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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS OF  
KINGSWAY FINANCIAL SERVICES INC.  
AND MANAGEMENT INFORMATION CIRCULAR**

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## INVITATION TO SHAREHOLDERS

It is my great pleasure to invite you to join our board of directors and the senior management of Kingsway Financial Services Inc. at our next annual and special meeting, which convenes at 4:00 p.m. (Toronto time) on May 5, 2005 at the Design Exchange at 234 Bay Street, Toronto, Ontario.

I urge you to attend if you can. This occasion is your opportunity to receive a first-hand account of how Kingsway Financial Services Inc. performed over the past 12 months, as well as to hear our plans for the future.

Should you have any questions for senior management, the annual meeting is an excellent place to raise them.

If you cannot attend in person, I encourage you to exercise the power of your proxy, which is well explained in the accompanying Management Information Circular.

I appreciate your participation, and I look forward to seeing you on May 5<sup>th</sup> in Toronto.

Sincerely,

(signed) **William G. Star**  
Chairman, President and  
Chief Executive Officer

March 16, 2005

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

**NOTICE IS HEREBY GIVEN THAT** an annual meeting (the "**Meeting**") of the shareholders of Kingsway Financial Services Inc. (the "**Corporation**") will be held at the Design Exchange, 234 Bay Street, Toronto, Ontario on Thursday May 5, 2005 at 4:00 p.m. (Toronto time) for the following purposes:

1. To receive the consolidated financial statements of the Corporation for the fiscal year ended December 31, 2004 together with the report of the auditors thereon;
2. To elect directors of the Corporation;
3. To appoint auditors; and
4. To transact such further and other business as may properly come before the Meeting or any adjournment thereof.

The accompanying Management Information Circular provides additional information relating to the matters to be dealt with at the Meeting and is deemed to form part of this Notice of Meeting.

**SHAREHOLDERS WHO ARE UNABLE TO ATTEND THE MEETING IN PERSON ARE REQUESTED TO COMPLETE, DATE AND SIGN THE ENCLOSED INSTRUMENT OF PROXY, AND TO RETURN IT IN THE ENVELOPE PROVIDED FOR THAT PURPOSE.**

Proxies to be used at the Meeting must be deposited with Computershare Trust Company of Canada, Proxy Department, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, before 4:00 p.m. (Toronto time) on May 3, 2005.

By Order of the Board

(signed) **W. Shaun Jackson**  
Executive Vice-President and  
Chief Financial Officer

Toronto, Ontario  
March 16, 2005

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## KINGSWAY FINANCIAL SERVICES INC.

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### MANAGEMENT INFORMATION CIRCULAR GENERAL PROXY INFORMATION

#### SOLICITATION OF PROXIES

This management information circular (the "Circular") is furnished in connection with the solicitation of proxies by or on behalf of the management of Kingsway Financial Services Inc. (the "Corporation" or "KFSI") for use at the annual meeting (the "Meeting") of shareholders of the Corporation (the "shareholders") to be held on Thursday, May 5, 2005, at 4:00 p.m. (Toronto time), or any adjournment thereof, at the Design Exchange, 234 Bay Street, Toronto, Ontario for the purposes set out in the accompanying notice of meeting (the "Notice of Meeting").

The solicitations will be made primarily by mail, but proxies may also be solicited personally or by telephone by directors, officers and regular employees of the Corporation at nominal cost. Banks, brokers, custodians, nominees and fiduciaries will be requested to forward the proxy soliciting materials to beneficial owners, and the Corporation will reimburse such persons for reasonable out-of-pocket expenses incurred by them in this connection. The expenses of soliciting proxies, including the cost of preparing, assembling and mailing this proxy material to shareholders, will be borne by the Corporation.

This Circular, the Notice of Meeting and accompanying Proxy are being mailed on or about April 11, 2005.

#### QUORUM

A quorum is required in order for the Meeting to be properly constituted. Twenty-five percent (25%) of the common shares in the capital of the Corporation ("Common Shares" or "shares") must be present in person or represented by proxy at the Meeting in order to form a quorum.

#### VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The authorized capital of the Corporation consists of an unlimited number of Common Shares. As of the close of business on March 16, 2005, 56,420,546 Common Shares were outstanding and entitled to vote. Each Common Share is entitled to one (1) vote. The outstanding Common Shares are listed on the Toronto Stock Exchange (the "TSX") and the New York Stock Exchange (the "NYSE") under the symbol KFS.

As of March 16, 2005, to the knowledge of the directors and officers of the Corporation, no person beneficially owned or exercised control or direction over more than ten (10%) percent of the outstanding Common Shares.

All information is as at March 16, 2005, unless otherwise indicated.

#### Q&A ON PROXY VOTING

**Q:** What am I voting on?

**A:** Shareholders are voting on the election of directors to the board of directors of the Corporation (the "Board") for 2005 and the appointment of auditors for the Corporation for 2005.

**Q: Who is entitled to vote?**

A: Shareholders as of the close of business on March 16, 2005 (the "**Record Date**") are entitled to vote. Each Common Share is entitled to one vote on those items of business identified in the Notice of Meeting.

If you acquired your shares after the Record Date, please refer to the answer to the question "What if ownership of shares has been transferred after March 16, 2005?" to determine how you may vote such shares.

**Q: How do I vote?**

A: There are two ways you can vote your shares if you are a registered shareholder. You may vote in person at the Meeting or **you may sign the enclosed form of proxy appointing the named persons or some other person you choose, who need not be a shareholder, to represent you as proxyholder and vote your shares at the Meeting.** If your shares are held in the name of a nominee, please refer to the answer to the question "If my shares are not registered in my name but are held in the name of a nominee (a bank, trust company, securities broker, trustee or other), how do I vote my shares?" to determine how you may vote your shares.

**Q: What if I plan to attend the Meeting and vote in person?**

A: If you are a registered shareholder and plan to attend the Meeting on May 5, 2005 and wish to vote your shares in person at the Meeting, do not complete or return the form of proxy. Your vote will be taken and counted at the Meeting. Please register with the transfer agent, Computershare Trust Company of Canada, upon arrival at the Meeting. If your shares are held in the name of a nominee and you wish to attend the Meeting, refer to the answer to the question "If my shares are not registered in my name but are held in the name of a nominee (a bank, trust company, securities broker, trustee or other), how do I vote my shares?" for voting instructions.

**Q: Who is soliciting my proxy?**

A: **The enclosed form of proxy is being solicited by management of Kingsway Financial Services Inc.** and the associated costs will be borne by the Corporation. The solicitation will be made primarily by mail but may also be made by the telephone, in writing or in person by the employees of the Corporation and/or Computershare Trust Company of Canada.

**Q: What happens if I sign the form of proxy enclosed with this Circular?**

A: Signing the enclosed form of proxy gives authority to F. Michael Walsh, or failing him, William G. Star, the lead director and the President of the Corporation respectively, or to another person you have appointed, to vote your shares at the Meeting.

**Q: Can I appoint someone other than these representatives to vote my shares?**

A: Yes. **Write the name of this person, who need not be a shareholder, in the blank space provided in the form of proxy.** It is important to ensure that any other person you appoint is attending the Meeting and is aware that he or she has been appointed to vote your shares. Proxyholders should, upon arrival at the Meeting, present themselves to a representative of Computershare Trust Company of Canada.

**Q: What do I do with my completed proxy?**

A: Return it to the Corporation's transfer agent, Computershare Trust Company of Canada, in the envelope provided, at "Computershare Trust Company of Canada, Proxy Department, 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1, or by fax to 1-866-249-7775, so that it arrives no later than 4:00 p.m. (Toronto time) on May 3, 2005. This will ensure that your vote is recorded.

**Q: If I change my mind, can I take back my proxy once I have given it?**

A: Yes. If you change your mind and wish to revoke your proxy, prepare a written statement to this effect. The statement must be signed by you or your attorney as authorized in writing or, if the shareholder is a corporation, signed under its corporate seal or by a duly authorized officer or attorney of the corporation. This statement must be delivered either to the head office of the Corporation no later than 4:00 p.m. (Toronto time) on May 4, 2005 or to the Chairman on the day of the Meeting, May 5, 2005, or any adjournment of the Meeting, prior to the time of voting.

**Q: How will my shares be voted if I give my proxy?**

A: On the form of proxy, you can indicate how you want your proxyholder to vote your shares, or you can let your proxyholder decide for you. If you have specified on the form of proxy how you want your shares to be voted on a particular issue, then your proxyholder must vote your shares accordingly. If you have not specified on the form of proxy how you want your shares to be voted on a particular issue, then your proxyholder can vote your shares as he or she sees fit. **In the absence of such directions, however, your shares will be voted in favour of the election of directors to the Board and the appointment of auditors.**

**Q: What if amendments are made to these matters or if other matters are brought before the Meeting?**

A: **The persons named in the form of proxy will have discretionary authority with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting.**

As of the date of this Circular, management of the Corporation knows of no such amendment, variation or other matter expected to come before the Meeting. If any other matters properly come before the Meeting, the persons named in the form of proxy will vote on them in accordance with their best judgement.

**Q: How many shares are entitled to vote?**

A: As of March 16, 2005, there were 56,420,546 Common Shares outstanding. Each registered shareholder has one vote for each Common Share held at the close of business on March 16, 2005.

**Q: What if ownership of shares has been transferred after March 16, 2005?**

A: The person who acquired such shares after March 16, 2005 must produce properly endorsed share certificates or otherwise establish that he or she owns the shares and must ask the Corporation no later than 4:00 p.m. (Toronto time) on April 25, 2005 that his or her name be included in the list of shareholders before the Meeting in order to be entitled to vote these shares at the Meeting.

**Q: How will the votes be counted?**

A: Each question brought before the Meeting is determined by a majority of votes cast on the question. In the case of equal votes, the Chairman of the Meeting is not entitled to a second or casting vote.

**Q: Who counts the votes?**

A: The Corporation's transfer agent, Computershare Trust Company of Canada, counts and tabulates the proxies. This is done independently of the Corporation to preserve the confidentiality of individual shareholder votes. Proxies are referred to the Corporation only in cases where a shareholder clearly intends to communicate with management or when it is necessary to do so to meet the requirements of applicable law.

**Q: If I need to contact the transfer agent, how do I reach them?**

A: You can contact the transfer agent as follows:

by mail:

Computershare Trust Company of Canada  
Proxy Department  
100 University Avenue, 9th Floor  
Toronto, Ontario, M5J 2Y1

by telephone:

within Canada and the United States at 1-800-564-6253  
- all other countries (416) 981-9633  
or by email:  
service@computershare.com

**Q: If my shares are not registered in my name but are held in the name of a nominee (a bank, trust company, securities broker, trustee or other), how do I vote my shares?**

A: There are two ways you can vote your shares held by your nominee. Unless you have previously informed your nominee that you do not wish to receive material relating to the Meeting, you will have received this Circular from your nominee, together with a request for voting instructions for the number of shares you hold.

There are two kinds of beneficial owners – those who object to their name being made known to the issuer of securities which they own (called OBOs for Objecting Beneficial Owners) and those who do not object to the issuers of the securities they own knowing who they are (called NOBOs for Non-Objecting Beneficial Owners). Up until September 2002, the Corporation (including the directors and officers of the Corporation) had no knowledge of the identity of any of their beneficial owners including NOBOs. Subject to the provision of National Instrument 54-101, Communication with Beneficial Owners of Securities of Reporting Issuers, (the “**Instrument**”), after September 1, 2002 issuers could request and obtain a list of their NOBOs from intermediaries via their Transfer Agents. Effective for shareholder meetings taking place on or after September 1, 2004 issuers can obtain and use this NOBO list for distribution of proxy-related materials directly (not via ADP) to NOBOs.

This year, the Corporation has decided to take advantage of those provisions of the Instrument that permit it to directly deliver proxy-related materials to its NOBOs. As a result NOBOs can expect to receive a scannable Voting Instruction From (VIF) from our Transfer Agent, Computershare Trust Company of Canada (or Computershare Investor Services Inc. as the case might be) (“Computershare”). These VIFs are to be completed and returned to Computershare in the envelope provided or by facsimile. In addition, Computershare provides both telephone voting and internet voting as described on the VIF itself which contain complete instructions. Computershare will tabulate the results of the VIFs received from NOBOs and will provide appropriate instructions at the Meeting with respect to the shares represented by the VIFs they receive.

These shareholders materials are being sent to both registered and non-registered owners of the securities. If you are a non-registered owner, and the Corporation or its agents sent these materials directly to you, your name and address and information about your holdings of securities, have been obtained in accordance with applicable securities regulatory requirements from the intermediary holding on your behalf. By choosing to send these materials to you directly, the Corporation (and not the intermediary holding on your behalf) has assumed responsibility for (i) delivering these materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.

If you are an OBO, for your shares to be voted for you, please follow the voting instructions provided by your nominee. If you are a non-registered shareholder who has voted and want to change your mind and vote in person, contact your nominee to discuss whether this is possible and what procedure to follow.

If you are a NOBO or an OBO and wish to attend and vote your shareholdings at the Meeting, the Corporation will have no record of your shareholdings or of your entitlement to vote unless your nominee has appointed you as proxyholder. Therefore, if you wish to vote in person at the Meeting, insert your own name in the space provided on the voting instruction form sent to you by your nominee. Then sign and return the voting instruction form by following the signing and returning instructions provided by your nominee. By

doing so, you are instructing your nominee to appoint yourself as proxyholder. Do not otherwise complete the voting instruction form as your vote will be taken at the Meeting. Please register with the transfer agent, Computershare Trust Company of Canada, upon arrival at the Meeting.

## **STATEMENT OF CORPORATE GOVERNANCE PRACTICES**

The TSX has implemented rules that require corporations that have shares listed on the TSX to provide annual disclosure of their approach to corporate governance with specific reference to each of the 14 guidelines established by the TSX for effective corporate governance (the "**TSX Guidelines**"). In addition, recent regulatory developments in Canada have been introduced by the proposed National Instrument 58-101 (Disclosure of Corporate Governance Practices) of the Canadian Securities Administrators, which the TSX has proposed will replace the TSX Guidelines. In the U.S., the United States *Sarbanes-Oxley Act of 2002* ("**SOX**"), and the NYSE new listing standards and corporate governance requirements (the "**NYSE Provisions**") have also enhanced corporate governance practices.

A detailed description on the Corporation's governance practices setting forth the Corporation's compliance with each of the 14 TSX Guidelines and certain requirements of the NYSE Provisions is provided in Schedule "A" to this Circular. The following is an overview on the Corporation's governance policies and practices, together with reports of Board committees which summarise the mandates and activities of each committee.

### **OVERVIEW OF CORPORATE GOVERNANCE PRACTICES**

#### **Assumption of Responsibilities by the Board of Directors**

The Board participates fully in assessing and approving strategic plans and prospective decisions proposed by management. In order to ensure that the principal business risks borne by the Corporation are appropriate, the Board receives and comments on periodic reports from management of the Corporation's assessment and management of such risks. The Board regularly monitors the financial performance of the Corporation, including receiving and reviewing detailed financial information contained in management reports. The Board, directly and through the Audit Committee, assesses the integrity of the Corporation's internal control and management information systems. In 2002, the Board adopted a Disclosure Policy and established a Disclosure Policy Committee consisting of the Chief Executive Officer, the Executive Vice-President and the Secretary of the Corporation to determine among other things, the appropriateness and timing of the release of information with respect to developments at the Corporation.

The Board regularly receives reports regarding the training and monitoring of senior management of the Corporation and its subsidiaries. Input is received at meetings of the Audit Committee, the Compensation and Management Resources Committee and the Board regarding the performance of senior management. Both the Compensation and Management Resources Committee and the Board have specifically assumed responsibility for reviewing the performance of senior management.

The Board meets at least four times each year, and more frequently as required. The frequency of meetings as well as the nature of the agenda items change depending on the state of the Corporation's affairs and in light of opportunities or risks which the Corporation faces from time to time. In 2004, the full Board met in person 9 times.

#### **Corporate Governance Principles**

In 2002, the Board formally adopted a set of corporate governance principles. These principles provide guidelines on Board size, independence of Board members, nominating and orientation of new directors, retirement and resignation of Board members, conduct of Board meetings, conflicts of interest, share ownership by directors, compensation review, assessing Board and committee performance, interaction with third parties and confidentiality. The principles also required each of the Board committees to adopt a written charter approved by the Board, as well as set out minimum number of committee meetings.

In 2004, the Board explicitly delegated to the Audit Committee the obligation to periodically review and provide recommendations, from time to time, to ensure that the corporate financial reporting practices of the Corporation comply with the TSX Guidelines, the NYSE Provisions and all other securities requirements.

### **Composition of the Board of Directors**

The TSX Guidelines define an "inside director" as one who is a member of management; an "outside director" as one who is not a member of management; an "unrelated director" as a director who is independent of management and free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the company, other than interests and relationships arising from shareholding; a "related director" as a director who is not an unrelated director or is a member of management; and a "significant shareholder" as a shareholder with the ability to exercise a majority of the votes for the election of the board of directors. This Circular adopts such definitions.

The TSX Guidelines state that the board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. Seven individuals are nominees proposed for election. The majority of directors are unrelated directors in accordance with the provisions of the TSX Guidelines and are independent directors as outlined in the NYSE Provisions. Six of the proposed nominees for director are unrelated directors. The only related director is William G. Star, the President and Chief Executive Officer of the Corporation.

The Corporation does not have any "significant shareholders" as that term is defined in the TSX Guidelines. The Board believes that the size and composition of the Board serves the Corporation and its shareholders well. The Board believes that all of its directors, including its related director, make a valuable contribution to the Board and the Corporation. As indicated above, a majority of the Corporation's directors are unrelated. The director who is related possesses extensive knowledge of the Corporation's business and has extensive business experience, both of which have proven to be beneficial to the other directors, and his participation as a director contributes to the effectiveness of the Board. The Board also believes that the directors are sensitive to conflicts of interest and excuse themselves from deliberations and voting in appropriate circumstances.

### **Committees**

The Board has four committees, an Audit Committee, a Compensation and Management Resources Committee, an Investment Committee and a Nominating Committee. The Board committees other than the Investment Committee are composed solely of outside directors who are unrelated in accordance with the provisions of the TSX Guidelines and independent as contemplated by the NYSE Provisions.

A majority of the directors on the Investment Committee are outside directors who are unrelated in accordance with the TSX Guidelines and independent as contemplated by the NYSE Provisions. The composition, mandate and activities of each committee are set out under "Statement of Corporate Governance Practices – Reports of Board Committees" of this Circular.

The composition of the Audit Committee complies with the NYSE Provisions and the provisions of the Canadian Securities Administrators. The Audit Committee Charter can be found as Appendix I of the Corporation's 2004 Annual Information Form dated March 31, 2005 and additional information about the Audit Committee can be found under the heading "Audit Committee Information" in the same document.

### **Board Functioning and Independence**

In accordance with the TSX Guidelines, the Corporation has established a process to provide an orientation and education program for new recruits to the Board. Such orientation and education program consists of orientation sessions with management, a review of prior Board activity, and meetings with management of subsidiaries.

The Board has a formal policy that all acquisitions and divestitures of a material nature require the approval of the Board. In addition, the Board policy requires that all major strategic decisions, including any change in the strategic direction of the Corporation be presented by management to the Board for approval. As part of its ongoing activity, the Board regularly receives and comments upon reports of management as to the performance of the Corporation's business and management's expectations and planned actions in respect thereto.

The Board reviews the adequacy and form of the compensation of directors to ensure the compensation realistically reflects the responsibility and risk involved in being an effective director. The Board has made it a priority to continue to examine and develop the processes which it follows in its deliberations in order that it will continue to

fulfil its mandate. As well, the Audit Committee, composed entirely of outside directors, has assumed responsibility to act as a Conduct Review Committee to review related party transactions and balances. Commencing in 2002, the Board implemented a peer review procedure, whereby the performance of each Board member was reviewed by other Board members and the performance of the Board as a whole was reviewed by Board members. This process was expanded in 2004 to include evaluations of the effectiveness of individual committees and the performance of the Lead Director.

The Board and the Chief Executive Officer engage in regular dialogue regarding the performance of the senior management team, including the Chief Executive Officer, in achieving the Corporation's strategic objectives as determined by management and the Board. As the Board has plenary power, any responsibility which is not delegated to management or a Board committee remains with the Board.

The Board has formally adopted a resolution to meet at least twice annually, without management present. In addition, the Board conducts a session without management present each year to review the recommendations of the Compensation and Management Resources Committee. The Compensation and Management Resources Committee also conducts part of its deliberations without management present. As well, the Audit Committee has a policy to meet periodically and at least annually with the Corporation's internal and external auditors without management present.

In February, 2003, the Board formally created the position of Lead Director. The Lead Director's responsibilities include acting as liaison between the Board and the Chief Executive Officer and establishing, in consultation with the Chairman and Chief Executive Officer, both the agenda for Board meetings and procedures to govern the Board's performance, and chairing the meetings of directors where management is not present. The Board has appointed F. Michael Walsh as the Lead Director of the Corporation.

In accordance with the provisions of the TSX Guidelines, the Board has implemented a system which enables an individual director to engage an outside advisor at the expense of the Corporation in appropriate circumstances. Prior approval of the Chairman and Chief Executive Officer or the Chair of the Audit Committee is required for the retention of such an advisor.

In addition, the charter established by each of the Audit Committee, the Compensation and Management Resources Committee, the Investment Committee and the Nominating Committee provide for authority for each such committee to engage internal and external legal, accounting and other advisors, and for the committee to determine the funding necessary for compensation to such advisors.

### **Shareholder Communications**

The Corporation endeavours to keep all shareholders well informed as to the financial performance of the Corporation, primarily by means of its annual and quarterly reports, and by press releases. The Board has specifically adopted a disclosure policy in furtherance of these goals which can be found on the Corporation's website at [www.kingsway-financial.com](http://www.kingsway-financial.com).

Management of the Corporation is receptive to shareholder feedback in any form. It is the policy of the Corporation to receive and respond promptly to shareholder enquiries, while being guided by legal requirements as well as the Corporation's policies in respect to confidentiality and disclosure.

The Board is satisfied that the Corporation's comprehensive governance program is consistent with, and in many instances goes beyond, the TSX Guidelines and the NYSE Provisions. A detailed comparison of the Corporation's governance procedures compared with the TSX Guidelines is set forth in Schedule "A" to this Circular.

### **Code of Business Conduct and Ethics**

In 2003, the Corporation formally adopted a Code of Business Conduct and Ethics and related policies, which sets high standards for ethical behaviour throughout the organization.

The Code of Business Conduct and Ethics provides the entire organization with the same frame of reference for dealing with sensitive and complex issues such as conflicts of interest, use of information, confidentiality of personal

information, confidentiality of business information, corporate opportunities, use of inside information, fair trading, protection and use of company assets, accounting practices, records retention, compliance with laws, rules and regulations, and duty to report and consequences.

In February, 2004, in accordance with the NYSE Provisions, the Board also adopted a separate Code of Ethics for the Chief Executive Officer, the Chief Financial Officer and other senior financial executives. Both this document and the Code of Business Conduct and Ethics can be found on the Corporation's website at [www.kingsway-financial.com](http://www.kingsway-financial.com).

### **Whistleblower Policy**

In December 2004, the Board adopted a Whistleblower Policy and delegated to the Audit Committee the responsibility of investigating and resolving all reported complaints made pursuant to the policy. The Whistleblower Policy can be found on the Corporation's website at [www.kingsway-financial.com](http://www.kingsway-financial.com).

## **REPORTS OF BOARD COMMITTEES**

### **Report of the Audit Committee**

The Audit Committee is responsible for the Corporation's financial reporting process and the quality of its financial reporting. In discharging its responsibilities, the Audit Committee meets regularly with the Corporation's external auditors, internal auditors, actuaries and Chief Financial Officer. In 2002, the Audit Committee formally adopted an Audit Committee charter, which sets forth purposes of the Audit Committee and guidelines for its practices. In 2004, the Audit Committee amended its charter following a review thereof in light of the NYSE Provisions.

Under its charter, the Audit Committee's primary duties and responsibilities are:

- to identify and monitor the management of the principal risks that could impact the financial reporting of the Corporation;
- to monitor the integrity of the Corporation's financial reporting process and system of internal controls regarding financial reporting and accounting appropriateness and compliance;
- to review the corporate governance practices of the Corporation and recommend any modifications thereto;
- to monitor the independence and performance of the Corporation's external auditors and the external appointed actuary;
- to provide an avenue of communication among the external auditors, external actuary, management and the Board; and
- to review the annual audited financial statements with management and the external auditors.

In carrying out its duties and responsibilities, the Audit Committee is required to perform the following tasks:

#### *Review Procedures*

- reviewing and reassessing the adequacy of its charter at least annually and submit the charter to the Board for approval;
- reviewing the Corporation's annual audited financial statements and related documents prior to filing or distribution; reviewing should include discussion with management and external auditors of significant issues regarding accounting principles, practice, and significant management estimates and judgments;
- annually, in consultation with management, external auditors, and external appointed actuary, considering the integrity of the Corporation's financial reporting processes and controls; discussing significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures; reviewing significant findings prepared by the external auditors together with management's responses;
- reviewing the effectiveness of the overall process for identifying the principal risks affecting financial reporting and providing the Committee's view to the Board;

- reviewing the Corporation's quarterly financial results and related documents prior to the release of earnings and/or the Corporation's quarterly financial statements prior to filing and consideration by the full Board;

*External Auditors*

- reviewing the independence and performance of the auditors and annually recommending to the Board the appointment of the external auditors or approving any discharge of auditors when circumstances warrant;
- approving the appointment, compensation and work carried out by the external auditors, including the provision of both audit related and non-audit related services;
- reviewing and discussing annually with the external auditors all significant relationships they have with the Corporation that could impair the auditors' independence;
- reviewing the external auditors' audit plan – discussing and approving audit scope, staffing, locations, reliance upon management and general audit approach;
- prior to releasing the year-end earnings, discussing the results of the audit with the external auditors; discussing certain matters required to be communicated to audit committees in accordance with the standards established by the Canadian Institute of Chartered Accountants;
- considering the external auditors' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in the Corporation's financial reporting;
- considering the external actuary's judgment about appropriateness of management's selection of assumptions and methods to determine the unpaid claims liabilities included in the Corporation's year-end financial statements;

*Internal Audit and Legal Compliance*

- reviewing significant internal audit reports together with management's response and following-up these reports;
- reviewing at least annually with the Corporation's counsel any legal matters that could have a significant impact on the Corporation's financial statements, its compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies;

*Other Audit Committee Responsibilities*

- annually assessing the effectiveness of the Committee against its charter and reporting the results of the assessment to the Board;
- establishing, reviewing, and updating periodically the Corporation's Code of Business Conduct and Ethics and the supplemental Code of Ethics for Senior Officers adopted in response to the NYSE Provisions and ensuring that management has established a system to enforce these Codes;
- reviewing financial and accounting personnel succession planning within the Corporation; and
- annually reviewing a summary of directors' and officers' related party transactions and potential conflicts of interest.

In addition to the above, during 2004 the Audit Committee reviewed the progress of the Corporation with respect to its preparedness for compliance with Section 404 of SOX, evaluated the appropriateness of changing the currency of the Corporation's financial reporting to U.S. dollars and approved an Anti-Fraud Policy for implementation at the Corporation's business units. In addition, the Audit Committee adopted a written policy relating to the manner in which non-audit fees charged by the Corporation's auditors are approved.

The Audit Committee reviewed all related party transactions between the Corporation and its subsidiaries and the officers and directors of the Corporation. The Committee determined that there were no related party transactions that required disclosure under any securities laws other than commissions of approximately US\$89,341 paid by a cruise ship operator to a Corporation owned by the spouse of the President and Chief Executive Officer for incentive cruise sponsored by the Corporation for certain of its brokers.

The Audit Committee's charter requires all Committee members satisfy the applicable independence requirements of the TSX, the NYSE Provisions, the Canadian Securities Administrators and all other regulatory requirements. During the fiscal year of the Corporation ending December 31, 2004, the Committee was comprised of Messrs. Atkins, Di

Giacomo and Walsh, each of whom met the independence and the financial literacy requirements of the TSX Guidelines and the NYSE Provisions. The Board had determined that Mr. Atkins is an "audit committee financial expert" as contemplated by the NYSE Provisions.

The Committee is satisfied that it appropriately fulfilled its mandate during the year ending December 31, 2004.

(signed) **David H. Atkins**  
Chair

### **Report of the Compensation and Management Resources Committee**

#### **Mandate and Activities of the Compensation and Management Resources Committee**

The Compensation and Management Resources Committee formally adopted its charter in 2002. This charter was reviewed and amended in 2004. Under its charter, the primary purposes of the Committee are:

- to assist the Board in discharging its responsibilities in respect of compensation of the Corporation's executive officers, including setting salary and annual bonus levels for the Corporation's senior executive officers as well as overseeing the senior staff bonus plans, subject to the approval of the Board;
- to produce an annual report for inclusion in the Corporation's information circular on executive compensation;
- to provide recommendations to the Board in connection with directors' compensation; and
- to provide recommendations to the Board in connection with succession planning for senior management of the Corporation.

In carrying out its primary purposes, the Committee is required to perform the following work:

- developing guidelines and approving corporate goals relevant to the compensation of the Chief Executive Officer, evaluating the Chief Executive Officer's performance in light of these goals and objectives, recommending to the Board the Chief Executive Officer's compensation based on this evaluation, and producing an annual report on executive compensation for inclusion in the Corporation's management information circular, in accordance with applicable rules and regulations;
- reviewing the annual performance evaluations of all senior officers of the Corporation and its insurance subsidiaries;
- making recommendations to the Board with respect to incentive-compensation plans and equity-based plans, and establishing criteria for the granting of options to the Corporation's officers and other employees and reviewing and approving the granting of options in accordance with such criteria;
- developing plans for managerial succession of the Corporation;
- reviewing director compensation levels and practices, and recommending, from time to time, changes in such compensation levels and practices to the Board; and
- reviewing and reassessing the adequacy of its charter and recommending any proposed changes to the Board for approval.

During 2004, the Committee reviewed and amended the bonus plans for each category applicable to employees of the Corporation and its subsidiaries. All subsidiary bonus plans now include a component which is based upon the increase in year-to-year profit earned by the particular subsidiary at which the individual is employed. In addition, all bonus plans now provide that a portion of an individual's bonus must relate to or only be earned upon the achievement of personal goals established at the beginning of the year. The amendments also increase the maximum cash bonus available under certain incentive plans. These amendments will become effective beginning in 2005.

The Committee's charter requires that Committee members satisfy the applicable independence requirements of the TSX and other regulatory requirements. During the fiscal year of the Corporation ending December 31, 2004, the Committee was comprised of Messrs. Beamish, Di Giacomo and Gluckstein, each of whom met the independence requirements of the TSX Guidelines and the NYSE Provisions.

## **Report on Executive Compensation**

### *Compensation Philosophy*

The Corporation's executive officer compensation plans are intended to provide an appropriate overall compensation package that will permit the Corporation to attract and retain highly qualified and experienced senior executive officers and to encourage superior performance by the Corporation. The Corporation's compensation policies are intended to motivate individuals to achieve results at the specific subsidiary at which they are employed as well as compensation based upon overall corporate results. In addition, the Corporation believes that directors, officers and employees should have their benefits aligned with both the short and long term interests of the shareholders. Among other things, the Board encourages equity ownership by executive officers.

The compensation of the Corporation's executive officers is comprised of three components: base salary, annual cash bonus, and long-term incentive in the form of stock options. It is structured to be competitive with a select group of comparative North American insurance companies. A portion of the annual cash bonus is directly related to the overall performance of the Corporation with respect to the return on equity of the Corporation.

The Corporation strongly believes that annual incentives and stock options play an important role in increasing shareholder value. Cash bonuses and stock options are directly related to the overall performance of the Corporation, the performance of the particular subsidiary at which the individual is employed and the individual's contribution to such performance. The modifying factors and their respective weight are reviewed by the Compensation and Management Resources Committee.

### *Base Salary*

The base salary for the President and Chief Executive Officer and each Named Executive Officer set out on page 17 is reviewed annually by the Compensation and Management Resources Committee within the context of individual and corporate performance and market competitiveness. The market assessment is based primarily on a review of compensation practices for similar insurance companies for comparable positions, taking into consideration the size, complexity and incumbent experience.

### *Stock Options*

The purpose of the Corporation's stock option plan is to develop the interest and incentive of eligible employees, officers and directors in the Corporation's growth and development by giving an opportunity to purchase Common Shares on a favorable basis, thus advancing the interests of the Corporation by enhancing the value of the Common Shares for the benefit of all shareholders and increasing the ability of the Corporation to attract and retain skilled and motivated individuals.

Stock options are granted in accordance with the Stock Option Plan approved by the shareholders at not less than the closing price of the Common Shares on the business day immediately prior to the date of grant particularly in light of the fact that the Corporation has no pension plan for its executives. The number of stock options to be granted to directors (other than directors who are employees or officers of the Corporation or its subsidiaries) is limited to not more than 5,000 per annum.

### *President and Chief Executive Officer*

The Compensation and Management Resources Committee believes that Mr. Star provides leadership for the Corporation and its subsidiaries in various areas which are integral to the Corporation's success including, business development, strengthening of claims management, establishing policies to underwrite risks only where premium is adequate, maintaining good lines of communication with the investor community and with regulators and other management processes. In making their compensation decision, the Committee considered these factors and the

business performance and anticipated future performance of the Corporation. As well, particularly in light of the fact that the Corporation has no pension plan for its executives, the Committee was of the view that the President's overall compensation was lower than that for Presidents and Chief Executive Officers of similarly sized insurers.

The President and Chief Executive Officer's compensation consists of a base salary, an annual cash bonus and various perquisites. In 2004, the base salary accounted for approximately 49% of all cash compensation paid to the President and Chief Executive Officer. Pursuant to the Corporation's bonus plan, bonus awards may be made to the President and Chief Executive Officer and other senior executives based upon several factors, including the Corporation's return on equity, the performance of the department with respect to which such senior executive has responsibility, and the achievement of stipulated individual goals of such senior executive. In 2004, discretion permitted under the Corporation's bonus plan was exercised to award extraordinary bonuses. The Compensation and Management Resources Committee exercised this discretion as a result of the strong performance of the Corporation, improvements in claims management and a recognition that the maximum awards under certain of the Corporation's incentive plans were not comparable to those offered by similarly sized insurers.

This report is submitted by the Compensation and Management Resources Committee.

(signed) **Bernard Gluckstein**  
Chair

## Report of the Investment Committee

In 2003, the Investment Committee formally adopted its charter. Under its charter, the primary purposes of the Investment Committee are:

- to assist the Board and management in respect of the management of the invested assets of the Corporation and its subsidiaries;
- to develop and monitor investment policies and guidelines for the Corporation and its subsidiaries;
- to provide recommendations to the Board in connection with the hiring of external managers;
- to meet with and monitor the performance of external managers; and
- to produce an annual report for inclusion in the Corporation's information circular.

To accomplish its purposes, the Investment Committee is required to perform the following tasks:

- developing and reviewing the investment policies and guidelines from time to time;
- reviewing the investment activities of the Corporation to ensure that they are within the guidelines established by the investment policies from time to time approved by the Board;
- reviewing compliance with the investment policies and guidelines adopted from time to time by the Corporation's subsidiaries and any external managers;
- monitoring the performance of external investment managers;
- making recommendations to the Board with respect to the asset mix for the investment assets of the Corporation and its subsidiaries;
- making recommendations to the Board with respect to the appointment of new external investment managers;
- making recommendations to the Board with respect to the amounts allocated to individual investment managers from time to time; and
- preparing a report for inclusion in the Corporation's information circular.

Pursuant to its charter, the majority of Investment Committee members must satisfy the applicable independence requirements of the TSX and other regulatory requirements.

During the fiscal year of the Corporation ending December 31, 2004, the Committee was comprised of Messrs. Di Giacomo, Star, and Walsh. The majority of directors on the Investment Committee meet the independence requirements of the TSX Guidelines and the NYSE Provisions.

During 2004, the Investment Committee met with the investment managers retained by the Corporation on two occasions and reviewed reports provided by such investment managers on a more frequent basis. The Investment Committee reported to the Board on its findings and made recommendations with respect to the investment activities of the Corporation. The Committee also allocated additional funds to certain external investment managers.

This Report is submitted by the Investment Committee.

(signed) **Thomas A. Di Giacomo**  
Chair

### **Report of the Nominating Committee**

The Nominating Committee was established in November 2001 by the Corporation. In 2003, the Nominating Committee adopted a formal charter. Pursuant to its charter, the primary objectives of the Nominating Committee are to assist the Board by:

- identifying individuals qualified to become Board members and recommending that the Board select director nominees for each next annual meeting of the Corporation's stockholders; and
- ensuring that the Audit Committee, Investment Committee, Nominating Committee and Compensation and Management Resources Committee of the Board have the benefit of qualified and experienced "independent" directors.

To accomplish its objectives, the Nominating Committee is required to perform the following tasks:

- developing policies on the size and composition of the Board;
- reviewing possible candidates for Board membership consistent with the Board's criteria for selecting new directors;
- conducting a performance evaluation of the individual directors and of the Board and its Committees on an annual basis;
- annually recommending a slate of nominees to the Board with respect to nominations for the Board at the annual meeting of the Corporation's stockholders;
- making recommendations to the Board relating to composition of Board committees;
- making recommendations with respect to the composition and size of boards of directors of the Corporation's subsidiaries;
- advising the Board on committee member qualifications, committee member appointments and removals, committee structure and operations (including authority to delegate to subcommittees), and committee reporting to the Board;
- maintaining an orientation program for new directors and a continuing education program for all directors; and
- annually reviewing and reassessing the adequacy of its charter and recommending any proposed changes to the Board for approval.

The charter of the Nominating Committee requires that all committee members satisfy the applicable independence requirements of the TSX, the NYSE Provisions and other regulatory requirements. During the fiscal year of the Corporation ending December 31, 2004, the Committee was comprised of Messrs. Atkins, Walsh and Reeve. Accordingly, all members of the Nominating Committee satisfy the independence requirements of the TSX Guidelines and the NYSE Provisions.

This Report is submitted by the Nominating Committee.

(signed) **F. Michael Walsh**  
Chair

# EXECUTIVE COMPENSATION

## COMPENSATION OF DIRECTORS

### HOW WAS THE BOARD COMPENSATED IN 2004?

- Number of directors at March 16, 2005: 7 (6 non-employee, 1 management)
- Directors' compensation is paid only to non-employee directors
- Lead Director Retainer: \$50,000
- Annual retainer: \$25,000
- Board meeting fee: \$1,500
- Committee meeting fee: \$1,500 per meeting
- Committee Chair retainers: \$2,000, except Audit Committee Chair retainer: \$7,500
- Board and Committee Fees for outside directors sitting on boards of subsidiaries: \$5,000 retainer and \$1,000 per board or committee meeting
- Related travel and out-of-pocket expenses

The Corporation has adopted a policy whereby directors of the Corporation other than those employed on a full time basis receive options to acquire Common Shares of the Corporation annually. The number of options, up to a maximum of 5,000 per annum, is determined by the Board after reviewing the recommendations of the Compensation and Management Resources Committee. Individuals who have served on the Corporation's Board for more than a full year received options to acquire 5,000 Common Shares with respect to 2004.

The Corporation, in 2004, adopted a policy which requires all directors of the Corporation to hold not less than 5,000 Common Shares of the Corporation before the later of the third anniversary of becoming a director of the Corporation and February 12, 2007.

### SHAREHOLDINGS OF BOARD MEMBERS

- Total Common Shares held by non-employee directors: 171,950<sup>(a)</sup>
- Total value of Common Shares held by non-employee directors: \$3,292,843<sup>(b)</sup>

Notes:

(a) Shareholdings of the non-employee directors as at March 16, 2005.

(b) Based on the closing price of the Common Shares on the Toronto Stock Exchange as of March 16, 2005: \$19.15

### SUMMARY OF BOARD AND COMMITTEE MEETINGS HELD

#### For the 12-month period ended December 31, 2004

Board	9
Audit Committee	5
Compensation and Management Resources Committee	3
Investment Committee	2
Nominating Committee	1
Total number of meetings held	20

### SUMMARY OF ATTENDANCE OF DIRECTORS

#### For the 12-month period ended December 31, 2004

Director	Board meetings attended	Committee meetings attended
David H. Atkins	9 of 9	6 of 6
John L. Beamish	9 of 9	3 of 3
Thomas A. Di Giacomo	9 of 9	10 of 10
Bernard Gluckstein	9 of 9	3 of 3
J. Brian Reeve	9 of 9	1 of 1
William G. Star	9 of 9	2 of 2
F. Michael Walsh	9 of 9	8 of 8

## COMPENSATION OF EXECUTIVE OFFICERS

### Summary Compensation Table for Named Executive Officers

The following table, presented in accordance with the applicable securities laws, sets forth all compensation paid in respect of the individuals who were, at December 31, 2004, the Chief Executive Officer, the Chief Financial Officer and the next three mostly highly compensated executive officers of the Corporation (collectively the "**Named Executive Officers**") whose total salary and bonus was in excess of \$150,000 per annum. Securities legislation provides that the Named Executive Officers are determined on the basis of the total cash compensation (salary and annual bonus) earned in the fiscal year 2004 starting January 1, 2004 and ending December 31, 2004.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation <sup>(1)</sup>	All Other Compensation (\$)
		Salary (\$)	Bonus <sup>(2)</sup> (\$)	Other Annual Compensation <sup>(3)</sup> (\$)	Securities Under Options Granted (#)	
William G. Star Chairman, President and Chief Executive Officer	2004	689,400	695,000	Nil	100,000	17,500
	2003	590,270	250,000	Nil	150,000	15,000
	2002	505,060	275,000	Nil	100,000	12,875
W. Shaun Jackson Executive Vice President and Chief Financial Officer	2004	320,010	330,000	Nil	50,000	957
	2003	270,460	137,500	Nil	50,000	12,335
	2002	231,960	125,000	Nil	40,000	5,375
Shelly Gobin Vice President, KFSI and Treasurer	2004	152,475	94,500	Nil	7,500	4,258
	2003	138,075	36,036	Nil	6,000	3,754
	2002	119,100	32,400	Nil	5,000	3,380
Claude Smith Vice President and Chief Information Officer	2004	154,830	94,000	Nil	5,000	3,871
	2003	138,800	12,500	Nil	5,000	3,470
	2002	125,500	7,500	Nil	5,000	3,090
Dennis Fielding Vice President	2004	142,500	82,500	Nil	5,000	3,549
	2003	128,010	33,696	Nil	5,000	3,200
	2002	106,430	22,500	Nil	5,000	2,661

(1) The Corporation has not granted any stock appreciation rights (SAR) or adopted any long term incentive plan (LTIP)

(2) Includes bonuses earned for the fiscal year whether or not paid in the fiscal year.

(3) Represents directors' fees received.

### 2004 Stock Option Grants

The following table sets forth individual grants of options to purchase Common Shares to the Named Executive Officers during the financial year ended December 31, 2004. All of the options granted had an exercise price equal to the market price of Common Shares on the date immediately preceding the date of the grant. The options vest over three years at the rate of 33.33% each year.

#### Option Grants During Most Recently Completed Financial Year

Order Name	Number of securities under options granted <sup>(1)</sup>	% of total options granted to employees in fiscal 2004	Exercise price (\$/security)	Market value of securities underlying options on the date of grant (\$/security)	Expiration date
William G. Star	100,000	21	15.19	15.19	February 12, 2009
W. Shaun Jackson	50,000	10	15.19	15.19	February 12, 2009
Shelly Gobin	7,500	2	15.19	15.19	February 12, 2009
Claude Smith	5,000	1	15.19	15.19	February 12, 2009
Dennis Fielding	5,000	1	15.19	15.19	February 12, 2009

(1) Stock options vest in 33 1/3% increments on the first, second and third anniversaries of the date of their grant.

#### Aggregated Options Exercised During Most Recently Completed Financial Year And Option Values At Financial Year-End

The following table shows the number of options each Named Executive Officer exercised in the year ending December 31, 2004 and the aggregate number of options each Named Executive Officer now holds and the value of these options based on the closing price of the Common Shares as at December 31, 2004, which was \$19.00.

Name	Securities acquired on exercise (#)	Aggregate value realized (\$)	Unexercised options at December 31, 2004 (#)		Value of unexercised in-the-money options at December 31, 2004 (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
William G. Star	240,000	1,819,200	166,667	233,333	833,500	928,000
W. Shaun Jackson	40,000	130,900	133,333	96,667	1,344,167	372,833
Shelly Gobin	5,000	14,300	17,000	13,167	164,945	50,455
Claude Smith	Nil	Nil	6,000	10,000	20,317	37,283
Dennis Fielding	Nil	Nil	10,333	10,000	77,012	37,283

### **Equity Compensation Plan Information**

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>  (a)	<b>Weighted-average exercise price of outstanding options, warrants and rights</b>  (b)	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>  (c)
<b>Equity compensation plans approved by securityholders</b>	1,731,510	13.73	1,567,847
<b>Equity compensation plans not approved by securityholders</b>	N/A	N/A	N/A
<b>Total</b>	1,731,510	13.73	1,567,847

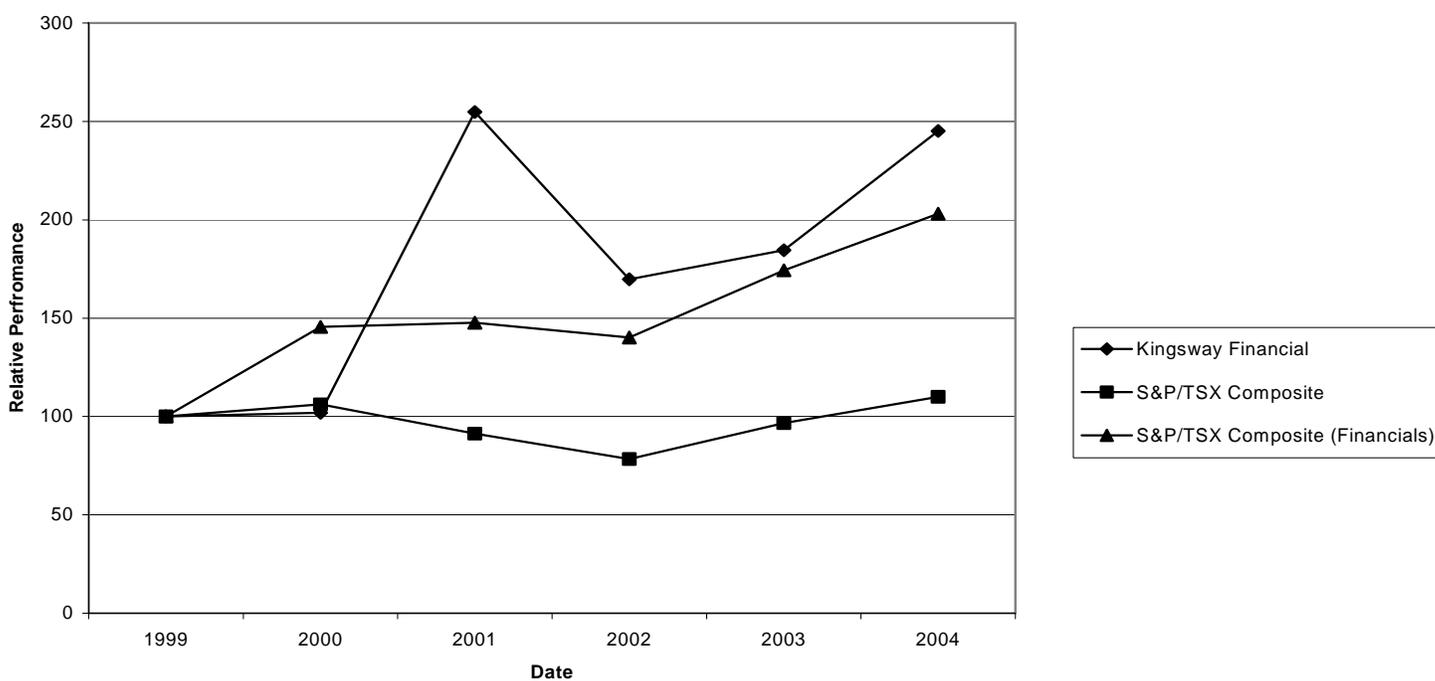
### **Indebtedness of Directors and Officers**

No director or officer of the Corporation and no associate of any director or officer of the Corporation was indebted to the Corporation at any time during the year ended December 31, 2004.

### Performance Graph

This graph compares the total cumulative shareholder return for \$100 invested in Common Shares on January 1, 2000 with the cumulative total return of the S&P/TSX Composite Index and the S&P/TSX Canadian Financials Index for the five most recently completed financial years.

#### Relative Market Performance January 1, 2000 - December 31, 2004



Cumulative returns (\$)	1999	2000	2001	2002	2003	2004
<b>KFS</b>	100.00	101.94	254.84	169.81	184.52	245.16
<b>S&amp;P/TSX Composite</b>	100.00	106.18	91.22	78.39	96.71	109.90
<b>S&amp;P/TSX Composite (Financials)</b>	100.00	145.58	147.71	140.17	174.32	203.12

### **Directors' and Officers' Insurance**

The Corporation has directors' liability insurance for the directors and officers of the Corporation and its subsidiaries. The aggregate annual premium is \$1,003,185, no part of which is payable by the directors and officers. The annual insurance coverage under the policy is limited to \$100 million per policy year.

There is a \$1,000,000 deductible provision for any claim made by the Corporation but no such deductible provision for claims if made for claims by any director or officer.

### **Interests of Insiders and Others in Material Transactions**

Except as set forth hereafter, no director, senior officer or associate of a director or senior officer nor, to the best knowledge of the directors or senior officers of the Corporation after having made reasonable inquiry, any person or company who beneficially owns, directly or indirectly, voting securities of the Corporation carrying more than ten (10%) percent of the voting rights attached to any class of voting securities of the Corporation outstanding at the date hereof, or any associate or affiliate thereof, has any interest in any material contracts to which the Corporation is a party.

### **Interest of Certain Persons in Matters to be Acted Upon**

No person who was a director or senior officer of the Corporation at any time since the beginning of the Corporation's last completed financial year, no person who is a proposed nominee for election as a director of the Corporation and no associate or affiliate of any such director, senior officer or proposed nominee has any material interest, direct or indirect, in any matter to be acted upon at the Meeting other than the election of directors.

## **PARTICULARS OF MATTERS TO BE ACTED UPON**

### **FINANCIAL STATEMENTS**

The shareholders will receive and consider the audited financial statements of the Corporation for the fiscal year ended December 31, 2004 together with the auditor's report thereon.

### **ELECTION OF DIRECTORS**

The Board is a variable board consisting of not fewer than one and not more than ten directors. The Board has determined that the number of directors constituting the Board currently be set at seven.

All seven nominees are members of the Board and have been since the dates indicated below. Management does not contemplate that any of the nominees will be unable to serve as a director. However, if a nominee should be unable to so serve for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another nominee in their discretion. Each director elected will hold office until the next annual meeting or until his successor is appointed, unless his office is earlier vacated in accordance with the *Business Corporations Act* (Ontario) and the by-laws of the Corporation. **The persons named in the enclosed form of proxy intend to vote for the election of all of the nominees whose names are set forth below.**

**David H. Atkins** is a Senior Advisor to Lang Michener, a Toronto based law firm. He is a fellow of the Institute of Chartered Accountants of Ontario. Mr. Atkins consults to the insurance and other industries regarding business strategy, mergers, acquisitions, governance and financial reporting. He also advises with regard to regulatory compliance. Mr. Atkins has lectured extensively with respect to governance and audit committee issues. Mr. Atkins is Chairman for the Swiss Reinsurance group in Canada and also sits on the Board of the Swiss Reinsurance group in the United States, as well as serving on the boards of several other companies including Paret Corporation and Pethealth Inc.

**John L. Beamish** is the president of J. Llewellyn Beamish & Associates Inc., a Consultant to Insurers (presently inactive). Prior to 1994, Mr. Beamish held various management positions in the Property & Casualty Insurance market culminating in his appointment in 1976 as Vice-President and Chief Agent in charge of Canadian operations for Employers Reinsurance Corporation.

**Thomas Di Giacomo** has been the President of Tadico Limited, a business consulting and investment firm since 1994. Prior thereto he held a number of positions at Manulife Financial, the most recent being Chairman of the Board, President and CEO from 1990-1993. Mr. Di Giacomo is the chairman of RDM Corporation and sits on the Board of several companies including Menu Foods Income Fund, Luxell Corporation and Afriore Corporation, all of which companies are listed on the Toronto Stock Exchange. Mr. Di Giacomo is a member of the St. Michael's College Foundation of the University of Toronto and past chairman of Kids Help Phone – a Canadian charity that provides national, bilingual confidential phone and web counselling, referral and information services for children and youth.

**Bernard Gluckstein** is the senior partner of Gluckstein & Associates, Toronto law firm. Mr. Gluckstein has 40 years experience in personal injury litigation. Mr. Gluckstein focuses his practice on the most serious personal injury litigation including brain and spinal cord injuries. Mr. Gluckstein is a former director of and counsel to the Canadian Brain Injury Coalition and the Ontario Brain Injury Association. He also serves on the board of directors of the Canadian Paraplegic Association of Ontario.

**J. Brian Reeve** has served as one of the Corporation's directors since February 2002. Since 1988, Mr. Reeve has been a partner at Cassels Brock and Blackwell LLP, a Toronto law firm, where he specializes in the regulation and corporate governance of insurance companies, and is currently a member of the Executive Committee as well as the Practice Group leader of the Financial Services Group. He has also been a special advisor to both the Ontario and Federal Ministries of Finance on insurance matters and has served on the boards of several Canadian insurance companies, as well as being chief agent in Canada for several foreign insurers.

**William G. Star** has served as Chairman, President and Chief Executive Officer of the Corporation since founding it in 1989. Mr. Star has also served as President of Kingsway General Insurance Company since 1986. Prior thereto, Mr. Star was an advisor to the Ontario Task Force on Insurance. Mr. Star was a Vice-President of York Fire Insurance and Casualty Company during 1984 and 1985. From 1970 to 1983 he held various positions with Pafco Insurance Company, including President.

**F. Michael Walsh** is a retired investment industry executive, who prior to January 2000 was Senior Vice-President, Secretary and a Director of First Marathon Securities Limited (now National Bank Financial) and Vice-President and Secretary of First Marathon Inc. He is a Retired Industry Member of the Ontario District Council of the Investment Dealers Association of Canada and has served as an advisor to the staff of the Ontario Securities Commission and was formerly a member of the Council on Investment Issues of the Conference Board of Canada. He is a Past-chair of the Board of Governors of the University of Guelph and received the Queen's Golden Jubilee Medal in 2003 for excellence in leadership and governance of a post-secondary institution as a volunteer.

The following table and the notes thereto state the names of all persons proposed to be nominated for election as directors, all other positions or offices with the Corporation and its subsidiaries now held by them, their principal occupations or employment, the year in which they became directors of the Corporation, the approximate number of Common Shares beneficially owned, directly or indirectly, by each of them, or over which they exert control or direction as of March 16, 2005, and the number of options held as of March 16, 2005.

Name and municipality of residence	Present principal occupation	Year first became director	Common Shares beneficially owned, directly or indirectly, or controlled or directed <sup>(1)</sup>	Number of options held
David H. Atkins <sup>(2), (5), (7)</sup> Toronto, Ontario	Senior Advisor, Lang Michener, a law firm	1999	8,750	20,000
John L. Beamish <sup>(3)</sup> Burlington, Ontario	President, J. Llewellyn Beamish & Associates Inc., a consulting company	1998	7,000	32,500
Thomas A. Di Giacomo <sup>(2), (3), (4)</sup> Toronto, Ontario	President, Tadico Limited, an investment company	1995	11,000	32,500
Bernard Gluckstein <sup>(3)</sup> Toronto, Ontario	Partner, Gluckstein & Associates, a law firm	1989	110,200	32,500
J. Brian Reeve <sup>(5)</sup> Toronto, Ontario	Partner, Cassels Brock & Blackwell LLP, a law firm	2002	10,000	17,000
William G. Star <sup>(4)</sup> Mississauga, Ontario	Chairman, President and Chief Executive Officer, KFSI	1989	430,342	500,000
F. Michael Walsh <sup>(2), (4), (5), (6)</sup> Toronto, Ontario	Retired Executive	2000	25,000	25,000

(1) Information supplied by nominees

(2) Member of the Audit Committee

(3) Member of the Compensation and Management Resources Committee

(4) Member of the Investment Committee

(5) Member of the Nominating Committee

(6) Lead Director

(7) Chair of the Audit Committee

The Corporation does not have an Executive Committee. The Board has established an Audit Committee, an Investment Committee, a Compensation and Management Resources Committee and a Nominating Committee, details of which are provided under the heading "Statement of Corporate Governance Practices".

### APPOINTMENT OF AUDITORS

Management recommends the re-appointment of KPMG LLP Chartered Accountants of Toronto, Ontario, the present auditors, as the auditors of the Corporation to hold office until the close of the next annual meeting of the shareholders. KPMG LLP has served as the Corporation's auditors continuously since 1989.

#### *Audit Fees*

The aggregate fees, including expenses reimbursed, billed by KPMG LLP for professional services rendered for the audit of the consolidated financial statements of the corporation and its subsidiaries, reporting in connection with the various securities offerings of the Corporation and for the reviews of the Corporation's quarterly financial statements were \$2,064,000 in fiscal year 2004 and \$2,775,000 in fiscal year 2003.

#### *Audit Related Fees*

The aggregate fees, including expenses reimbursed, billed by KPMG LLP for services related to the audit or review the Corporation's financial statements were \$467,000 in fiscal year 2004 and \$586,000 in fiscal year 2003. This work primarily included appointed actuary services.

### *Tax Fees*

The aggregate fees, including expenses reimbursed, billed by KPMG LLP for tax compliance, tax advice and tax planning services were \$57,000 in fiscal year 2004 and \$124,000 in fiscal year 2003. These services included analyses of various tax matters affecting the Corporation and its subsidiaries.

### *All Other Fees*

The aggregate fees, including expenses reimbursed, billed by KPMG LLP for services rendered to the Corporation and its subsidiaries, other than the services described above, were \$2,000 in fiscal year 2004 and \$58,000 in fiscal year 2003. In 2004 these services were related to a subscription for online accounting research and in 2003 were mainly actuarial services relating to specific actuarial analyses required by the Corporation.

The Audit Committee Charter provides for the Audit Committee to establish the auditors' fees. Such fees have been based upon the complexity of the matters in question and the time incurred by the auditors. Management believes that the fees negotiated in the past with the auditors of the Corporation were reasonable in the circumstances and would be comparable to fees charged by other auditors providing similar services.

As discussed in the "Report of the Audit Committee" in this Circular, the Audit Committee has reviewed and considered whether the provision of services other than audit services is compatible with maintaining the auditors' independence. In 2004, the Audit Committee considered and pre-approved expenditure limits for the Corporation's auditors and established a system to review and pre-approve the provision of audit and non-audit services by the Corporation's auditors to ensure they are consistent with maintaining the auditor's independence. In 2004, all non-audit services were approved by the Audit Committee.

Shares represented by proxies in favour of the management nominees will be voted in favour of the appointment of KPMG LLP as auditors of the Corporation, unless a shareholder has specified in his proxy that his shares are to be withheld from voting on the appointment of auditors.

## **APPROVAL**

The contents and the sending of this Circular have been approved by the directors of the Corporation.

## **OTHER MATTERS**

Management knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter with the best judgement of the person or persons voting the proxy.

## ADDITIONAL INFORMATION

Financial information about the Corporation is contained in its comparative financial statements and Management's Discussion and Analysis for fiscal year ended December 31, 2004, and additional information relating to the Corporation is on SEDAR at [www.sedar.com](http://www.sedar.com). If you would like to obtain, at no cost to you, a copy of any of the following documents:

- (a) the latest Annual Information Form of the Corporation together with any document, or the pertinent pages of any document, incorporated by reference therein;
- (b) the comparative financial statements of the Corporation for the fiscal year ended December 31, 2004 together with the accompanying report of the auditors thereon and any interim financial statements of the Corporation for the periods subsequent to December 31, 2004 and Management's Discussion and Analysis with respect thereto; and
- (c) this proxy circular

please send your request to

Kingsway Financial Services Inc.  
c/o Michael Slan, Fogler Rubinoff LLP  
95 Wellington Street West  
Suite 1200,  
Toronto-Dominion Centre  
Toronto, Ontario M5J 2Z9

**DATED** at Toronto, Ontario this 16th day of March, 2005.

By Order of the Board of Directors

(signed) **W. Shaun Jackson**  
Executive Vice President and Chief Financial Officer

## SCHEDULE "A"

### CORPORATE GOVERNANCE PROCEDURES

In this Schedule, the Corporation's governance procedures are compared with the TSX Guidelines for effective corporate governance. In addition, the Corporation has considered the proposed National Instrument 58-101 (Disclosure of Corporate Governance Practices) of the Canadian Securities Administrators, which the TSX has proposed will replace the TSX Guidelines. In response to these amended guidelines and instrument, when they are finalized, the Board will reassess and make any necessary changes to the Corporation's governance practices.

Further, the Board has been reviewing its governance practices in response to the numerous regulatory changes that have recently come into effect, many arising from the rules and regulations issued by the United States Securities and Exchange Commission and the NYSE giving effect to the provisions of SOX. The Corporation has amended its governance practices as these regulatory changes have come into effect and will continue to follow the changes and consider amendments to its governance practices as appropriate.

Where indicated below, the Corporation's existing governance procedures are also compared to certain NYSE Provisions which differ from or are in addition to the TSX Guidelines.

TSX Guidelines		Corporation's Alignment	Corporation's Governance Procedures
1.	The board should explicitly assume responsibility for stewardship of the Corporation and specifically for:	yes	<p>The Board, either directly or through Board committees, is responsible for management or supervision of management of the business and affairs of the Corporation with the objective of enhancing shareholder value. The roles and responsibilities of the Board and each of its committees are set out in formal written charters. These charters are reviewed annually to ensure they reflect the best practices as well as any applicable regulatory requirements. A report on the activities of each committee during 2004 is included on pages 10 to 16 of this Circular.</p> <p>Our code of business conduct and ethics provides a framework for employees on the conduct of ethical decision making integral to their work. The code is available for viewing on our website.</p>
	(i) adoption of a strategic planning process	yes	The Board reviews and approves the strategic plans of the Corporation. A significant portion of each regular Board meeting is devoted to strategic plans and opportunities available to the Corporation. Such discussions enable directors to gain a fuller appreciation of planning priorities and provides the opportunity for directors to give constructive feedback to management.

TSX Guidelines		Corporation's Alignment	Corporation's Governance Procedures
	(ii) identification of the principal risks of the Corporation's business and ensuring implementation of appropriate systems to manage those risks	yes	The Board considers risk issues and approves corporate policies addressing the management of the risk including the Corporation's underwriting disciplines, investment criteria for reserves, technology implementation and disaster planning. The Board also reviews the methods and procedures established by management with respect to the control of key risks. The Audit Committee receives and considers regular reports from the Corporation's Assistant Vice-President, Internal Audit to monitor and strengthen internal controls.
	(iii) succession planning, including appointing, training and monitoring senior management	yes	The Board and the Compensation and Management Resources Committee is mandated to review succession planning for senior management, including monitoring the performance of senior management and assessing the depth of management at the Corporation and its material subsidiaries.
	(iv) communications policy	yes	The Board has approved a Disclosure Policy covering the timely dissemination of all material information. The policy establishes consistent guidelines for determining what information is material, how it is to be disclosed and, to avoid selective disclosure, making all material disclosures on a widely disseminated basis. A Disclosure Policy Committee has been established to monitor events at the Corporation to ensure timely disclosure. The Corporation seeks to communicate with its shareholders and other stake holders through a variety of channels, including its annual report, quarterly reports, Annual Information Form, news releases, website, briefing sessions, group meetings and industry conferences.
	(v) integrity of internal control and management information systems	yes	The Audit Committee of the Board requires management to implement and maintain appropriate systems of internal control. The Audit Committee meets with the Corporation's auditor and management to assess the adequacy and effectiveness of these systems.  As required by SOX, the Chief Executive Officer and Chief Financial Officer have provided certificates relating to the contents of the annual statutory reports and have evaluated and reported on the effectiveness of the Corporation's disclosure controls and procedures and any material changes to internal controls for financial reporting which has or may have a material impact on the Corporation's internal control over financial reporting.
2.	A majority of directors should be "unrelated".  Under the NYSE Provisions, there is also a requirement for a majority of "independent" directors. See item 3.	yes	All directors nominated by management for re-election on May 5, 2005, with the exception of Mr. Star, the Chairman and Chief Executive Officer of the Corporation, are unrelated based on the criteria contained in the TSX Guidelines, and independent based on the NYSE Provisions.

	TSX Guidelines	Corporation's Alignment	Corporation's Governance Procedures
3.	<p>The board has responsibility for applying the definition of "unrelated director" to each individual director and for disclosing annually the analysis of the application of the principles supporting this definition and whether the board has a majority of unrelated directors. (Under the TSX guidelines, an "unrelated directors" is a director who is independent of management and free from any business or other relationships which could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of the Corporation.)</p>	yes	<p>The Board has adopted categorical standards for determining whether a director is "unrelated" within the meaning of the TSX guidelines and "independent" within the meaning of the NYSE provisions. A director is "unrelated" and "independent" under these standards if the Board determines that the director has no material relationship with the Corporation or any of its affiliates, either directly or as a partner, shareholder or officer of an organization that has a relationship with the Corporation. In addition, certain relationships deem a director not to be "unrelated" or "independent" under these standards. Based on information provided by the directors as to their individual circumstances, the Board has determined that only 1 of 7 persons proposed for election to the Board for 2004 is not "unrelated" and "independent", specifically William G. Star.</p>
4.	<p>The board should appoint a committee of directors composed exclusively of outside, i.e., non-management directors, a majority of whom are "unrelated" directors, with responsibility for proposing new nominees to the board and for assessing directors on an ongoing basis.</p> <p>The NYSE Provisions require a nominating committee to be composed solely of "independent" directors.</p>	yes	<p>The Nominating Committee is responsible for identifying and recommending to the Board suitable director candidates. The Nominating Committee is also responsible for ensuring that each member of the Board is assessed against appropriate standards. All members of the Nominating Committee are "unrelated" directors.</p> <p>All members of the Nominating Committee are "independent" directors under the standards set by the NYSE Provisions.</p>
5.	<p>The board should implement a process, to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the Board, its committees and the contribution of individual directors.</p>	yes	<p>The Lead Director conducts an annual evaluation of the effectiveness of the Board, its committees and the contribution of individual directors. The Nominating Committee reviews the operation of the Board and committees, adequacy of information provided to directors, Board structure, agenda planning for Board meetings, and the effectiveness of the Chairman in managing Board meetings.</p>
6.	<p>The board should provide an orientation and education program for new directors.</p>	yes	<p>New directors are provided with details of the Corporation's organizational structure, the structure of the Board and its committees, compliance requirements for directors, corporate policies and by-laws. They also meet with a number of directors and senior management personnel of the Corporation and its material subsidiaries to learn of the functions and activities of the Corporation. On an ongoing basis, presentations are made to the Board on various aspects of the Corporation's operations.</p> <p>During 2004, the Board adopted a policy pursuant to which each director can avail himself or herself of continuing education opportunities by granting an allowance of up to \$5,000 per director per year to be used in attending appropriate programs designed to enhance skills and abilities as a director.</p>

TSX Guidelines		Corporation's Alignment	Corporation's Governance Procedures
7.	The board should examine its size with the view to determining the impact upon effectiveness and should undertake, where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.	yes	The Board has considered the matter of Board size and is of the view that the current Board membership has the necessary breadth and diversity of experience and is of an adequate size to provide for effective decision-making and staffing of Board committees.
8.	The board of directors should review the adequacy and form of compensation of directors in light of the risks and responsibilities involved in being an effective director.	yes	The Compensation and Management Resources Committee of the Board annually reviews the compensation paid to directors to ensure that it is competitive and consistent with responsibilities and risks involved in being an effective director and aligns the interests of directors with those of shareholders. The Compensation and Management Resources Committee recommendations are submitted to the Board for consideration and approval.
9.	Committees of the board should generally be composed of outside directors, a majority of whom are unrelated.  The NYSE Provisions require that the audit, compensation and nominating committees be composed solely of "independent" directors.	yes	All Board committees are composed solely of Outside Directors who are "unrelated" and "independent", except for the Investment Committee of which Mr. Star is a member.  The Board has also considered the NYSE Provisions in connection with the composition of the Audit Committee, Compensation and Management Resources Committee and the Nominating Committee, all of whose members are "independent" pursuant to the NYSE provisions.
10.	The board should assume responsibility for, or assign to a committee of directors responsible for developing the approach to corporate governance issues.	yes	The Board has mandated the Audit Committee monitor governance practices and review the Corporation's governance practices to ensure the Corporation continues to exemplify high standards of corporate governance. The Board reviews its corporate governance practices periodically.
11.	The board of directors, together with the chief executive officer, should develop position descriptions for the board and for the chief executive officer, involving the definition of the limits to management's responsibilities.	yes	The Board has given a mandate to the Compensation and Management Resources Committee to develop position descriptions for senior management. Guidelines have been developed and approved by the Board which set out those matters requiring Board approval.

	TSX Guidelines	Corporation's Alignment	Corporation's Governance Procedures
12.	<p>The board should have in place appropriate structures and procedures to ensure that it can function independently of management. An appropriate structure would be (i) appoint a chair of the board who is not a member of management with responsibility to ensure that the board discharges its responsibilities or (ii) adopt alternate means such as assigning this responsibility to a committee of the board or to a director, sometimes referred to as the "Lead Director".</p>	yes	<p>The Board has formally adopted the structure of Lead Director and has given that responsibility to F. Michael Walsh. The Lead Director's responsibilities include acting as liaison between the Board and the Chief Executive Officer and establishing, in consultation with the Chairman and Chief Executive Officer and the Board, procedures to govern the Board's performance. Further, the Lead Director ensures that the Board operates independently of management and that directors have an independent leadership contact. As part of his responsibilities, the Lead Director is responsible for obtaining peer reviews of the operation of the Board to obtain insight as to areas where the Board and its committees could be operating more effectively.</p> <p>The Lead Director chairs all Board meetings at which only non-management directors are present. During their meetings, several Board committees also hold sessions with only non-management directors present.</p>
	<p>Appropriate procedures may involve the board meeting on a regular basis without management present or may involve expressly assigning responsibility for administering the board's relationship to management to a committee of the board.</p>	yes	<p>The Board has formally passed a resolution requiring it to meet at least twice annually in an in-camera session at which only non-management directors are present. It is the Board's policy to also meet in in-camera at the regular board meeting during which the report of the Compensation and Management Resources Committee is considered. During their meetings, the Audit Committee and the Compensation and Management Resources Committee also hold sessions with only non-management directors present.</p> <p>During 2004, the Board met without management present on 4 occasions as part of the regularly scheduled quarterly meetings. In addition, during Board meetings, the independent directors had in camera sessions without management present 2 times.</p>
13.	<p>The audit committee should be composed only of outside directors.</p> <p>The NYSE Provisions contain a higher independence standard for members of the audit committee, disallowing any compensation to such members other than directors' fees received from the Corporation and prohibiting affiliates of the Corporation from serving on the Audit Committee.</p>	yes	<p>The Audit Committee is composed entirely of outside directors.</p> <p>None of the members of the Audit Committee receives, directly or indirectly, any compensation from the Corporation other than director's fees and stock options granted to all Outside Directors.</p>

TSX Guidelines		Corporation's Alignment	Corporation's Governance Procedures
	<p>All of the members of the audit committee should be financially literate and at least one member should have accounting or related financial expertise.</p> <p>The board should determine the definition of and criteria for "financial literacy" and "account or related financial expertise".</p>	yes	<p>All members of the Audit Committee are financially literate and have financial expertise. The Chair is a chartered accountant (in good standing) and at least one member has accounting or related financial expertise.</p> <p>In considering criteria for determinations of financial literacy, the Board looks at the ability to read and understand a balance sheet, an income statement and a cash flow statement of an insurance company.</p> <p>The Board has determined that all members of the Audit Committee are financially literate and that the Audit Committee's chairman is an Audit Committee financial expert as described in the NYSE Provisions.</p>
	The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties.	yes	The roles and responsibilities of the Audit Committee are set out in the Committee's charter and are detailed in the Audit Committee Report starting on page 10 of the Circular.
	The audit committee should have direct communication channels with the internal and the external auditors to discuss and review specific issues as appropriate.	yes	The Audit Committee meets separately with both the internal and external auditor, the Corporation's actuary and management to discuss the state of internal control.
	The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so.	yes	As outlined in its mandate, the Audit Committee requires management to implement and maintain appropriate disclosure controls. The Committee reviews and approves appropriate disclosure control policies required under SOX and various legislation governing insurance companies.
14.	The board should implement a system to enable an individual director to engage an outside advisor at the company's expense in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the board.	yes	<p>Individual directors may, with the concurrence of the Chair of the Audit Committee or the Chairman and Chief Executive Officer, engage outside advisors at the expense of the Corporation. There were no requests to hire outside advisors during fiscal 2004.</p> <p>In addition, committee members are entitled to engage outside advisors to assist them in fulfilling their committee duties and responsibilities as necessary.</p>