Company considers to be a more accurate presentation of its ongoing operations. The figures presented are from continuing operations which means that they do not include the results of York Fire Insurance Company, HI Holdings and its subsidiary Zephyr Insurance Company Inc. ("Zephyr") or Avalon Risk Management Inc. which have been or were in the process of being sold at the balance sheet date.

- The loss of $117.1 million from continuing operations for the quarter ($213.3 million year to date) arose primarily from a loss of $127.8 million in the quarter ($207.9 million year to date) in the Run-off segment. The Canadian and U.S. segments report a profit of $10.4 million and $8.8 million respectively in the quarter ($6.9 million profit and $3.8 million loss year to date respectively).

- After adjusting for what the Company considers to be non-recurring items, the normalized loss from continuing operations was $101.3 million for the quarter ($193.4 million year to date). The $15.8 million reduction in the loss ($19.9 million year to date) when compared to the loss from continuing operations is primarily due to the one-time nature of the write-down of the Company's investment in a subsidiary and the restructuring charges incurred in the Company's transformation program, partially offset by gains on the sale of securities to facilitate the commutation of internal reinsurance agreements.

- On October 19, 2009, the Company's indirect wholly owned subsidiary, Kingsway America Inc. ("KAI") donated all of the stock of its wholly owned subsidiary Walshire Assurance Company ("Walshire") to charity, and with this disposition Lincoln General Insurance Company ("Lincoln General"), a subsidiary of Walshire, ceases being a member of the Kingsway group of companies. Walshire is included in the Run-off segment and has been consolidated in the Company's financial statements as at September 30, 2009. The net loss of Walshire for the quarter was $95.5 million ($169.8 million year to date). As of the date of the disposition of Walshire, the Company is of the view that its control over Walshire and its subsidiaries, including Lincoln General was lost. Management intends that Walshire and its subsidiaries will no longer be consolidated beginning October 19, 2009.

- During the quarter, the Company entered into a definitive agreement to sell HI Holdings Inc. and its subsidiary Zephyr, wholly owned subsidiaries of KAI. The Company also sold substantially all the assets of Avalon Risk Management Inc. ("Avalon") subsequent to quarter-end. Both transactions closed in the fourth quarter of 2009. Revenue from these discontinued operations were $1.5 million ($2.4 million year to date) for the third quarter 2009 compared to $0.8 million ($1.4 million year to date) for the same quarter last year. The net loss from these discontinued operations, net of taxes was $1.0 million ($2.4 million net income year to date) in the third quarter compared to net income of $1.3 million ($4.0 million year to date) for the same quarter last year.

- During the quarter, the Company commuted all internal reinsurance agreements between Kingsway Reinsurance Corporation and its U.S. operating companies. The Company also took the steps necessary in preparation for the consolidation of the Canadian operations effective October 1, 2009 which involved the assumption by JEVCO Insurance Company of the assets and liabilities of Kingsway General Insurance Company and the commutation of all reinsurance agreements between JEVCO Insurance Company, Kingsway General Insurance Company and Kingsway Reinsurance (Bermuda) Limited.

- To facilitate the above-mentioned commutations, a significant portion of the Barbados securities portfolio was liquidated during the quarter which resulted in net realized gains of approximately $10.7 million.

- As was previously announced, management of the Company has decided that JEVCO Insurance Company will become the marketing brand in Canada. In the fourth quarter of 2009, capital has been injected into JEVCO Insurance Company to support the consolidated operations. The estimate of JEVCO Insurance Company's MCT as at October 1, 2009 on a pro-forma basis meets the target ratio of 243% agreed with the Office of the Superintendent of Financial Institutions ("OSFI") prior to the transaction being approved. Subsequent to the balance sheet date, all of Kingsway General Insurance Company's insurance licenses have been surrendered.

- Gross premiums written for the Canadian operating segment decreased by 20% for the quarter to $73.3 million (23% to $222.5 million year to date) from $91.5 million in the third quarter last year ($290.6 million prior year to date). The U.S. operating segment reported a decrease in premiums of 21% for the quarter to $82.2 million (19% to $299.3 million year to date) from $103.7 million in the third quarter last year ($371.4 million prior year to date). The Run-off operating segment reported a decrease in premiums of 79% for the quarter to $28.9 million (72% to $136.6 million year to date) from $139.8 million in the third quarter last year ($489.9 million prior year to date). The significant reduction in premium volume across all segments is a reflection of the Company's strategy of discontinuing unprofitable lines of business, primarily within its commercial lines as well as the K-Plus program in Canada.

- As a result of the Company re-focusing its efforts on core, profitable lines of business, non standard automobile and motorcycle premiums for the nine months to September 30, 2009 were $454.0 million or 69% of the total gross premiums written compared to $610.7 million or 53% of gross premiums written in the same period last year.

- The net adverse reserve development recorded in the quarter totaled $81.6 million, of which $84.1 million related to the Run-off segment and $4.8 million related to the ongoing U.S. operations. Unfavourable development in the Run-off and U.S. operating segments were partially offset by favourable development of $7.3 million in the ongoing Canadian operations.

- The Company has incurred restructuring costs of $5.9 million in the quarter ($18.4 million year to date) as a result of implementing the transformation plan announced in the first quarter of 2009. Of the total restructuring costs, severance costs associated with the Company's corporate restructuring plan account for $1.6 million in the quarter ($9.3 million year to date).

- Investment income, excluding net realized gains was $5.8 million compared to $31.9 million for the same quarter of 2008, an 82% decrease. This decline is due primarily to a loss of approximately $12.7 million from the impact of the strengthening of the Canadian dollar on the Company's unhedged Canadian dollar debt as well as from lower interest income from lower yields on a smaller portfolio.

- General and Administrative expenses decreased 17% to $47.7 million in the third quarter of 2009 from $57.3 million in the same quarter last year (19% to $135.3 million from $166.5 million for the year to date). The decrease in the quarter and year to date is primarily due to the impact of the transformation program which has produced savings, the largest being approximately $10.7 million ($15.8 million year to date) related to reduced headcount. Also contributing to the decrease in General and Administrative expenses in the quarter and year to date are reduced legal fees following the settlement in the second quarter of two lawsuits. The year-to-date expenses include the proceeds of $11.0 million on the settlement of these lawsuits. Also in the third quarter, the Company recognized the reversal of a previously recorded $3.5 million reserve for employee health insurance claims. The savings described above have been partially offset by the costs associated with the transformation program.

- As at September 30, 2009, the book value per share was $5.31 compared to $8.24 as at December 31, 2008.

Kingsway Financial Services Inc.'s Management Discussion and Analysis

The following management's discussion and analysis ("MD&A") should be read in conjunction with: (i) the Kingsway Financial Services Inc.'s ("Kingsway" or the "Company") unaudited interim consolidated financial statements for the third quarter of fiscal 2009, and the notes related thereto; (ii) the annual MD&A for fiscal 2008 set out on pages 9 to 54 in the Company's 2008 Annual Report, including the section on risk factors; and (iii) the audited consolidated financial statements for fiscal 2008 set out on pages 61 to 104 of the Company's 2008 Annual Report, and the notes related thereto.

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 106 of the 2008 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.

Date of MD&A

Unless otherwise noted, the information contained in this MD&A is based on information available to management as of November 6, 2009.

RESULTS OF CONTINUING OPERATIONS

Premiums

(in millions of dollars)	Three months ended September 30:			Nine months ended September 30:		
	2009	2008	Change	2009	2008	Change
Gross premiums written						
Canada	$ 73.3	$ 91.5	(20%)	$ 222.5	$ 290.6	(23%)
U.S.	82.2	103.7	(21%)	299.3	371.4	(19%)
Run-off	28.9	139.8	(79%)	136.6	489.9	(72%)
Total	$ 184.4	$ 335.0	(45%)	$ 658.4	$ 1,151.9	(43%)
Net premiums written						
Canada	$ 69.4	$ 99.5	(30%)	$ 221.8	$ 319.0	(30%)
U.S.	82.2	106.5	(23%)	326.9	368.4	(11%)
Run-off	18.2	112.4	(84%)	94.9	418.0	(77%)
Total	$ 169.8	$ 318.4	(47%)	$ 643.6	$ 1,105.4	(42%)
Net premiums earned						
Canada	$ 85.6	$ 109.4	(22%)	$ 242.0	$ 294.9	(18%)
U.S.	100.1	121.3	(17%)	332.4	363.5	(9%)
Run-off	51.2	140.3	(64%)	215.6	521.3	(59%)
Total	$ 236.9	$ 371.0	(36%)	$ 790.0	$ 1,179.7	(33%)

Gross premiums written for the Canadian operating segment decreased by 20% for the quarter to $73.3 million (23% to $222.5 million year to date) from $91.5 million in the third quarter last year ($290.6 million prior year to date). The U.S. operating segment reported a decrease in premiums of 21% for the quarter to $82.2 million (19% to $299.3 million year to date) from $103.7 million in the third quarter last year ($371.4 million prior year to date). The Run-off operating segment reported a decrease in premiums of 79% for the quarter to $28.9 million (72% to $136.6 million year to date) from $139.8 million in the third quarter last year ($489.9 million prior year to date). The significant reduction in premium volume across all segments in a reflection of the Company's strategy of discontinuing unprofitable lines of business, primarily within its commercial lines as well as the K-Plus program in Canada.

The Canadian segment accounted for 40% of gross premiums for the quarter (34% year to date), while the U.S. segment accounted for 45% for the quarter (45% year to date) and Run-Off 15% for the quarter (21% year to date).

The Company reported decreases in certain major lines across the group. Non standard auto including motorcycle, trucking and commercial auto decreased by 26%, 94% and 47% respectively for the year to date compared to the same period last year reflecting the Company's decision to terminate unprofitable business and exit certain commercial lines of business. Non standard auto including motorcycle has emerged as the Company's primary line of business, accounting for 69% of gross premiums written for the year to date compared to 53% last year. The proportion of trucking and commercial auto premiums as a percent of the Company's total gross premiums written have declined to 2% and 13% respectively compared to 18% and 14% respectively last year.

Investment Income

	Three months ended September 30:			Nine months ended September 30:		
(in millions of dollars)	2009	2008	Change	2009	2008	Change
Investment income	$ 5.8	$ 31.9	(82%)	$ 60.7	$ 99.1	(39%)

Investment income in the quarter was $5.8 million, an 82% decrease compared to the same period last year (decreased 39% to $60.7 million year to date). The primary reason for this decrease in the quarter is a loss of approximately $12.7 million from the impact of the strengthening Canadian dollar on the Company's unhedged Canadian dollar denominated debt. Also contributing to the decrease is the reduction in interest income from lower yields as a result of a significant drop in short term interest rates in Canada and in the U.S. and from the duration and risk profile of the portfolio having been reduced. A smaller fixed income securities portfolio in the U.S. as a result of certain lines of business being put into voluntary run-off has also contributed to the lower interest income in the quarter. For a more detailed analysis of investment income see Note 7 to the Consolidated Financial Statements.

The cost based yield on the fixed income portfolio decreased to 3.2% compared to 4.4% for the same quarter last year. The cost based yield represents the total interest income before expenses divided by the average amortized cost base of fixed income securities, including cash, held in the portfolio during the period. The lower yield is due to a reduction in duration and risk profile of the portfolio during the quarter and the reinvestment of maturing securities in a lower interest rate environment. The yield has also been adversely impacted by the higher than normal cash balance during the quarter to facilitate related party reinsurance transactions.

Net Realized Gains (Losses)

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

	Three months ended September 30:			Nine months ended September 30:		
(in millions of dollars)	2009	2008	Change	2009	2008	Change
Fixed income	$ 31.8	$ (0.3)	10700%	$ 34.7	4.3	707%
Write-down of assets held for sale	(1.7)	-	-	(1.7)	-	-
Equities	0.5	(5.9)	108%	(17.4)	12.2	(243%)
Impairments	(0.1)	(22.9)	100%	(5.1)	(40.7)	87%
Total	$ 30.5	$ (29.1)	205%	$ 10.5	$ (24.2)	143%

For the three months ended September 30, 2009, sales from the securities portfolio, the write-down of assets held for sale and the write-down of securities that are considered to be other than temporarily impaired resulted in a net realized gain of $30.5 million ($10.5 million year to date) compared to a net realized loss of $29.1 million for the three months ended September 30, 2008 ($24.2 million year to date).

Net realized gains on the sale of fixed income securities amounted to $31.8 million for the three months ended September 30, 2009 ($34.7 million year to date) compared to a net realized loss of $0.3 million for the same period last year (gain of $4.3 million year to date). Net realized gains in the current quarter arose due to a rebalancing of the fixed income portfolio and from the liquidation of securities in Bermuda and Barbados to facilitate the related party reinsurance commutation transactions. During the quarter, longer duration securities and lower credit securities were sold to better match the expected cash flow needs of our lines of business now in run-off and to reduce the risk profile and potential volatility of the portfolio.

The write-down of assets held for sale relates to an adjustment to fair market value of the Company's head office building in Mississauga, Ontario. The amount of the write-down represents the difference between the carrying value and the value per the contract for sale.

As was previously announced, the Company elected to dispose of virtually all of its common share equities during the first quarter of 2009. In addition to the $91.9 million impairment charge on the common share equity portfolio taken in the fourth quarter of 2008, the liquidation resulted in a realized loss of $18.2 million in the first quarter of 2009. This decision to liquidate the equity portfolio as well as the sale by the Company in the second and third quarters of securities considered to be of a higher credit risk than desired, has removed from the securities portfolio substantially all securities believed to be other than temporarily impaired. Consequently, the value of securities considered to be other than temporarily impaired as at September 30, 2009 is $0.1 million.

Underwriting Results (excluding Corporate)

	Three months ended September 30:			Nine months ended September 30:		
(in millions of dollars)	2009	2008	Change	2009	2008	Change
Underwriting profit (loss)						
Canada	$ 2.9	$ (3.2)	190.6%	$ (16.5)	$ (34.1)	51.6%
U.S.	(13.7)	(20.4)	32.8%	(31.8)	(20.1)	(58.2%)
Run-off	(114.7)	(31.1)	(268.8%)	(211.2)	(103.0)	(105.0%)
Total	$ (125.5)	$ (54.7)	(129.4%)	$ (259.5)	$ (157.2)	(65.1%)
Combined ratio						
Canada	96.6%	103.0%	(6.4%)	106.8%	111.5%	(4.7%)
U.S.	113.7%	116.8%	(3.1%)	109.6%	105.6%	4.0%
Run-off	324.0%	122.2%	201.8%	197.9%	119.7%	78.2%
Total	152.9%	114.8%	38.1%	132.9%	113.4%	19.5%
Expense ratio						
Canada	39.3%	38.9%	0.4%	35.9%	41.0%	(5.1%)
U.S.	28.3%	36.4%	(8.1%)	29.9%	34.0%	(4.1%)
Run-off	63.3%	34.5%	28.2%	48.0%	32.2%	15.8%
Total	39.8%	36.4%	3.4%	36.7%	35.0%	1.7%
Loss ratio						
Canada	57.3%	64.1%	(6.8%)	70.9%	70.5%	0.4%
U.S.	85.4%	80.4%	5.0%	79.7%	71.6%	8.2%
Run-off	260.7%	87.7%	173.0%	149.9%	87.5%	62.4%
Total	113.1%	78.4%	34.7%	96.2%	78.4%	17.8%

Underwriting profit for the Canadian operating segment was $2.9 million for the quarter compared to an underwriting loss of $3.2 million in the third quarter of 2008 (a loss of $16.5 million for the year to date compared to $34.1 for the same period last year). The underwriting profit for the quarter is primarily a result of favourable reserve development of $7.3 million. The underwriting loss for the U.S. operating segment was $13.7 million for the quarter compared to $20.4 million in the third quarter of 2008 ($31.8 million for the year to date compared to $20.1 for the same period last year). The underwriting loss for the quarter is attributable to unfavourable reserve development of $4.8 million and increases to expected loss ratios on the current accident year based upon revised indications of ultimate expected loss payments. The underwriting loss for the Run-off segment was $114.7 million for the quarter compared to $31.1 million in the third quarter of 2008 ($211.2 million for the year to date compared to $103.0 for the same period last year). The underwriting loss for the quarter is primarily a result of unfavourable reserve development of $84.1 million, primarily at Lincoln General.

Adverse Development on Unpaid Claims

	Three months ended September		Nine months ended September	
(in millions of dollars)	2009	2008	2009	2008
Favourable (unfavourable) change in estimated unpaid claims for prior accident years (note 1):				
Canada	$ 7.3	$ (1.6)	$ (0.2)	$ (6.2)
U.S.	(4.8)	(3.0)	(11.3)	6.1
Run-off	(84.1)	(9.2)	(149.3)	(78.7)
Total	$ (81.6)	$ (13.8)	$ (160.8)	$ (78.8)
As a % of net premiums earned (note 2):				
Canada	(8.5%)	1.4%	0.1%	2.1%
U.S.	4.8%	2.5%	3.4%	(1.7%)
Run-off	164.3%	6.6%	69.3%	15.1%
Total	34.5%	3.7%	20.4%	6.7%
As a % of unpaid claims (note 3):				
Canada			0.1%	0.9%
U.S.			3.2%	(0.5%)
Run-off			13.9%	6.6%
Total			5.8%	3.5%

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

The Canadian operations experienced estimated favourable unpaid claims development of $7.3 million for the quarter (unfavourable unpaid claims of $0.2 million year to date) resulting in a decrease of 8.5% to the Canadian operations combined ratio for the quarter (increase of 0.1% year to date) compared to unfavourable unpaid claims development of $1.6 million for the third quarter last year ($6.2 million year to date).

The U.S. operations experienced estimated net unfavourable unpaid claims development of $4.8 million for the quarter ($11.3 million year to date) resulting in an increase of 4.8% to the U.S. operations combined ratio for the quarter (3.4% year to date) compared with estimated net unfavourable unpaid claims development of $3.0 million in the same quarter (favourable unpaid claims development $6.1 million year to date) last year.

The business in run-off experienced estimated net unfavourable unpaid claims development of $84.1 million for the quarter ($149.3 million year to date) resulting in an increase of 164.3% to the Run-off business combined ratio for the quarter (69.3% year to date) compared with estimated net unfavourable unpaid claims development of $9.2 million in the same quarter ($78.7 million year to date) last year.

Expenses

The expense ratio excluding corporate, increased to 39.8% in the quarter (37.2% year to date) compared to 36.4% for the same quarter (35.0% year to date) last year. Costs included in the expense ratio are commissions, premium taxes, general and administration expenses and restructuring costs. Commissions as a percent of net premium earned have decreased for the quarter and year to date compared to the same periods last year due to the significant change in mix of business. The impact of the decline in commissions on the expense ratio is more than offset by the impact of general and administration expenses which have also declined but at a slower pace than the reduction in net premium earned.

General & Administrative expenses decreased 17% to $47.7 million in the third quarter of 2009 from $57.3 million in the same quarter last year (19% to $135.3 million from $166.5 million for the year to date). The decrease in the quarter and year to date is primarily due to the impact of the transformation program which has produced savings, the largest being approximately $10.7 million ($15.8 million year to date) related to reduced headcount. Also contributing to the decrease in General and Administrative expenses in the quarter and year to date are reduced legal fees following the settlement in the second quarter of two lawsuits. The year-to-date expenses include the proceeds of $11.0 million on the settlement of these lawsuits. Also in the quarter, the Company recognized the reversal of a previously recorded $3.5 million reserve for employee health insurance claims. The savings described above have been partially offset by the costs associated with the transformation program which are $5.9 million in the quarter ($18.4 million year to date).

Interest Expense

Interest expense in the third quarter of 2009 decreased to $5.8 million ($18.0 million year to date) compared to $9.3 million for the third quarter of 2008 ($28.1 million year to date) as a result of the repayment of all short term bank debt in 2008 and the debt buy-back in 2009.

Gain on Buy-Back of Senior Notes

During the quarter Kingsway America Inc. and Kingsway 2007 General Partnership purchased and cancelled $16.5 million ($21.1 million year to date) face value of its senior unsecured debentures for $9.9 million ($11.8 million year to date) recording a gain of $6.6 million ($9.3 million year to date).

Income Taxes

Income tax recovery on continuing operations for the third quarter was $3.3 million ($26.4 million year to date) compared with an income tax recovery of $17.4 million for the same quarter last year ($32.3 million year to date). An increase in the valuation allowance of $32.8 million was recorded in the quarter ($40.4 million year to date).

Income (Loss) from Continuing Operations and Earnings (Loss) Per Share – Continuing Operations

In the third quarter, the Company reported a loss from continuing operations of $117.1 million ($213.3 million year to date), compared to loss from continuing operations of $42.1 million in the third quarter of last year ($73.2 million year to date). Diluted loss per share was $2.17 for the quarter ($3.90 year to date) compared to diluted loss per share of $0.76 for the third quarter of 2008 (diluted loss per share of $1.32 year to date).

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

In the third quarter, the Company reported a net loss of $118.1 million ($214.8 million year to date), compared to net loss of $17.4 million in the third quarter of last year ($45.5 million year to date). Diluted loss per share was $2.19 for the quarter ($3.93 year to date) compared to diluted loss per share of $0.32 for the third quarter of 2008 (diluted loss per share of $0.82 year to date).

Balance Sheet

The table below shows a review of selected categories from the balance sheet reported in the financial statements as at September 30, 2009 compared to December 31, 2008.

	As at		
(in millions of dollars except per share values)	September 30, 2009	December 31, 2008	Change
Assets			
Cash and cash equivalents	509.1	96.3	428.7%
Securities	1,758.3	2,319.4	(24.2%)
Accounts receivable and other assets	188.2	275.7	(31.7%)
Income taxes recoverable	29.0	20.3	42.9%
Future income taxes	12.1	21.9	(44.7%)
Capital assets	60.7	60.8	(0.2%)
Goodwill and intangible assets	51.5	63.9	(19.4%)
Assets held for sale	129.9	117.4	10.6%
Liabilities			
Provision for loss on investment in subsidiary	23.6	-	0.0%
Unearned premiums	372.2	500.0	(25.6%)
Unpaid claims	1,888.3	1,879.0	0.5%
Senior unsecured debentures	175.7	185.2	(5.1%)
Liabilities held for sale	57.5	48.4	18.8%
Shareholders' Equity			
Book value per share	5.31	8.24	(36%)

Cash:
The cash balance increased to $509.1 million as at September 30, 2009 compared to $96.3 million as at December 31, 2008. This increase is primarily due to the liquidation of securities in the Barbados captive reinsurance portfolio to facilitate the related party reinsurance commutations which occurred around the balance sheet date. Substantially all of the cash has been reinvested in the fourth quarter in a combination of government securities and high quality corporate bonds.

Securities:
The fair value of the securities portfolio decreased 24.2% to $1.8 billion, compared to $2.3 billion as at December 31, 2008. This decrease is primarily due to the temporary liquidation around the balance sheet date of a portion of the portfolio to effect the commutation of internal reinsurance arrangements. Also contributing to the decline is lower premium volumes throughout the group, particularly at Lincoln General. Partially offsetting these factors are an appreciation of the market value of the securities in the portfolio and the impact of a stronger Canadian dollar at the balance sheet date on the conversion of the Canadian dollar portfolio to U.S. dollars.

As previously announced, the Company elected to dispose of virtually all of its common share equities during the first quarter of 2009 in order to reduce volatility of the balance sheet and protect the Company's capital. The common share equity portfolio was substantially disposed of during the first quarter and proceeds were reinvested in high quality fixed income securities. As at September 30, 2009, the fair value of the common share equity portfolio was $5.2 million. These common share equity holdings are being monitored in the context of the risk profile of the total portfolio.

As at September 30, 2009, 91.9% of the fixed income portfolio is rated 'A' or better. For a quantitative analysis of the credit exposure of the Company from its investment in fixed income securities and term deposits by rating as assigned by S&P or Moody's Investor Services see Note 8 to the financial statements.

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:

(All amounts in U.S. dollars except where noted)

	Canadian Operations	U.S. Operations	Total
Due in less than one year	3.9%	25.9%	15.5%
Due in one through five years	42.9%	45.4%	44.3%
Due in five through ten years	51.9%	12.2%	30.8%
Due after ten years	1.3%	16.5%	9.4%
Total	100.0%	100.0%	100.0%

There were net unrealized gains of $52.7 million on the total securities portfolio at September 30, 2009 which is included as a component of "accumulated other comprehensive income", as compared to net unrealized gains of $32.4 million outstanding at December 31, 2008.

For a quantitative analysis of the impact to the fair value of the fixed income portfolio of a change in interest rates, see Note 8 to the financial statements.

As at September 30, 2009, 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 $0.5 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities. As at September 30, 2009, these securities had an aggregate net unrealized loss of $nil.

Accounts receivable and other assets:
The reduction in accounts receivable is primarily a result of declining premiums written due to termination of lines of business.

Income taxes recoverable:
Income taxes recoverable increased primarily as a result of Canadian operations continuing losses experienced in the quarter.

Future income taxes:
Future income taxes have decreased due to a valuation allowance recorded during the year and due to the enactment of tax legislation relating to investments.

The valuation allowance increased $32.8 million in the current quarter and by $40.4 million for the year to date. This allowance has been established as a result of the continued losses of the U.S. operations. Uncertainty over the Company's ability to utilize these losses over the short term has led to the Company recording the additional allowance.

As a result of the enactment of tax legislation a $6.6 million decrease in the future income tax balance was recorded.

Goodwill and intangible assets:
Goodwill and intangible assets has decreased by $12.4 million or 19.4% since the end of last year mainly as a result of the accelerated amortization of computer software in certain U.S. subsidiaries and amortization of intangible assets.

Assets held for sale:
Assets held for sale consist of all of the assets of Zephyr, the capital assets of Avalon and the Canadian real estate properties.

Provision for loss on investment in subsidiary:
As a result of the disposition of Walshire for $nil proceeds subsequent to the balance sheet date, the Company has recorded a provision against the net assets of Walshire as at September 30, 2009 ($13.6 million) and has recorded a provision for the $10 million cash commitment to Lincoln General. For further details see Note 4 to the interim financial statements.

Unearned premiums:
Unearned premiums decreased 25.6% since December 31, 2008 as a result of lower written premiums.

Liabilities held for sale
Liabilities held for sale consist of all the liabilities of Zephyr.

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	September 30, 2009	December 31, 2008
Non – Standard Automobile	$ 520.5	$ 489.3
Standard Automobile	2.5	1.7
Commercial Automobile	223.0	217.8
Trucking	590.7	657.4
Motorcycle	135.1	118.1
Property & Liability	301.3	317.4
Other	115.2	77.3
Total	$ 1,888.3	$ 1,879.0

The provisions for unpaid claims increased by 0.5% to $1.89 billion at the end of the third quarter compared to $1.88 billion at the end of 2008. The increase is a result of reserve strengthening during the year as well as the impact of the stronger Canadian dollar on unpaid claims of the Canadian operations when reported in U.S. dollars. These factors have been partially offset by the run-off of certain lines of business.

The provision for unpaid claims includes case reserves for individual claims of $1.12 billion ($1.05 billion at December 31, 2008) and a provision for Incurred But Not Reported ("IBNR") claims which decreased 6.9% to $770.6 million ($828.1 million at December 31, 2008).

Book value per share:
Book value per share decreased by 39% to $5.31 at September 30, 2009 from $8.24 at December 31, 2008 as a result of the diluted loss per share of $3.93 and the increase of $38.2 million in the "Accumulated other comprehensive income" component of shareholders' equity.

Contractual Obligations

Information concerning contractual maturities of financial instruments as at September 30, 2009 is shown in Note 8 of the financial statements. For further details on the Company's long term debt and interest obligations, refer to Note 20 of the Company's 2008 audited consolidated financial statements and pages 35 to 40 of the 2008 Annual Report which sets out the Company's contractual obligations as at December 31, 2008.

On June 29, 2009, Kingsway and Lincoln General entered into a consulting agreement with an external run-off manager to provide certain consulting services relating to Lincoln General, including advice and assistance in the development of a Run-off Plan. In addition to base compensation of $1.3 million annually, the agreement provides for a minimum of $2.5 million to be paid to the Run-off Manager at the termination of the contract (provided the contract is not terminated for cause), which, at the latest will be March 1, 2014. As Lincoln General was disposed of subsequent to the balance sheet date, the Company has accrued $6.1 million for the base compensation and additional compensation as at September 30, 2009.

Liquidity and Capital Resources

During the three and nine months ended September 30, 2009, the cash used in operating activities were $59.9 million and $246.4 million, respectively. The Company's insurance subsidiaries fund their obligations primarily through the premium and investment income and maturities in the securities portfolio.

Certain debentures issued by the Company contain negative covenants in their trust indentures, placing limitations and restrictions over certain actions without the prior written consent of the indenture trustees. Included in the negative covenants is the limitation on the incurrence of additional debt in the event that the total debt to total capital ratio or the senior debt to total capital ratio exceed 50% and 35%, respectively. The total debt is calculated on a pro-forma basis taking into account the issuance of additional debt. The debentures also include covenants limiting the issuance and sale of voting stock of restricted subsidiaries, the payment of dividends or any other payment in respect of capital stock of the Company, or the retirement of debt subordinate to the debentures covered by the trust indentures if, after giving effect to such payments as described in the trust indentures, the total debt to total capital ratio exceeds 50%.

As at September 30, 2009 the Company's total debt to capital and senior debt to capital ratios were 55.4% and 41.1% respectively. As a result, the limitations and restrictions described above are currently applicable. The Board of Directors is considering alternatives to reduce these ratios to remove the limitations and restrictions in place.

As a holding company, Kingsway derives cash from its subsidiaries generally in the form of dividends and management fees to meet its obligations, which primarily consist of dividend and interest payments. The Company believes that it has the flexibility to obtain the funds needed to fulfill its cash requirements and also to satisfy regulatory capital requirements over the next twelve months. The operating insurance subsidiaries require regulatory approval for the return of capital and, in certain circumstances, prior to the payment of dividends. In the event that dividends and management fees available to Kingsway are inadequate to service its obligations, the Company would need to raise capital, sell assets or restructure its debt obligations.

On June 26, 2009, KFS Capital LLC, an indirect wholly-owned subsidiary of Kingsway, commenced a take-over bid (the "KLROC Offer") to acquire up to 1,000,000 preferred, retractable, redeemable, cumulative units of Kingsway Linked Return of Capital Trust at a price per unit of C$12.00 in cash. The KLROC Offer expired on Tuesday, August 4, 2009 and 694,015 units were tendered. This tender was paid for using available cash.

Kingsway 2007 General Partnership, an indirect wholly-owned subsidiary of Kingsway announced on July 14, 2009 the commencement of a modified "Dutch Auction" tender offer (the "2012 Offer") for a portion of its outstanding Unsecured 6% Debentures due July 11, 2012 (the "2012 Debentures"). The 2012 Offer provided for a cash purchase of 2012 Debentures at a price per C$1,000 principal amount of debentures of not less than C$540 and not greater than C$620, for a maximum aggregate purchase price to the offeror not to exceed C$31 million (excluding accrued and unpaid interest). The 2012 Offer expired Friday, August 14, 2009 with valid tenders (that were not withdrawn) of C$9,174,000 in aggregate principal amount of Debentures. Kingsway 2007 General Partnership accepted for purchase all such tendered Debentures at the highest price specified of C$620 per C$1,000 principal amount. This tender was paid for using available cash.

Subsequent to the balance sheet date the Company repaid in full a $6.9 million mortgage, on a property.

Kingsway announced on July 29, 2009 an amendment to its normal course issuer bid for common shares had been approved by the Toronto Stock Exchange ("TSX"). The normal course issuer bid was originally announced by Kingsway on November 28, 2008. Purchases under the normal course issuer bid from December 2, 2008 to December 1, 2009 were limited to 2,753,426 common shares (or approximately 5% of the aggregate number of common shares outstanding on November 15, 2008). Purchases under the normal course issuer bid, as amended, are now limited to 5,386,545 common shares, or 10% of the public float on November 28, 2008. Purchases under the normal course issuer bid, as amended, will terminate on December 1, 2009. To date 3,394,800 shares have been repurchased under the current normal course issuer bid at an average price of C$3.76.

The Capital Committee of Kingsway's board of directors has recommended that capital allocated to the Capital Committee for its $40 million capital initiative that was announced in May 2009 that remains unused following the expiry of: (i) the modified "Dutch Auction" tender offer for a portion of its outstanding Unsecured 6% Debentures due July 11, 2012, and (ii) the expiry of the take-over bid for units of the Kingsway Linked Return of Capital Trust, be applied to the repurchase of Kingsway common shares pursuant to the Company's normal course issuer bid.

As at September 30, 2009, of the $40 million authorized by the Board of Directors to repurchase debt and equity of the Company, approximately $31.8 million has been used.

As at September 30, 2009 the Company was adequately capitalized to support the premium volume of the insurance subsidiaries.

In Canada, JEVCO Insurance Company is regulated by the OSFI and Kingsway General Insurance Company is regulated by the Financial Services Commission of Ontario ("FSCO"). OSFI and FSCO expect each institution to maintain ongoing capital at no less than the supervisory target Minimum Capital Test ("MCT") of 150% and may establish, in consultation with an institution, an alternative supervisory target level based upon an individual institution's risk profile. As at September 30, 2009 the MCTs of JEVCO Insurance Company and Kingsway General Insurance Company were 239% and 210% respectively. As at September 30, 2009 the Canadian insurance companies have aggregate capital of approximately $60.2 million in excess of the 150% level.

As was previously announced, management of the Company has decided that JEVCO Insurance Company will become the marketing brand in Canada. Effective October 1, 2009 JEVCO Insurance Company assumed the assets and liabilities of Kingsway General Insurance Company and all intercompany reinsurance agreements between JEVCO Insurance Company, Kingsway General Insurance Company and Kingsway Reinsurance (Bermuda) Limited were commuted. In addition, capital has been injected into JEVCO insurance Company to support the consolidated operations. The estimate of JEVCO Insurance Company's MCT as at October 1, 2009 on a pro-forma basis meets the target ratio of 243% agreed with OSFI prior to the transaction being approved. Subsequent to the balance sheet date, all of Kingsway General Insurance Company's insurance licenses have been surrendered.

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 September 30, 2009, all U.S. subsidiaries, with the exception of Lincoln General, are estimated to be above the required RBC levels, with RBC ratio estimates ranging between 286% and 37,410%, and have estimated aggregate capital (excluding Lincoln General) of approximately $106.9 million in excess of the 200% level.

As a result of Lincoln General's RBC level as at December 31, 2008, the Pennsylvania Insurance Department was required to conduct an examination and issue an order outlining corrective action to be taken. Further, under Pennsylvania law, Lincoln General may be deemed to be operating in a financially hazardous condition based on its financial statements at December 31, 2008. As a result, the Pennsylvania Insurance Department has the power to take a variety of regulatory actions, including but not limited to department supervision, and the seeking of a court order of rehabilitation or liquidation if it determines that Lincoln General's condition is such that the further transaction of business would be hazardous, financially, to its policyholders, creditors or the public.

As part of a plan developed by management, Lincoln General has initiated running off its book of business and, accordingly, management has ceased writing new or renewal business, except where otherwise required by law or pre-existing contractual obligations, and has initiated mid-term cancellations in certain lines of business. As at December 31, 2008, Lincoln General had statutory admitted assets of $386.7 million, liabilities of $307.5 million, and statutory capital and surplus of $79.2 million. On March 11, 2009, Lincoln General entered into a letter agreement with the Pennsylvania Insurance Department (the Department) that provides for increased supervisory oversight by the Department including but not limited to increased reporting and Department approval of non-routine matters including transfers or pledges of assets, extension of loans, incurring of debt, increases in salaries, payments of bonuses to officers and directors, and consummation of material transactions.

On October 19, 2009, the Company announced that its indirect wholly owned subsidiary, Kingsway America Inc. ("KAI"), has disposed of its entire interest in KAI's wholly owned subsidiary Walshire Assurance Company ("Walshire"). Walshire is the sole shareholder of Lincoln General. All of the stock of Walshire has been donated to charity, and with this disposition Lincoln General ceases being a member of the Kingsway group of companies. As of the date of the disposition of Walshire, the Company is of the view that its control over Walshire and its subsidiaries, including Lincoln General was lost. Management intends that Walshire and its subsidiaries will no longer be consolidated beginning October 19, 2009.

The Company is of the view that the extent of its obligations in connection with Walshire and its subsidiaries are the payment of a $10 million cash contribution to Lincoln General; continued compliance with a run-off management agreement, including certain continued support to the run-off management team at Lincoln General; and continuing guarantee and reinsurance obligations to inter-Company and third party insurance providers in respect of certain Lincoln General obligations.

As part of the ongoing transformation program, during the second quarter the Company began terminating all related party reinsurance treaties. As at September 30, 2009, all treaties between Kingsway Reinsurance Corporation and the U.S. operating companies have been commuted. As noted above, treaties between the Canadian operating companies and Kingsway Reinsurance (Bermuda) Limited were commuted effective October 1, 2009. This initiative has resulted in increased capital in our operating companies and it has released excess capital from the captive reinsurers to be used for corporate purposes.

As at September 30, 2009, following the commutation of all intercompany reinsurance treaties between Kingsway Reinsurance Corporation and the Company's U.S. operating subsidiaries, a significant portion of the remaining capital at Kingsway Reinsurance Corporation was repatriated. A portion of this capital was re-deployed directly into the U.S. operating subsidiaries and a portion was held at the parent company for corporate purposes. The regulatory capital remaining in Kingsway Reinsurance Corporation following the commutation of all related party reinsurance treaties is below the amount required under the Insurance Act of Barbados where Kingsway Reinsurance Corporation is domiciled. The Company considers this situation to be temporary as the calculation of the minimum capital required is based upon the premiums of the previous calendar year when the level of underwriting activity was significantly greater than those of the ongoing Barbados operation. This situation has been communicated to the Office of the Supervisor of Insurance in Barbados which has accepted the Company's commitment to resolve the shortfall in early 2010. At that time, the Company believes that the capital available will exceed the capital required with no additional capital required.

As at September 30, 2009, the capital maintained by Kingsway Reinsurance (Bermuda) Limited was approximately $28.6 million in excess of the regulatory capital requirements in Bermuda. Subsequent to the balance sheet date, a significant portion of the capital was removed as part of the consolidation of the Canadian operations.

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 20(d) of the 2008 audited consolidated annual financial statements and on page 39 of the 2008 Annual Report. The Company has one other off-balance sheet financing arrangement as described on page 39 of the 2008 Annual Report.

Critical accounting estimates and assumptions

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. The year-to-date results of the Company reflect management's judgments regarding the impact of prevailing global credit, and equity market conditions. Given the uncertainty surrounding the continued volatility in these markets, and the general lack of liquidity in financial markets, the actual financial results could differ from those estimates.

There are no new critical accounting estimates or assumptions compared to the information provided in the annual MD&A, as described on page 42 of the 2008 Annual Report.

Related Party Transactions

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

In March 2009, the Company obtained a financing facility from a related party to allow for specific capital initiatives. The facility was at fair market terms and conditions. As at September 30, 2009, the facility was undrawn, expired and has been terminated. In the fourth quarter, a new facility has been obtained from the same related party. This new facility is at fair market terms and conditions.

The Company has engaged the services of a company owned by a former director and paid $0.8 million for the nine month period ended September 30, 2009.

In addition to a previously agreed retainer of C$0.1 million, the Board of Directors has decided to pay an additional $0.4 million and C$0.1 million to the Chairman of the Board. Of these amounts, the Company has paid $0.2 million and C$0.1 million as at September 30, 2009.

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 publicly-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. The Company has begun assessing the adoption of IFRS for 2011, which is more fully described on pages 43 and 44 of the 2008 Annual Report.

Disclosure of Outstanding Share Data

As at September 30, 2009, the Company had 51,673,728 common shares outstanding and there have been no changes up to the reporting date.

Summary of Quarterly Results

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

(in millions of dollars except per share values)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Gross premiums written	184.4	$ 232.7	$ 241.4	$ 242.6	$ 335.1	$ 402.6	$ 414.1	$ 403.0
Net premiums earned	236.9	269.5	283.5	305.7	371.0	395.4	412.7	433.4
Total revenue	273.1	297.6	290.4	218.8	373.7	438.0	442.9	481.9
Loss from continuing operations	(117.1)	(39.3)	(56.9)	(357.5)	(42.1)	5.2	(36.3)	(103.7)
Net income (loss)	(118.1)	(38.4)	(58.3)	(360.4)	(17.4)	6.3	(34.4)	(103.5)
Earnings (loss) per share - continuing operations								
Basic	(2.17)	(0.71)	(1.03)	(6.49)	(0.76)	0.09	(0.66)	(1.87)
Diluted	(2.17)	(0.71)	(1.03)	(6.49)	(0.76)	0.09	(0.66)	(1.87)
Earnings (loss) per share - net income (loss)								
Basic	(2.19)	(0.70)	(1.06)	(6.53)	(0.32)	0.11	(0.62)	(1.86)
Diluted	(2.19)	(0.70)	(1.06)	(6.53)	(0.32)	0.11	(0.62)	(1.86)

Supplementary Financial Information from Continuing Operations

Financial Strength Indicators:

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

	September 30, 2009	December 31, 2008
Rolling four quarter calculations:		
Net premiums written to estimated statutory surplus ratio	1.9x	2.1x
Senior debt to capitalization ratio	41.1%	31.9%
Total debt to capitalization ratio	55.4%	42.9%

Outlook

The Company's 2008 Annual Report includes description and analysis of the key factors and events that could impact future earnings under the heading "Risk Factors" in the section entitled "Management's Discussion and Analysis". These factors and events have, for the most part, remained substantially unchanged except as otherwise disclosed herein.

Internal Controls over Financial Reporting and Disclosure Controls & Procedures

Management of the Company is responsible for designing internal controls over financial reporting for the Company as defined under National 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 its 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.

Management of the Company is responsible for establishing and maintaining disclosure controls and procedures for the Company as defined under National 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 interim filings are being prepared.

Forward Looking Statements

This press release (including the Management's Discussion and Analysis) includes "forward looking statements" that are subject to risks and uncertainties. These statements relate to future events or future performance and reflect management's current expectations and assumptions. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or similar words are used to identify such forward looking information. Such forward looking statements reflect management's current beliefs and are based on information currently available to management of the Company. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. 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 2008 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.

Additional Information

Additional information relating to Kingsway, including Kingsway's Annual Report and Kingsway's Annual Information Form is on SEDAR at www.sedar.com.

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

(Unaudited)	Three months ended September 30:		Nine months ended September 30:	
	2009	2008	**2009**	2008
Gross premiums written	**$ 184,387**	$ 335,051	**$ 658,381**	$ 1,151,867
Net premiums written	**$ 169,758**	$ 318,429	**$ 643,559**	$ 1,105,368
Revenue:				
Net premiums earned	**$ 236,880**	$ 371,040	**$ 789,944**	$ 1,179,746
Investment income (Note 7)	**5,791**	31,881	**60,719**	99,058
Net realized gain (loss) (Note 7)	**30,456**	(29,148)	**10,461**	(24,197)
	273,127	**373,773**	**861,124**	**1,254,607**
Expenses:				
Claims incurred	**$ 267,957**	$ 290,726	**$ 759,882**	$ 924,456
Commissions and premiums taxes	**42,153**	72,465	**140,124**	231,235
General and administrative expenses	**47,718**	57,323	**135,294**	166,549
Restructuring costs (Note 11)	**5,861**	-	**18,410**	-
Interest expense	**5,757**	9,321	**17,971**	28,110
Amortization of intangibles (Note 2)	**7,125**	3,444	**14,813**	9,732
	376,571	**433,279**	**1,086,494**	**1,360,082**
Loss before unusual item and income taxes	**(103,444)**	(59,506)	**(225,370)**	(105,475)
Write-down of investment in subsidiary (Note 4)	**(23,613)**	-	**(23,613)**	-
Gain on buy-back of senior notes (Note 13)	**6,607**	-	**9,254**	-
Loss from continuing operations before income taxes	**(120,450)**	**(59,506)**	**(239,729)**	**(105,475)**
Income tax recovery	**(3,306)**	(17,391)	**(26,437)**	(32,290)
Loss from continuing operations	**(117,144)**	**(42,115)**	**(213,292)**	**(73,185)**
Income (loss) from discontinued operations, net of taxes (Note 3)	**(981)**	(10,284)	**140**	(7,292)
Gain (loss) on disposal of discontinued operations, net of taxes (Note 3)	**-**	34,985	**(1,616)**	34,985
Net loss	**$ (118,125)**	**$ (17,414)**	**$ (214,768)**	**$ (45,492)**
Earnings (loss) per share - continuing operations:				
Basic:	$ (2.17)	$ (0.76)	$ (3.90)	$ (1.32)
Diluted:	$ (2.17)	$ (0.76)	$ (3.90)	$ (1.32)
Earnings (loss) per share – net income (loss):				
Basic:	$ (2.19)	$ (0.32)	$ (3.93)	$ (0.82)
Diluted:	$ (2.19)	$ (0.32)	$ (3.93)	$ (0.82)
Weighted average shares outstanding (in '000s):				
Basic:	53,907	55,147	54,677	55,238
Diluted:	53,940	55,185	54,730	55,305

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

	September 30, 2009 (unaudited)	December 31, 2008
ASSETS		
Cash and cash equivalents	**$ 509,050**	$ 96,320
Securities (Note 7)	**1,758,273**	2,319,363
Accrued investment income	**17,776**	24,069
Financed premiums	**69,586**	61,616
Accounts receivable and other assets	**188,246**	275,701
Due from reinsurers and other insurers	**145,792**	165,089
Deferred policy acquisition costs	**90,591**	122,522
Income taxes recoverable	**28,930**	20,348
Future income taxes	**12,117**	21,947
Capital assets (Note 2)	**60,742**	60,791
Goodwill and intangible assets (Note 2)	**51,496**	63,893
Assets held for sale (Note 3)	**129,899**	117,393
	$ 3,062,498	$ 3,349,052
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Loans payable	**$ 73,158**	$ 66,222
Accounts payable and accrued liabilities	**110,572**	129,330
Provision for loss on investments in subsidiary (Note 4)	**23,613**	-
Unearned premiums	**372,169**	499,936
Unpaid claims	**1,888,261**	1,879,016
Senior unsecured debentures	**175,653**	185,203
Subordinated indebtedness	**87,407**	87,383
Liabilities held for sale (Note 3)	**57,525**	48,390
	2,788,358	2,895,480
SHAREHOLDERS' EQUITY		
Share capital		
Issued and outstanding number of common shares	**295,916**	322,344
51,673,728 - September 30, 2009		
55,068,528 - December 31, 2008		
Contributed surplus	**21,294**	9,791
Retained earnings (deficit)	**(118,053)**	98,564
Accumulated other comprehensive income	**74,983**	22,873
	274,140	453,572
	$ 3,062,498	$ 3,349,052

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

	Nine months ended September 30:	
(Unaudited)	**2009**	2008
Share capital		
Balance at beginning of period	**$ 322,344**	$ 326,151
Issued during the period	**-**	89
Repurchased for cancellation	**(26,428)**	(3,896)
Balance at end of period	**295,916**	322,344
Contributed surplus		
Balance at beginning of period	**$ 9,791**	$ 7,619
Forfeited options	**(4,512)**	(510)
Repurchased for cancellation	**14,663**	-
Stock option expense	**1,352**	1,780
Balance at end of period	**21,294**	8,889
Retained earnings (deficit)		
Balance at beginning of period	**$ 98,564**	$ 521,165
Net loss for the period	**(214,768)**	(45,492)
Common share dividends	**(1,849)**	(12,115)
Repurchase of shares for cancellation	**-**	(1,276)
Balance at end of period	**(118,053)**	462,282
Accumulated other comprehensive income		
Balance at beginning of period	**$ 22,873**	$ 85,866
Other comprehensive income (loss)	**52,110**	(107,206)
Balance at end of period	**74,983**	(21,340)
Total shareholders' equity at end of period	**$ 274,140**	$ 772,175

KINGSWAY FINANCIAL SERVICES INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(In thousands of U.S. dollars)

	Three months ended September 30:		Nine months ended September 30:	
(Unaudited)	**2009**	2008	**2009**	2008
Comprehensive income				
Net income (loss)	**$ (118,125)**	$ (17,414)	**$ (214,768)**	$ (45,492)
Other comprehensive income, net of taxes:				
· Change in unrealized gains (losses) on available-for securities:				
Unrealized gains (losses) arising during the period, net of income taxes (1)	**22,633**	(55,883)	**31,199**	(77,065)
Recognition of realized losses (gains) to net income, net of income taxes (2)	**(12,400)**	11,256	**(19,384)**	(3,789)
· Unrealized gains (losses) on translating financial statement of self-sustaining foreign operations	**28,690**	(13,872)	**31,450**	(23,526)
· Gain (loss) on cash flow hedge	**-**	(2,295)	**8,845**	(2,826)
Other comprehensive income (loss)	**38,923**	(60,794)	**52,110**	(107,206)
Comprehensive loss	**$ (79,202)**	$ (78,208)	**$ (162,658)**	$ (152,698)

(1) Net of income tax of $1,913 for the three months ended September 30, 2009 ($10,469 for year to date) and $(18,999) for the three months ended September 30, 2008 ($(23,120) for year to date).

(2) Net of income tax of $(577) for the three months ended September 30, 2009 ($(2,058) for year to date) and $4,001 for the three months ended September 30, 2008 ($(1,598) for year to date).

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

	Three months ended September 30:		Nine months ended September 30:	
(Unaudited)	**2009**	2008	**2009**	2008
Cash provided by (used in):				
Operating activities				
Net loss	**$ (118,125)**	$ (17,414)	**$ (214,768)**	$ (45,492)
Items not affecting cash:				
Loss (income) from discontinued operations	**981**	(24,701)	**1,476**	(27,693)
Amortization	**10,793**	3,616	**16,826**	14,694
Future and current income taxes	**4,072**	(2,766)	**6,798**	(9,044)
Net realized (gains) losses	**(37,064)**	30,313	**(19,715)**	24,894
Amortization of bond premiums and discounts	**2,103**	(1,222)	**2,826**	(5,228)
Net change in other non-cash balances	**77,305**	(233,684)	**(39,831)**	(286,445)
	(59,935)	(245,858)	**(246,388)**	(334,314)
Financing activities				
Share capital	**(26,428)**	(156)	**(26,428)**	(2,538)
Repurchase of common shares for cancellation	**14,664**	6	**14,664**	(1,276)
Contibuted surplus	**(2,040)**	-	**(3,440)**	-
Dividends paid	**-**	(3,907)	**6,042**	(9,786)
Bank indebtedness and loans payable	**(5,871)**	(157,693)	**(3,651)**	(172,976)
Senior unsecured indebtedness	**-**	-	**-**	(17,517)
	(19,675)	(161,750)	**(12,813)**	(204,093)
Investing activities				
Purchase of securities	**(1,664,297)**	(820,773)	**(3,211,069)**	(2,402,973)
Proceeds from sale of securities	**2,105,227**	1,160,019	**3,885,161**	2,913,079
Financed premiums receivable, net	**3,575**	31,173	**(1,647)**	17,920
Acquisitions, net of cash acquired	**-**	-	**(1,941)**	(212)
Net proceeds from sale of discontinued operations	**-**	44,067	**-**	44,067
Net capital assets and intangible assets	**(3,196)**	858	**(1,043)**	(2,364)
	441,309	415,344	**669,461**	569,517
Discontinued Operations				
Operating activities	**5,245**	4,562	**14,025**	13,673
Financing activities	**-**	-	**(7,891)**	(2,329)
Investing activities	**(2,710)**	(3,465)	**(3,107)**	(6,708)
	2,535	**1,097**	**3,027**	**4,636**
Net change in cash and cash equivalents	**364,234**	8,833	**413,287**	35,746
Cash and cash equivalents at beginning of period	**154,709**	188,548	**105,656**	161,635
Cash and cash equivalents at end of period	**518,943**	197,381	**518,943**	197,381
Less cash and cash equivalents of discontinued operations at end or period	**9,893**	14,674	**9,893**	14,674
Cash and cash equivalents of continuing operations at end of period	**$ 509,050**	$ 182,707	**$ 509,050**	$ 182,707

NOTE 1 Basis of Presentation

These interim consolidated financial statements have been prepared in accordance with The Canadian Institute of Chartered Accountants ("CICA") Canadian generally accepted accounting principles ("GAAP") using the same accounting policies as were used for the Company's consolidated financial statements for the year ended December 31, 2008 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, 2008 as set out on pages 65 to 104 of the Company's 2008 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

Commencing January 1, 2009, the Company adopted the CICA Handbook Section 3064 Goodwill and Intangible Assets. As a result of adopting the new standard, certain software costs previously recorded as Capital assets are now recorded as Intangible assets in the Consolidated Balance Sheet. Accordingly, $18.1 million as at December 31, 2008 ($12.6 million as at September 30, 2008) was reclassified from Capital assets to Intangible assets. The related amortization expense that was previously recorded in General and administrative expenses on the Consolidated Statement of Operations is now recorded as Amortization of intangibles. Accordingly, $2.4 million for the three months ended September 30, 2008 ($6.0 million for the nine months ended September 30, 2008) was reclassified from General and administrative expenses to Amortization of intangibles.

Commencing January 20, 2009, the Company adopted the CICA Handbook EIC 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which clarifies the consideration of entity's own credit risk and the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities, including derivative instruments. The accounting treatment should be applied retrospectively without restatement of prior periods to all financial assets and liabilities measured at fair value. There was no resulting difference noted on adoption.

NOTE 3 Discontinued Operations

Zephyr Insurance Company, Inc. ("Zephyr") and Avalon Risk Management Inc. ("Avalon") , previously disclosed as part of the United States segment, and York Fire and Casualty Insurance Company ("York Fire'), previously disclosed as part of the Canadian segment, have been classified as discontinued operations and the results of their operations are reported separately for all periods presented.

Summarized financial information for discontinued operations is shown below.

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

	30-Sep-09	31-Dec-08
Assets		
Cash and cash equivalents	$ 9,893	$ 9,336
Securities	56,587	51,122
Accrued Investment Income	419	485
Accounts Receivable and other assets	962	749
Due from reinsurers and other insurers	17,008	12,856
Deferred policy acquisition costs	5,637	5,033
Future income taxes	2,495	3,344
Capital assets	36,898	34,468
Assets held for sale and of discontinued operations	$ 129,899	$ 117,393
Liabilities		
Accounts payable and accrued liabilities	$ 9,765	$ 6,235
Income taxes payable	9,640	5,611
Unearned premiums	38,120	36,544
Liabilities of discontinued operations	$ 57,525	$ 48,390

Capital assets include Canadian real estate held for sale as follows:

	September 30, 2009		
	Ontario, Canada	Alberta, Canada	Total
Land	$ 4,678	$ 567	$ 5,245
Building	29,118	2,115	31,233
Total assets held for sale	$ 33,796	$ 2,682	$ 36,478

	December 31, 2008		
	Ontario, Canada	Alberta, Canada	Total
Land	$ 4,112	$ 499	$ 4,611
Building	27,467	1,907	29,374
Total assets held for sale	$ 31,579	$ 2,406	$ 33,985

The above assets were previously disclosed as part of the Canadian segment and written down to their estimated fair market value less costs to sell. The write down of $1.7 million is included in net realized gain (loss).

Subsequent to the quarter, the sale of the building located in Alberta, Canada closed with an estimated gain of approximately $2 million.

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

	Three months ended September 30:		Nine months ended September 30:	
	2009	**2008**	**2009**	**2008**
Operations:				
Revenue	**$ 1,451**	$ 26,510	**$ 2,165**	$ 80,986
Income (loss) from discontinued operations before taxes	**3,051**	(12,709)	**5,369**	(10,221)
Income tax (recovery)	**4,032**	(2,425)	**5,229**	(2,929)
Income (loss) from discontinued operations before disposal, net of taxes	**$ (981)**	**$ (10,284)**	**$ 140**	**$ (7,292)**
Disposals:				
Gain (loss) on disposal before income taxes	**$ -**	$ 42,049	**$ (1,941)**	$ 42,049
Income tax (recovery)	**-**	7,064	**(325)**	7,064
Loss on disposal, net of taxes	**$ -**	$ 34,985	**$ (1,616)**	$ 34,985
Total gain (loss) from discontinued operations, net of taxes	**$ (981)**	$ 24,701	**$ (1,476)**	$ 27,693

Zephyr:
On September 7, 2009, the Company entered into a definitive agreement to sell HI Holdings Inc., and its subsidiary Zephyr Insurance Company ("Zephyr"), a specialty property insurance company founded specifically to protect Hawaii homeowners and residents from catastrophic loss due to hurricanes. The transaction has been completed during the fourth quarter of 2009 following the receipt of regulatory approvals. The Company's revenues from discontinued operations relating to Zephyr were $1.4 million and $0.7 million in the third quarters of 2009 and 2008 respectively, and $2.3 million and $1.3 million in the first nine months of 2009 and 2008 respectively. In total, the Company's gain from discontinued operations relating to Zephyr, net of taxes were $2.1 million and $2.3 million in the third quarters of 2009 and 2008 respectively, and $6.8 million and $6.2 million in the first nine months of 2009 and 2008 respectively.

Avalon Risk Management Inc.:
The Company entered into a definitive agreement to sell substantially all of the assets of Avalon. The transaction has been completed during the fourth quarter of 2009. The Company's revenues from discontinued operations relating to Avalon were $0.1 million and $0.1 million in the third quarters of 2009 and 2008 respectively, and $0.1 million and $0.1 million in the first nine months of 2009 and 2008 respectively. The Company's loss from discontinued operations relating to Avalon, net of taxes were $3.1 million and $1.0 million in the third quarters of 2009 and 2008 respectively, and losses of $4.4 million and $2.1 million for the first nine months of 2009 and 2008 respectively.

York Fire:
On September 30, 2008, the Company completed its previously announced sale of York Fire, a primarily standard insurance writer, for C$95 million in cash. The final settlement was completed in the first quarter of 2009 and the adjustments are reflected accordingly. The Company's revenues from discontinued operations relating to York Fire were $nil and $25.7 million in the third quarters of 2009 and 2008 respectively, and $(0.2) million and $79.6 million in the first nine months of 2009 and 2008 respectively. In total, the Company's gain from discontinued operations relating to York Fire, net of taxes were $ nil and $23.3 million in the third quarters of 2009 and 2008 respectively, and $(3.8) million and $23.6 million in the first nine months of 2009 and 2008 respectively.

NOTE 4 **Disposition of Walshire Assurance Company**

On October 19 2009, Kingsway America Inc. ("KAI"), an indirect wholly owned subsidiary of the Company, disposed of its entire interest in its wholly owned subsidiary Walshire Assurance Company ("Walshire"). Walshire is the sole shareholder of Lincoln General. All of the stock of Walshire has been donated to charity, and with this disposition Lincoln General ceases being a member of the Kingsway group of companies.

The Company is currently in discussions with the Pennsylvania Insurance Department with respect to the transaction, however, the full extent of the Company's commitment to the Pennsylvania Insurance Department is to provide a $10 million cash contribution to Lincoln General. The Company also maintains an obligation to provide certain continued support to the run-off management team at Lincoln General.

As Walshire is a member of the consolidated group of companies as at September 30, 2009 the financial position and results from operations of Walshire and its subsidiaries form part of the Company's consolidated financial statements as of that date. As a result of management's decision subsequent to the balance sheet date to dispose of Walshire for no proceeds, the Company's consolidated financial statements as of September 30, 2009 include the write-down to $nil of the net assets of Walshire. The value of this write-down is $13.6 million. Also included in the financial statements for the period ended September 30, 2009 is the provision for the $10 million cash contribution and a provision for its obligation to support the run-off management team at Lincoln General. The aggregate of the write-down of the net assets of Walshire and the provision for the $10 million cash contribution, totaling $23.6 million, have been separately disclosed in the Company's consolidated statement of operations for the three and nine months ended September 30, 2009.

The securities portfolio of Walshire and its subsidiaries has been assessed to determine if declines in market value are other than temporary. Due to the Company's disposal of Walshire and its subsidiaries subsequent to the balance sheet date, the required assertion that the Company has the intent to hold the securities to recovery has not been met. As a result, a decline in market value below amortized cost of $0.1 million has been included in write-downs for other than temporary impairments. Property, plant and equipment is carried at cost less accumulated amortization and any impairment losses and is reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of such assets may not be recoverable. The disposal of Walshire triggered impairment tests for its property plant and equipment and it was determined that the carrying amount was appropriate.

As at September 30, 2009 there is no goodwill on the consolidated statement of financial position of the Company in connection with the acquisition of Walshire.

As of the date of the disposition of Walshire, the Company is of the view that its control over Walshire and its subsidiaries, including Lincoln General was lost. Management intends that Walshire and its subsidiaries will no longer be consolidated beginning October 19, 2009.

Additional disclosure to illustrate the impact of the disposition of Walshire

The following information has been presented to illustrate Walshire's portion of the consolidated financial statements of the Company. The statement of operations and the statement of financial position of Walshire and for the consolidated Kingsway group excluding Walshire are disclosed below.

The 'Walshire Assurance Company' statement of operations is presented to show Walshire's contribution to the consolidated statement and therefore exclude the impact of transactions between Walshire and its subsidiaries and other entities within the consolidated Kingsway group. Similarly, the assets and liabilities in the 'Walshire Assurance Company' statement of financial position exclude balances between Walshire and its subsidiaries and other entities within the consolidated Kingsway group.

The 'Kingsway excluding Walshire' columns present the statements of the consolidated group excluding Walshire. These statements are derived by subtracting the 'Walshire Assurance Company' balances from the consolidated Company statements. In the statement of financial position, the net assets of Walshire have been disclosed on a single line in the statement of financial position. As at September 30, 2009, the net assets of Walshire are shown as negative $10 million since the net assets of Walshire have been written down to $nil and an additional $10 million provision has been taken for the obligation relating to the cash contribution.

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

	Walshire Assurance Company		Kingsway (Excluding Walshire)	
	3 Months Ended September 30		3 Months Ended September 30	
	2009	2008	**2009**	2008
Gross premiums written	**$ 26,971**	$ 106,547	**$ 157,416**	$ 228,504
Net premiums written	**$ 18,566**	$ 93,019	**$ 151,192**	$ 225,410
Revenue:				
Net premiums earned	**$ 44,238**	$ 115,994	**$ 192,642**	$ 255,046
Investment income	**5,070**	2,978	**721**	28,903
Net realized gains/(losses)	**4,225**	(235)	**26,231**	(28,913)
	53,533	118,737	**219,594**	255,036
Expenses:				
Claims incurred	**$ 124,804**	$ 100,355	**$ 143,153**	$ 190,371
Commissions and premiums taxes	**8,147**	28,025	**34,006**	44,440
General and administrative expenses	**11,303**	10,994	**36,415**	46,329
Restructuring Costs	**103**		**5,758**	-
Interest expense	**-**	-	**5,757**	9,321
Amortization of intangibles	**4,664**	849	**2,461**	2,595
	149,021	140,223	**227,550**	293,056
Loss before unusual item And income taxes	**(95,488)**	(21,486)	**(7,956)**	(38,020)
Write-down of investment in subsidiary (Note 4)	**-**	-	**(23,613)**	-
Gain on buy-back of senior notes	**-**	-	**6,607**	-
Loss from continuing operations before income taxes	**(95,488)**	**(21,486)**	**(24,962)**	(38,020)
Income taxes (recovery)	**-**	-	**(3,306)**	(17,391)
Loss from continuing operations	**(95,488)**	(21,486)	**(21,656)**	(20,629)
Income (loss) from discontinued operations, net of taxes	**-**	-	**(981)**	(10,284)
Gain (loss) on disposal of discontinued operations, net of taxes	**-**	-	**-**	34,985
Net loss	**$ (95,488)**	$ (21,486)	**$ (22,637)**	$ 4,072

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

	Walshire Assurance Company				Kingsway (Excluding Walshire)			
	9 Months Ended September 30				9 Months Ended September 30			
		2009		2008		**2009**		2008
Gross premiums written	**$**	**112,826**	$	370,731	**$**	**545,555**	$	781,136
Net premiums written	**$**	**84,340**	$	343,790	**$**	**559,219**	$	761,578
Revenue:								
Net premiums earned	**$**	**180,147**	$	438,047	**$**	**609,797**	$	741,699
Investment income		**11,439**		7,199		**49,280**		91,859
Net realized gains/(losses)		**1,214**		(181)		**9,247**		(24,016)
		192,800		445,065		**668,324**		809,542
Expenses:								
Claims incurred	**$**	**280,454**	$	386,541	**$**	**479,428**	$	537,915
Commissions and premiums taxes		**38,417**		106,444		**101,707**		124,791
General and administrative expenses		**37,074**		35,118		**98,220**		131,431
Restructuring Costs		**2,178**				**16,232**		-
Interest expense		**-**		-		**17,971**		28,110
Amortization of intangibles		**4,439**		1,600		**10,374**		8,132
		362,562		529,703		**723,932**		830,379
Loss before unusual item And income taxes		**(169,762)**		(84,638)		**(55,608)**		(20,837)
Write-down of investment in subsidiary		**-**		-		**(23,613)**		-
Gain on buy-back of senior notes		**-**		-		**9,254**		-
Loss from continuing operations before income taxes		**(169,762)**		**(84,638)**		**(69,967)**		(20,837)
Income taxes (recovery)		**-**		-		**(26,437)**		(32,290)
Loss from continuing operations		**(169,762)**		(84,638)		**(43,530)**		11,453
Income (loss) from discontinued operations, net of taxes		**-**		-		**140**		(7,292)
Gain (loss) on disposal of discontinued operations, net of taxes		**-**		-		**(1,616)**		34,985
Net loss	**$**	**(169,762)**	$	(84,638)	**$**	**(45,006)**	$	39,146

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

	Walshire Assurance Company	Kingsway Excluding Walshire	Walshire Assurance Company	Kingsway Excluding Walshire
	September 30, 2009	September 30, 2009	December 31, 2008	December 31, 2008
ASSETS				
Cash and cash equivalents	$ 74,459	$ 434,591	$ 5,950	$ 90,370
Securities (Note 6)	663,530	1,094,743	929,487	1,389,876
Accrued investment income	5,639	12,137	2,344	21,725
Financed premiums	-	69,586	-	61,616
Accounts receivable and other assets	49,108	139,137	101,258	174,443
Due from reinsurers and other insurers	39,900	105,892	67,706	97,383
Deferred policy acquisition costs	23,090	67,501	49,939	72,583
Income taxes recoverable	41,550	(12,620)	-	20,348
Future income taxes	-	12,117	-	21,947
Capital assets	16,999	43,743	23,915	36,876
Goodwill and intangible assets	-	51,496	-	63,893
Assets held for sale	-	129,899	-	117,393
Net Assets of Walshire		(10,000)	-	94,147
	$ 914,275	$ 2,138,222	$ 1,180,599	$ 2,262,600
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Loans payable	$ -	$ 73,158	$ -	$ 66,222
Accounts payable and accrued liabilities	30,688	79,884	66,356	62,974
Provision for loss on investments in subsidiary				
Unearned premiums	71,885	300,284	165,918	334,018
Unpaid claims	798,090	1,090,171	854,178	1,024,838
Senior unsecured debentures	-	175,653	-	185,203
Subordinated indebtedness	-	87,407	-	87,383
Liabilities held for sale	-	57,525	-	48,390
	900,663	1,864,082	1,086,452	1,809,028
SHAREHOLDERS' EQUITY				
Share capital		295,916		322,344
Issued and outstanding number of common shares				
51,673,728 - September 30, 2009				
55,068,528 - December 31, 2008				
Contributed surplus		21,294		9,791
Retained earnings		(118,053)		98,564
Accumulated other comprehensive income		74,983		22,873
	13,612	274,140	94,147	453,572
	$ 914,275	$ 2,138,222	$ 1,180,599	$ 2,262,600

NOTE 5 Stock-based Compensation

As reported on pages 81 – 84 of the Company's 2008 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.

In March 2009, the Company issued two option grants at varying exercise prices. The per share fair value of these grants were C$0.97 and C$0.45. Per share fair value of options granted during 2008 was C$2.88 in February, C$2.43 in May and C$2.45 in September. 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 September 30:	
	2009	2008
Risk-free interest rate	1.78%	3.22%
Dividend yield	4.21%	2.23%
Volatility of the expected market price of the Company's common shares	88.1%	27.8%
Expected option life (in years)	4.0	4.0

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.

In the third quarter 2009, the Company recognized a reversal of compensation expense as a result of forfeited options of $2.6 million ($4.5 million year to date) compared to $0.1 million ($0.5 million year to date) for the same quarter in 2008.

NOTE 6 **Segmented Information**

The Company provides property and casualty insurance and other insurance related services. Previously, the Company managed these businesses in three reportable segments, Canada, the United States and Corporate. As a result of implementing its corporate restructuring plan and exiting non-core business, the Company now manages its business in four reportable segments, Canada, the United States, Business in Run-off and Corporate. The Company's Canadian and United States segments include transactions with the Company's reinsurance subsidiaries. The business in Run-off is comprised of the Lincoln General business except for specific product lines transferred to related companies, the Southern United Fire Insurance Company Inc. business and the Canadian long haul trucking business. 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. The reportable segments for Canada have been updated to conform to the current period's financial statement presentation for the results of continuing operations.

	Three months ended September 30, 2009				
	Canada	United States	Run-off	Corporate	Total
Gross premiums written	$ 73,330	$ 82,167	$ 28,890	$ -	$ 184,387
Net premiums earned	85,635	100,058	51,187	-	236,880
Investment income (loss)	8,109	(2,545)	5,242	(5,015)	5,791
Net realized gain (loss)	1,813	24,904	4,112	(373)	30,456
Interest expense	-	5,757	-	-	5,757
Amortization of capital assets	192	177	(107)	155	417
Amortization of intangible assets	-	1,730	4,664	731	7,125
Income tax expense (recovery)	2,413	(1,013)	(5,776)	1,070	(3,306)
Income (loss) from continuing operations	10,410	8,812	(127,823)	(8,543)	(117,144)

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

	Three months ended September 30, 2008				
	Canada	United States	Run-off	Corporate	Total
Gross premiums written	$ 91,518	$ 103,743	$ 139,790	$ -	$ 335,051
Net premiums earned	109,368	121,320	140,352	-	371,040
Investment income (loss)	12,162	16,075	3,196	448	31,881
Net realized gain	(52,128)	(18,843)	(226)	42,049	(29,148)
Interest expense	-	7,593	-	1,728	9,321
Amortization of capital assets	523	693	(237)	300	1,279
Amortization of intangible assets	-	1,872	860	712	3,444
Income tax expense (recovery)	(8,029)	(13,583)	(1,795)	6,016	(17,391)
Income (loss) from continuing operations	(35,133)	(19,028)	(27,156)	39,202	(42,115)

	Nine months ended September 30, 2009				
	Canada	United States	Run-off	Corporate and Other	Total
Gross premiums written	$ 222,521	$ 299,279	$ 136,581	$ -	$ 658,381
Net premiums earned	241,959	332,350	215,635	-	789,944
Investment income (loss)	23,938	28,330	11,990	(3,539)	60,719
Net realized gain (loss)	(1,105)	12,381	1,097	(1,912)	10,461
Interest expense	-	17,971	-	-	17,971
Amortization of capital assets	999	28	1,000	452	2,479
Amortization of intangible assets	-	8,320	4,439	2,054	14,813
Income tax expense (recovery)	(598)	(15,255)	(7,292)	(3,292)	(26,437)
Income (loss) from continuing operations	6,916	7,137	(218,898)	(8,447)	(213,292)
Total assets	1,185,312	835,769	948,661	92,756	3,062,498

	Nine months ended September 30, 2008				
	Canada	United States	Run-off	Corporate	Total
Gross premiums written	$ 290,552	$ 371,382	$ 489,933	$ -	$ 1,151,867
Net premiums earned	294,935	363,512	521,299	-	1,179,746
Investment income (loss)	38,738	52,871	7,744	(295)	99,058
Net realized gain (loss)	(43,797)	(22,277)	(172)	42,049	(24,197)
Interest expense	-	24,182	-	3,928	28,110
Amortization of capital assets	1,603	2,118	(135)	1,391	4,977
Amortization of intangible assets	-	5,945	1,631	2,156	9,732
Income tax expense (recovery)	(13,690)	(28,248)	(3,332)	12,980	(32,290)
Income (loss) from continuing operations	(25,426)	8,656	(93,764)	37,349	(73,185)
Total assets	1,317,869	1,043,633	1,458,248	71,547	3,891,297

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

NOTE 7 Securities

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

	September 30, 2009			
	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits	$ 199,640	$ 18	$ -	$ 199,658
Bonds:				
Canadian - Government	394,052	3,322	57	397,317
- Corporate	307,137	13,648	131	320,654
- Commercial mortgage backed	1,573	5	66	1,512
- Other asset backed	33,896	1,010	-	34,906
U.S - Government	261,733	11,268	12	272,989
- Corporate	313,802	15,397	239	328,960
- Commercial mortgage backed	999	1	-	1,000
- Residential mortgage backed	149,389	4,769	12	154,146
- Other asset backed	11,427	472	169	11,730
Other - Corporate	13,941	357	-	14,298
Sub-total	**1,687,589**	**50,267**	**686**	**1,737,170**
Common shares - Canadian	2,381	2,798	-	5,179
- U.S	15	10	-	25
Preferred shares - Canadian	15,523	2,164	1,868	15,819
- U.S	92	-	12	80
	$ 1,705,600	**$ 55,239**	**$ 2,566**	**$ 1,758,273**

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

	December 31, 2008			
	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits	$ 183,807	$ 771	$ 20	$ 184,558
Bonds:				
Canadian - Government	149,200	8,310	7	157,503
- Corporate	178,270	1,881	7,562	172,589
- Commercial mortgage backed	66,185	455	4,731	61,909
- Other asset backed	13,304	78	127	13,255
U.S - Government	409,096	38,853	177	447,772
- Corporate	738,174	10,527	21,780	726,921
- Commercial mortgage backed	23,482	495	2,679	21,298
- Residential mortgage backed	111,698	3,131	868	113,961
- Other asset backed	17,419	8	1,153	16,274
Other - Corporate	128,382	4,328	999	131,711
Sub-total	**$ 2,019,017**	**$ 68,837**	**$ 40,103**	**$ 2,047,751**
Common shares - Canadian	114,167	2,590	-	116,757
- U.S	146,406	4,882	-	151,288
Preferred shares - Canadian	6,692	8	3,629	3,071
- U.S	635	-	139	496
	$ 2,286,917	**$ 76,317**	**$ 43,871**	**$ 2,319,363**

The following tables highlight the aggregate unrealized loss position, by security type, of holdings in an unrealized loss position. The tables segregate the holdings based on the period of time the securities have been continuously held in an unrealized loss position.

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

	September 30, 2009			
	0 - 12 months		Over 12 months	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Term Deposits	$ -	$ -	-	$ -
Bonds:				
Canadian - Government	42,328	57	-	-
- Corporate	18,955	115	12,350	16
- Commercial mortgage backed	-	-	789	66
- Other asset backed	-	-	-	-
U.S - Government	12,796	8	198	4
- Corporate	21,125	23	12,365	216
- Commercial mortgage backed	-	-	-	-
- Residential mortgage backed	12,544	12	-	-
- Other asset backed	-	-	2,431	169
Other - Corporate	-	-	-	-
Sub-total	**$ 107,748**	**$ 215**	**$ 28,133**	**$ 471**
Preferred shares - Canadian	-	-	5,604	1,868
- U.S	-	-	79	12
	$ 107,748	**$ 215**	**$ 33,816**	**$ 2,351**

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

	December 31, 2008			
	0 - 12 months		Over 12 months	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Term Deposits	$ 18,856	$ 20	$ -	$ -
Bonds:				
Canadian - Government	2,482	7	-	-
- Corporate	63,037	5,392	30,564	2,170
- Commercial mortgage backed	17,493	1,023	31,397	3,708
- Other asset backed	3,279	29	3,472	98
U.S - Government	8,380	120	866	57
- Corporate	205,859	11,268	132,871	10,512
- Commercial mortgage backed	411	82	9,669	2,597
- Residential mortgage backed	105	1	639	867
- Other asset backed	982	25	14,276	1,128
- Corporate	6,382	112	3,321	887
Sub-total	**$ 327,266**	**$ 18,079**	**$ 227,075**	**$ 22,024**
Preferred shares - Canadian	-	-	3,072	3,629
- U.S	-	-	496	139
	$ 327,266	**$ 18,079**	**$ 230,643**	**$ 25,792**

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

Management performs a quarterly analysis of the Company's investment holdings to determine if declines in market value are other than temporary. Pursuant to FASB and Accounting Standards Board of Canada guidance issued in April 2009, the analysis process has been revised during the quarter to include consideration of the following factors:

- Assessing the Company's intent to sell those securities;
- Assessing whether it is more likely than not that the company will be required to sell those securities before the recovery of its amortized cost basis;
- Assessing if any credit losses are expected for those securities. The assessment includes consideration of, among other things, all available information and factors having a bearing upon collectability of security such as changes to credit rating by rating agencies, financial condition of the issuer, expected cash flows and value of any underlying collateral.

As a result of the above analysis performed by management to determine declines in market value that are other than temporary, write downs for other-than-temporary impairments were $0.1 million for the quarter ended September 30, 2009 compared to $22.9 million for the same period last year ($5.1 million for the nine month period ended September 30, 2009 compared to $40.7 million for the nine month period ended September 30, 2008) and the entire amount of other-than-temporary impairments has been recognized in earnings.

Management has reviewed currently available information regarding other securities whose estimated fair values are less than their carrying amounts and believes that these unrealized losses are not other than temporary and are primarily due to temporary market and sector related factors rather than to issuer-specific factors. The company does not intend to sell those securities and it is not more likely than not that it will be required to sell those securities before recovery of its amortized cost.

Net investment income for the quarter ended September 30 is comprised as follows:

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

	Three months ended September 30:		Nine months ended September 30:	
	2009	2008	2009	2008
Investment income				
Interest on short term securities	494	2,639	2,100	9,903
Interest on Bonds	17,269	25,324	60,880	82,067
Dividends	165	3,906	1,671	8,345
Premium Finance	1,038	1,264	3,405	3,361
Other	(12,292)	485	(4,139)	731
Gross Investment Income	**6,674**	**33,618**	**63,917**	**104,407**
Investment Expenses	883	1,737	3,198	5,349
Net Investment Income	**5,791**	**31,881**	**60,719**	**99,058**

The decrease in interest income on short term securities for the quarter and year to date is primarily due to a significant reduction in short term interest rates in Canada and the U.S. in the current year compared to the same periods last year. The decrease in interest on bonds for the three and nine months to September 30, 2009 compared to the same periods last year is partially due to a reduction in short-term yields described above. A smaller fixed income securities portfolio as a result of certain lines of business being put into voluntary run-off has also contributed to the lower interest income on bonds in the quarter and year to date in the U.S. The strength of the Canadian dollar in 2008, particularly in the first two quarters, increased interest income in the Canadian portfolio during that period when reported in U.S. dollars. This has contributed to the decrease in interest income on bonds for the quarter and year to date compared to the same periods last year.

Dividend income has declined for the three and nine months to September 30, 2009 compared to the same periods last year due to the disposition of the common share equity portfolio in the first quarter of 2009.

Other income for the three months ended September 30, 2009 includes a loss of $12.7 million ($1.3 million year to date) on the revaluation of the Company's now unhedged Canadian dollar denominated debt.

Net realized gains for the quarter ended September 30, 2009 were $30.5 million compared to net realized losses of $29.1 million for the quarter ended September 30, 2008. Net realized gains for the nine months ended September 30, 2009 were $10.5 million compared to net realized losses of $24.2 million for the quarter ended September 30, 2008.

NOTE 8 **Financial Instruments**

Risk Management

The Company's risk management policies and practices are described on pages 18 to 20, 45 to 53 and 74 to 78 of the Company's 2008 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 is 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's policies, however, are distributed by agents, program managers or brokers who manage cash collection on its behalf. The Company has policies to evaluate the financial

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

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:

	September 30, 2009		December 31, 2008	
AAA/ Aaa	854,839	49.2%	1,117,281	54.6%
AA/Aa2	387,714	22.3%	338,347	16.5%
A/A2	352,083	20.4%	496,095	24.2%
BBB/Baa2	127,360	7.3%	62,903	3.1%
BB/Ba2	1,978	0.1%	5,122	0.3%
B/B2	5,943	0.3%	7,838	0.4%
CCC/Caa or lower, or not rated	7,253	0.4%	20,165	0.9%
Total consolidated	**1,737,170**	**100.0%**	**2,047,751**	**100.0%**

As at September 30, 2009, 91.9% of the fixed income portfolio is rated 'A' or better. Changes in this balance period over period are primarily due to timing of investment maturities and reinvestment.

Market risk:
Our primary market risk exposure is changes in interest rates. Because most of the securities portfolio is comprised of fixed income securities, 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 $59.4 million at September 30, 2009, representing 3.4% of the $1.7 billion fair value fixed income securities portfolio.

The following table summarizes carrying amounts of financial instruments by contractual maturity or expected cash flow dates (the actual repricing 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):

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

As at September 30, 2009	One year or less	One to five years	Five to ten years	More than ten years	No specific date	Total
Assets:						
Cash & cash equivalents	509,050	-	-	-	-	509,050
Securities	271,686	773,232	539,024	163,443	10,888	1,758,273
Accrued Investment Income	17,776	-	-	-	-	17,776
Finance Premiums	69,586	-	-	-	-	69,586
Accounts receivable and other assets	188,246	-	-	-	-	188,246
Due from reinsurers and other insurers	51,140	78,587	14,169	1,896	-	145,792
Total:	1,107,484	851,819	553,193	165,339	10,888	2,688,723
Liabilities:						
Loans payable	-	-	66,222	6,936	-	73,158
Accounts payable and accrued liabilities	134,185	-	-	-	-	134,185
Unpaid claims	662,355	1,017,833	183,513	24,560	-	1,888,261
Senior unsecured debentures	-	175,653	-	-	-	175,653
Subordinated indebtedness	-	-	-	87,407	-	87,407
Total:	796,540	1,193,486	249,735	118,903	-	2,358,664

As at December 31, 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	96,320	-	-	-	-	96,320
Securities	395,355	971,299	516,397	164,700	271,612	2,319,363
Accrued investment income	24,069	-	-	-	-	24,069
Finance premiums	61,616	-	-	-	-	61,616
Accounts receivable and other assets	275,701	-	-	-	-	275,701
Due from reinsurers and other insurers	58,629	89,056	15,338	2,066	-	165,089
Total:	911,690	1,060,355	531,735	166,766	271,612	2,942,158
Liabilities:						
Loans payable	-	-	66,222	-	-	66,222
Accounts payable and accrued liabilities	129,330	-	-	-	-	129,330
Unpaid claims	667,307	1,013,611	174,579	23,519	-	1,879,016
Senior unsecured debentures	-	81,137	104,066	-	-	185,203
Subordinated indebtedness	-	-	-	87,383	-	87,383
Total:	796,637	1,094,748	344,867	110,902	-	2,347,154

Collateral pledged: As at September 30, 2009, bonds and term deposits with an estimated fair value of $51.9 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 September 30, 2009, the amount of such pledged securities was $112.3 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.

The company has a syndicate letter of credit facility which is used to collateralize reinsurance balances. The Company pledges securities to collateralize the utilized portion of the letter of credit facility. At September 30, 2009 the letter of credit facility utilization was $2.7 million.

Fair value:

Refer to Note 7 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 September 30 , 2009 the estimated fair value of the unpaid claims was $2,032.3 million ($1,898.9 million net of reinsurers' share of unpaid claims). The estimated fair value is approximately $144.1 million above the undiscounted carrying value as a result of a provision for adverse development totaling $186.5 million in addition to the present value of unpaid claims. There is no active market for policy liabilities, so a market value is not readily available.

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

The table below summarizes the fair valuation of debt liabilities, though they are held at amortized cost on the consolidated balance sheet:

	September 30, 2009		
	Total fair value*	Total carrying value	Favorable
Loans Payable	$ 53,813	$ 73,158	$ 19,345
Senior unsecured debentures	148,329	175,653	27,324
Subordinated indebtedness	35,168	87,407	52,239

	December 31, 2008		
	Total fair value*	Total carrying value	Favorable
Loans Payable	$ 43,094	$ 66,222	$ 23,128
Senior unsecured debentures	128,497	185,203	56,706
Subordinated indebtedness	17,712	87,383	69,671

*The fair value is based on observable market inputs.

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 September 30, 2009 was as follows:

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

Description	September 30, 2009	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:				
Term deposits:	$ 199,658	$ -	$ 199,658	$ -
Debt securities:				
Canadian- Government	397,317	-	397,317	-
- Corporate	320,654	-	320,654	-
- Commercial mortgage backed	1,512	-	1,512	-
- Other asset backed	34,906	-	34,906	-
U.S- Government	272,989	-	272,989	-
- Corporate	328,960	-	328,960	-
- Commercial mortgage backed	1,000	-	1,000	-
- Residential mortgage backed	154,146	-	154,146	-
- Other mortgage/ asset backed	11,730	-	11,730	-
Other- Corporate	14,298	-	14,298	-
Equity Securities:				
Canadian	5,179	5,179	-	-
US	25	25	-	-
Preferred Securities:				
Canadian	15,819	15,819	-	-
US	80	80	-	-
Total	$ 1,758,273	$ 21,103	$ 1,737,170	$ -

NOTE 9 Capital Management

Certain debentures issued by the Company contain negative covenants in their trust indentures, placing limitations and restrictions over certain actions without the prior written consent of the indenture trustees. Included in the negative covenants is the limitation on the incurrence of additional debt in the event that the total debt to total capital ratio or the senior debt to total capital ratio exceed 50% and 35%, respectively. The total debt is calculated on a pro-forma basis taking into account the issuance of additional debt. The debentures also include covenants limiting the issuance and sale of voting stock of restricted subsidiaries, the payment of dividends or any other payment in respect of capital stock of the Company, or the retirement of debt subordinate to the debentures covered by the trust indentures if, after giving effect to such payments as described in the trust indentures, the total debt to total capital ratio exceeds 50%.

As at September 30, 2009 the Company's total debt to capital and senior debt to capital ratios were 55.4% and 41.1% respectively. As a result, the limitations and restrictions described above are currently applicable. The Board of Directors is considering alternatives to reduce these ratios to remove the limitations and restrictions in place.

On June 26, 2009, KFS Capital LLC, an indirect wholly-owned subsidiary of Kingsway, commenced a take-over bid (the "KLROC Offer") to acquire up to 1,000,000 preferred, retractable, redeemable, cumulative units of Kingsway Linked Return of Capital Trust at a price per unit of C$12.00 in cash. The KLROC Offer expired on Tuesday, August 4, 2009 and 694,015 units were tendered. This tender was paid for using available cash.

Kingsway 2007 General Partnership, an indirect wholly-owned subsidiary of Kingsway announced on July 14, 2009 the commencement of a modified "Dutch Auction" tender offer (the "2012 Offer") for a portion of its outstanding Unsecured 6%

Debentures due July 11, 2012 (the "2012 Debentures"). The 2012 Offer provided for a cash purchase of 2012 Debentures at a price per C$1,000 principal amount of debentures of not less than C$540 and not greater than C$620, for a maximum aggregate purchase price to the offeror not to exceed C$31 million (excluding accrued and unpaid interest). The Offer expired Friday, August 14, 2009 with valid tenders (that were not withdrawn) of C$9,174,000 in aggregate principal amount of Debentures. Kingsway 2007 General Partnership accepted for purchase all such tendered 2012 Debentures at the highest price specified of C$620 per C$1,000 principal amount. This tender was paid for using available cash.

Subsequent to the balance sheet date the Company repaid in full a $6.9 million mortgage on a property.

As at September 30, 2009 the Company was adequately capitalized to support the premium volume of the insurance subsidiaries.

In Canada, JEVCO Insurance Company is regulated by the Office of the Superintendent of Financial Institutions ("OSFI") and Kingsway General Insurance Company is regulated by the Financial Services Commission of Ontario ("FSCO"). OSFI and FSCO expect each institution to maintain ongoing capital at no less than the supervisory target Minimum Capital Test ("MCT") of 150% and may establish, in consultation with an institution, an alternative supervisory target level based upon an individual institution's risk profile. As at September 30, 2009 the MCTs of JEVCO Insurance Company and Kingsway General Insurance Company were 239% and 210% respectively. As at September 30, 2009 the Canadian insurance companies have aggregate capital of approximately $60.2 million in excess of the 150% level.

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 September 30, 2009, all U.S. subsidiaries, with the exception of Lincoln General, are estimated to be above the required RBC levels, with RBC ratios estimates ranging between 286% and 37,410% and have estimated aggregate capital excluding Lincoln General of approximately $106.9 million in excess of the 200% level.

As a result of Lincoln General's RBC level as at December 31, 2008, the Pennsylvania Insurance Department was required to conduct an examination and issue an order outlining corrective action to be taken. Further, under Pennsylvania law, Lincoln General may be deemed to be operating in a financially hazardous condition based on its financial statements at December 31, 2008. As a result, the Pennsylvania Insurance Department has the power to take a variety of regulatory actions, including but not limited to department supervision, and the seeking of a court order of rehabilitation or liquidation if it determines that Lincoln General's condition is such that the further transaction of business would be hazardous, financially, to its policyholders, creditors or the public.

As part of a plan developed by management, Lincoln General has initiated running off its book of business and, accordingly, management has ceased writing new or renewal business, except where otherwise required by law or pre-existing contractual obligations, and has initiated mid-term cancellations in certain lines of business. As at December 31, 2008, Lincoln General had statutory admitted assets of $386.7 million, liabilities of $307.5 million, and statutory capital and surplus of $79.2 million. On March 11, 2009, Lincoln General entered into a letter agreement with the Pennsylvania Insurance Department (the Department) that provides for increased supervisory oversight by the Department including but not limited to increased reporting and Department approval of non-routine matters including transfers or pledges of assets, extension of loans, incurring of debt, increases in salaries, payments of bonuses to officers and directors, and consummation of material transactions.

On October 19, 2009 the Company announced that its indirect wholly owned subsidiary, Kingsway America Inc. ("KAI"), has disposed of its entire interest in KAI's wholly owned subsidiary Walshire Assurance Company ("Walshire"). Walshire is the sole shareholder of Lincoln General. All of the stock of Walshire has been donated to charity, and with this disposition Lincoln General ceases being a member of the Kingsway group of companies. As of the date of the disposition of Walshire, the Company is of the view that its control over Walshire and its subsidiaries, including Lincoln General was lost. Management intends that Walshire and its subsidiaries will no longer be consolidated beginning October 19, 2009.

The Company is of the view that the extent of its obligations in connection with Walshire and its subsidiaries are the payment of a $10 million cash contribution to Lincoln General; continued compliance with a run-off management agreement, including certain continued support to the run-off management team at Lincoln General; and continuing guarantee and reinsurance obligations to inter-Company and third party insurance providers in respect of certain Lincoln General obligations.

As part of the ongoing transformation program, during the second quarter the Company began terminating all related party reinsurance treaties. As at September 30, 2009 all treaties between Kingsway Reinsurance Corporation and the U.S.

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

operating companies have been commuted. As noted above, treaties between the Canadian operating companies and Kingsway Reinsurance (Bermuda) Limited were commuted effective October 1, 2009. This initiative has resulted in increased capital in our operating companies and it has released excess capital from the captive reinsurers to be used for corporate purposes.

As at September 30, 2009, following the commutation of all intercompany reinsurance treaties between Kingsway Reinsurance Corporation and the Company's U.S. operating subsidiaries, a significant portion of the remaining capital at Kingsway Reinsurance Corporation was repatriated. A portion of this capital was re-deployed directly into the U.S. operating subsidiaries and a portion was held at the parent company for corporate purposes. The regulatory capital remaining in Kingsway Reinsurance Corporation following the commutation of all related party reinsurance treaties is below the amount required under the Insurance Act of Barbados where Kingsway Reinsurance is domiciled. The Company considers this situation to be temporary as the calculation of the minimum capital required is based upon the premiums of the previous calendar year when the level of underwriting activity was significantly greater than those of the ongoing Barbados operation. This situation has been communicated to the Office of the Supervisor of Insurance in Barbados which has accepted the Company's commitment to resolve the shortfall in early 2010. At that time, the Company believes that the capital available will exceed the capital required with no additional capital required.

As at September 30, 2009 the capital maintained by Kingsway Reinsurance (Bermuda) Limited was approximately $28.6 million in excess of the regulatory capital requirements in Bermuda. Subsequent to the balance sheet date, a significant portion of the capital was removed as part of the consolidation of the Canadian operations.

NOTE 10 Hedges

On June 2, 2009, the company discontinued the swap transaction which was designated as a cash flow hedge. When the hedge is discontinued, any cumulative adjustment to the hedging instrument through other comprehensive income is recognized in income over the remaining term of the hedged item, or when the hedged item is derecognized. The amount of loss recorded in other comprehensive income as a result of the discontinuance of the cash flow hedge is $6.2 million before tax of which $1.5 million has been reclassified to net income for the quarter ended September 30, 2009 ($1.6 million year to date).

NOTE 11 Restructuring charges

During the first quarter of 2009, the Company announced a corporate restructuring plan to concentrate on its core and profitable lines of business and is targeted to improve the Company's financial stability. The Company is consolidating operations in U.S. and Canada, simplifying the management structure, reducing costs through synergies and operational efficiencies and positioning the Company to seize competitive advantage. As the Company exits businesses and streamlines operations, approximately 1,000 employees will be removed from the total workforce. Restructuring costs are expected to be approximately $20 million, to be incurred over fiscal 2009 and 2010, of which $18.5 million was expensed in the first nine months of 2009.

During the nine months ended September 30, 2009, the Company continued to implement this restructuring plan. Restructuring charges for the nine months ended September 30, 2009 were as follows:

				Restructuring charges	
	Severance and benefits	Consulting expense	Total	Three months ended September 30,	Nine months ended September 30,
Provision balance at January 1, 2009	$ -	$ -	$ -		
(Income) expense	9,347	9,063	18,410	$ 5,861	$ 18,410
Payments	5,009	9,063	14,072	-	-
Provision balance at September 30, 2009	$ 4,338	$ -	$ 4,338	-	-
Total restructuring charges				$ 5,861	$ 18,410

The following table summarizes the total restructuring charges incurred by segment during the three and nine months ended September 30, 2009:

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

	Three months ended September 30, 2009				
	Canada	U.S.	Run-off	Corporate	Total
Total restructuring charges	$ 68	$ 80	$ 313	$ 5,400	$ 5,861

	Nine months ended September 30, 2009				
	Canada	U.S.	Run-off	Corporate	Total
Total restructuring charges	$ 954	$ 2,431	$ 3,695	$ 11,330	$ 18,410

The following table summarizes the total amount of costs expected to be incurred for each reporting segment over the span of the restructuring plan:

	Over the span of the restructuring plan				
	Canada	U.S.	Run-off	Corporate	Total
Total expected costs for restructuring plan	$ 1,900	$ 4,000	$ 3,100	$ 13,000	$ 22,000

As a result of the implementation of the restructuring plan being ahead of target, the total restructuring costs for the year to date represent a significant portion of the total expected costs over the span of the restructuring plan.

NOTE 12 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 of $1.2 million related to this acquisition, of which $0.2 million was recorded in 2008 and $1.0 million during 2007. The goodwill was written down to $nil in the fourth quarter of 2008.

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 3 years and $1.8 million assigned to agent relationships and is also being amortized over a 5 year term but based on a pattern in which the economic benefits of the asset are expected to be consumed.

NOTE 13 Buy-Back of Senior Notes

During the quarter, Kingsway America Inc. bought back $1.9 million ($6.5 million year to date) face value of the senior notes due in 2014 at a market rate of $1.3 million ($3.2 million year to date). Kingsway America Inc. realized a gain of $0.6 million ($3.3 million year to date) during the quarter.

Also during the quarter and year to date, a general partnership of the Company, Kingsway 2007 General Partnership bought back $14.6 million face value of the senior notes due in 2012 at a market rate of $8.6 million. As a result, Kingsway 2007 General Partnership realized a gain of $6.0 million during the quarter.

NOTE 14 Related Party Transaction

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

In March 2009, the Company obtained a financing facility from a related party to allow for specific capital initiatives. The facility is at fair market terms and conditions. As at September 30, 2009, the facility was undrawn, expired and has been terminated. In the fourth quarter, a new facility has been obtained from the same related party. This new facility is at fair market terms and conditions.

The Company has engaged the services of a company owned by a former director and paid $0.8 million for the nine month period ended September 30, 2009.

In addition to a previously agreed retainer of C$0.1 million, the Board of Directors has decided to pay an additional $0.4 million and C$0.1 million to the Chairman of the Board. Of these amounts, the Company has paid $0.2 million and C$0.1 million as at September 30, 2009.

NOTE 15 Contractual Obligation

On June 29, 2009, Kingsway and Lincoln General entered into a consulting agreement with an external run-off manager to provide certain consulting services relating to Lincoln General, including advice and assistance in the development of a Run-off Plan. In addition to base compensation of $1.3 million annually, the agreement provides for a minimum of $2.5 million to be paid to the Run-off Manager at the termination of the contract (provided the contract is not terminated for cause), which, at the latest will be March 1, 2014. Since the Lincoln General has been disposed of by the Company on October 19, 2009, the Company accrued $6.1 million for the base compensation and additional compensation as at September 30, 2009.

NOTE 16 Normal Course Issuer Bid

On July 29, 2009, the Company obtained approval from the Toronto Stock Exchange to amend its normal course issuer bid for common shares. The Toronto Stock Exchange ("TSX") accepted a revision to the maximum number of common shares that can be purchased under the normal course issuer bid to 5,386,545 common shares, or 10% of the public float on November 28, 2008. For the three months ended and year to date September 30, 2009, the company repurchased 3,394,800 of its common shares at an average price of C$3.76, representing approximately 6.2% of the then outstanding shares. All of the repurchased common shares were cancelled.

NOTE 17 Mergers

During the quarter the Company announced that effective October 1, 2009, JEVCO Insurance Company will assume the assets and liabilities of Kingsway General Insurance Company subject to regulatory approval. Both JEVCO Insurance Company and Kingsway General Insurance Company are wholly owned Canadian subsidiaries of the Company.

NOTE 18 Comparative Figures

Certain comparative figures have been re-classified to conform to the financial statement presentation adopted in the current period.

NOTE 19 Subsequent Events

The subsequent events have been evaluated up to November 6, 2009, the date the financial statements are issued. The subsequent events noted are as follows:

On October 19, 2009, the Company's indirect wholly owned subsidiary, Kingsway America Inc. ("KAI") has donated all of the stock of its wholly owned subsidiary Walshire Assurance Company ("Walshire") to charity, and with this disposition Lincoln General Insurance Company (i.e. subsidiary of Walshire) ceases being a member of The Kingsway group of companies.

In addition, after the end of the quarter, the Company has completed the sale of substantially all of the assets of Avalon Risk Management Inc.

On October 30, 2009, the Company completed the sale of HI Holdings Inc. and its subsidiary Zephyr Insurance Company Inc. for initial gross proceeds of $31.5 million, plus a contingent, deferred earn-out plan. The earn-out is calculated based upon the change in adjusted book value between the valuation date and the closing date.

NOTE 20 Supplemental Condensed Consolidating Financial Information

On July 10, 2007, the Kingsway 2007 General Partnership 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 September 30, 2009 and December 31, 2008, and for the period ended September 30, 2009 and 2008, with a separate column for each Guarantor, the issuer and the other businesses of the Company combined ("Non-Guarantor subsidiaries").

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

Condensed Consolidating Statement of Operations						
For the nine months ended September 30, 2009						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(a "Guarantor")	(the "Issuer")	(the "Non-Guarantor subsidiaries")		
Revenue:						
Net premiums earned	$ -	$ -	$ -	$ 802,577	$ (12,633)	$ 789,944
Investment related income	(5,451)	2,249	4,420	85,449	(15,487)	71,180
Management fees	43,558	14,046	-	-	(57,604)	-
	$ 38,107	$ 16,295	$ 4,420	$ 888,026	$ (85,724)	$ 861,124
Expenses:						
Claims incurred	$ -	$ -	$ -	$ 759,882	$ -	$ 759,882
Commissions and premium	-	-	-	140,124	-	140,124
Other expenses	54,872	10,422	331	185,588	(82,696)	168,517
Interest expense	-	19,517	3,767	(2,285)	(3,028)	17,971
	54,872	29,939	4,098	1,083,309	(85,724)	1,086,494
Income (loss) before unusual items and income taxes	(16,765)	(13,644)	322	(195,283)	-	(225,370)
Write-down of investment in subsidiary	-	(23,613)	-	-	-	(23,613)
Gain on buy-back of senior	-	3,270	5,984	-	-	9,254
Income (loss) from continuing operations before income taxes	(16,765)	(33,987)	6,306	(195,283)	-	(239,729)
Income taxes (recovery)	(5,001)	(3,527)	2,144	(20,053)	-	(26,437)
Income (loss) from continuing operations	(11,764)	(30,460)	4,162	(175,230)	-	(213,292)
Income from discontinued operations	-	-	-	140	-	140
Loss on disposal of discontinued operations	(1,616)	-	-	-	-	(1,616)
Equity in undistributed net income of subsidiaries	(201,388)	(64,306)	-	-	265,694	-
Net income (loss)	$ (214,768)	$ (94,766)	$ 4,162	$ (175,090)	$ 265,694	$ (214,768)

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

Condensed Consolidating Statement of Operations						
For the nine months ended September 30, 2008						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Revenue:						
Net premiums earned	$ -	$ -	$ -	$ 1,188,932	$ (9,186)	$ 1,179,746
Investment related income	41,754	2,770	5,104	51,706	(26,473)	74,861
Management fees	78,797	14,041	-	-	(92,838)	-
	$ 120,551	$ 16,811	$ 5,104	$ 1,240,638	$ (128,497)	$ 1,254,607
Expenses:						
Claims incurred	$ -	$ -	$ -	$ 924,456	$ -	$ 924,456
Commissions and premium	-	-	-	231,235	-	231,235
Other expenses	66,296	21,238	177	211,798	(123,228)	176,281
Interest expense	3,928	21,100	4,612	3,739	(5,269)	28,110
	70,224	42,338	4,789	1,371,228	(128,497)	1,360,082
Income (loss) before unusual item and income taxes	50,327	(25,527)	315	(130,590)	-	(105,475)
Write-down of investment in subsidiary	-	-	-	-	-	-
Gain on buy-back of senior	-	-	-	-	-	-
Income (loss) from continuing operations before income taxes	50,327	(25,527)	315	(130,590)	-	(105,475)
Income taxes (recovery)	12,980	(8,679)	107	(36,698)	-	(32,290)
Income (loss) from continuing operations	37,347	(16,848)	208	(93,892)	-	(73,185)
Loss from discontinued operations	-	-	-	(7,292)	-	(7,292)
Gain on disposal of discontinued operations	34,985	-	-	-	-	34,985
Equity in undistributed net income of subsidiaries	(117,824)	(58,077)	-	-	175,901	-
Net income (loss)	$ (45,492)	$ (74,925)	$ 208	$ (101,184)	$ 175,901	$ (45,492)

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

Condensed Consolidating						
As at September 30, 2009						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Assets						
Investments in subsidiaries	$ 164,335	$ 853,594	$ -	$ (1,575,413)	$ 557,484	$ -
Cash	32,268	6,905	1,375	468,502	-	509,050
Securities	-	-	-	1,844,613	(16,753)	1,827,860
Goodwill and intangible assets	6,821	-	-	44,675	-	51,496
Other assets	57,932	99,652	94,756	1,186,071	(894,218)	544,193
Assets held for sale	-	-	-	129,899	-	129,899
	$ 261,356	$ 960,151	$ 96,131	$ 2,098,347	$ (353,487)	$ 3,062,498
Liabilities and Shareholders' Equity						
Liabilities:						
Bank Indebtedness	$ -	$ 201,487	$ -	$ (168,329)	$ 40,000	$ 73,158
Other liabilities	1,173	26,636	957	123,913	(42,107)	110,572
Provision for loss on investment in subsidiary	-	23,613	-	-	-	23,613
Unearned premiums	-	-	-	489,224	(117,055)	372,169
Unpaid claims	-	-	-	2,275,565	(387,304)	1,888,261
Senior unsecured debentures	-	118,525	77,641	(3,634)	(16,879)	175,653
Subordinated indebtedness	-	90,500	-	-	(3,093)	87,407
Liabilities held for sale	-	-	-	57,525	-	57,525
	$ 1,173	$ 460,761	$ 78,598	$ 2,774,264	$ (526,438)	$ 2,788,358
Shareholders' equity:						
Share capital	295,916	575,112	14,867	1,998,688	(2,588,667)	295,916
Contributed surplus	21,294	-	-	-	-	21,294
Retained Earnings	(118,053)	(75,722)	6,559	(2,745,883)	2,815,046	(118,053)
Accumulated other comprehensive income	61,026	-	(3,893)	71,278	(53,428)	74,983
	260,183	499,390	17,533	(675,917)	172,951	274,140
	$ 261,356	$ 960,151	$ 96,131	$ 2,098,347	$ (353,487)	$ 3,062,498

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

Condensed Consolidating Balance Sheet
As at December 31, 2008

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(an "Issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Assets						
Investments in subsidiaries	$ 409,577	$ 743,825	$ -	$ (1,470,854)	$ 317,452	$ -
Cash	21,335	5,603	543	68,839	-	96,320
Securities	-	-	-	2,398,072	(17,093)	2,380,979
Goodwill and other assets	5,996	-	-	57,897	-	63,893
Other assets	21,447	80,769	113,519	2,409,352	(1,934,620)	690,467
Assets held for sale	-	-	-	117,393	-	117,393
	$ 458,355	$ 830,197	$ 114,062	$ 3,580,699	$ (1,634,261)	$ 3,349,052
Liabilities and Shareholders'						
Liabilities:						
Bank Indebtedness	$ -	$ 170,175	$ -	$ -	$ (103,953)	$ 66,222
Other liabilities	4,784	30,652	16,818	(48,488)	125,564	129,330
Provision for loss on investment in subsidiary	-	-	-	-	-	-
Unearned premiums	-	-	-	786,527	(286,591)	499,936
Unpaid claims	-	-	-	3,109,263	(1,230,247)	1,879,016
Senior unsecured debentures	-	125,000	93,464	(16,383)	(16,878)	185,203
Subordinated indebtedness	-	90,500	-	-	(3,117)	87,383
Liabilities held for sale	-	-	-	48,390	-	48,390
	$ 4,784	$ 416,327	$ 110,282	$ 3,879,309	$ (1,515,222)	$ 2,895,480
Shareholders' equity:						
Share capital	322,344	459,133	10,667	1,880,918	(2,350,718)	322,344
Contributed surplus	9,791	-	-	-	-	9,791
Retained Earnings	98,563	(45,263)	2,397	(2,211,705)	2,254,572	98,564
Accumulated other comprehensive income	22,873	-	(9,284)	32,177	(22,893)	22,873
	453,571	413,870	3,780	(298,610)	(119,039)	453,572
	$ 458,355	$ 830,197	$ 114,062	$ 3,580,699	$ (1,634,261)	$ 3,349,052

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

Condensed Consolidating Statement of Cash Flows						
For the nine months ended September 30, 2009						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Cash provided by (used in):						
Operating activities:						
Net income (loss)	$ (214,768)	$ (94,766)	$ 4,162	$ (175,090)	$ 265,694	$ (214,768)
Loss (income) from discontinued operations	-	-	-	1,476	-	1,476
Equity in undistributed earnings in subsidiaries	201,388	64,306	-	-	(265,694)	-
Other	(33,242)	1,241	2,309	(208,402)	204,998	(33,096)
	(46,622)	(29,219)	6,471	(382,016)	204,998	(246,388)
Financing Activities:						
Share capital	(26,428)	115,979	4,200	-	(120,179)	(26,428)
Repurchase of common shares for cancellation	14,664	-	-	-	-	14,664
Contributed surplus	(3,440)	-	-	-	-	(3,440)
Dividends paid	6,042	-	-	-	-	6,042
Bank indebtedness and loans	-	31,051	(9,839)	(3,651)	(21,212)	(3,651)
Senior unsecured indebtedness	-	(3,205)	-	-	3,205	-
	(9,162)	143,825	(5,639)	(3,651)	(138,186)	(12,813)
Investing Activities:						
Purchase of securities	-	-	-	(3,211,069)	-	(3,211,069)
Proceeds from sale of	-	-	-	3,885,161	-	3,885,161
Proceeds from sale of	-	-	-	-	-	-
Acquisitions	66,812	(76,302)	-	74,361	(66,812)	(1,941)
Other	(95)	(37,002)	-	34,407	-	(2,690)
	66,717	(113,304)	-	782,860	(66,812)	669,461
Discontinued operations						
Operating activities	-	-	-	14,025	-	14,025
Financing activities	-	-	-	(7,891)	-	(7,891)
Investing activities	-	-	-	(3,107)	-	(3,107)
	-	-	-	3,027	-	3,027
Increase (decrease) in cash during the period	10,933	1,302	832	400,220	-	413,287
Cash abd cash equivalents, beginning of period	21,335	5,603	543	78,175	-	105,656
Cash and cash equivalents, end of period	$ 32,268	$ 6,905	$ 1,375	$ 478,395	$ -	$ 518,943
Less cash and cash equivalents of discontinued operations, end of period	-	-	-	9,893	-	9,893
Cash and cash equivalents of continuing opeartions at end of period	$ 32,268	$ 6,905	$ 1,375	$ 468,502	$ -	$ 509,050

KINGSWAY FINANCIAL SERVICES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the three and nine months ended September 30, 2009 and 2008
(Unaudited – tabular amounts in thousands of U.S. dollars)

Condensed Consolidating Statement of Cash Flows						
For the nine months ended September 30, 2008						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Cash provided by (used in):						
Operating activities:						
Net income (loss)	$ (45,492)	$ (74,925)	$ 208	$ (101,184)	$ 175,901	$ (45,492)
Loss (income) from discontinued operations	(34,985)	-	-	7,292	-	(27,693)
Equity in undistributed earnings in subsidiaries	117,824	58,077	-	-	(175,901)	-
Other	51,688	(34,731)	(237)	(396,064)	118,215	(261,129)
	89,035	(51,579)	(29)	(489,956)	118,215	(334,314)
Financing Activities:						
Share capital	(2,538)	111,683	-	-	(111,683)	(2,538)
Repurchase of common shares for cancellation	(1,276)	-	-	-	-	(1,276)
Contributed surplus	-	-	-	-	-	-
Dividends paid	(9,786)	-	-	-	-	(9,786)
Bank indebtedness and loans	(172,976)	(246)	173	(98,512)	98,585	(172,976)
Senior unsecured indebtedness	-	-	-	-	(17,517)	(17,517)
	(186,576)	111,437	173	(98,512)	(30,615)	(204,093)
Investing Activities:						
Purchase of securities	(1,625)	-	-	(2,401,348)	-	(2,402,973)
Proceeds from sale of	1,184	-	-	2,911,895	-	2,913,079
Proceeds from sale of	44,067	-	-	-	-	44,067
Acquisitions	87,600	-	-	(212)	(87,600)	(212)
Other	207	(62,568)	-	77,917	-	15,556
	131,433	(62,568)	-	588,252	(87,600)	569,517
Discontinued operations						
Operating activities	-	-	-	13,673	-	13,673
Financing activities	-	-	-	(2,329)	-	(2,329)
Investing activities	-	-	-	(6,708)	-	(6,708)
	-	-	-	4,636	-	4,636
Increase (decrease) in cash during the period	33,892	(2,710)	144	4,420	-	35,746
Cash abd cash equivalents, beginning of period	13,716	6,960	566	140,393	-	161,635
Cash and cash equivalents, end of period	$ 47,608	$ 4,250	$ 710	$ 144,813	$ -	$ 197,381
Less cash and cash equivalents of discontinued operations, end of period	-	-	-	14,674	-	14,674
Cash and cash equivalents of continuing opeartions at end of period	$ 47,608	$ 4,250	$ 710	$ 130,139	$ -	$ 182,707