Kingsway Reports a Net Loss in First Quarter

Toronto, Ontario (May 7, 2008) – Kingsway Financial Services Inc. (TSE:KFS, NYSE:KFS) today announced its financial results in **U.S. dollars** for the first quarter ended March 31, 2008. The Company reported a net loss of $34.4 million or $0.62 diluted per share on a 3.4% year-over-year increase in total revenue to $474.5 million. Investment income increased 18% to $37.4 million.

The net loss was primarily attributable to a further $52.8 million reserve increase for estimated net unfavourable reserve developments for prior accident years at its Lincoln General ("Lincoln") subsidiary and a $12.2 million reserve increase at its Kingsway General subsidiary. As a result of the reserve development at Lincoln, a further $8 million of valuation allowance was recorded against the future income tax asset for operating losses in the U.S. Details of the results for the first quarter are included in the Management's Discussion and Analysis and Consolidated Financial Statements which are attached.

"Our results for the first quarter of 2008 are unacceptable and we are working expeditiously to deal with problem areas and return to profitability as soon as possible," said Shaun Jackson, President and Chief Executive Officer. "Only by establishing more conservative reserving practices throughout the organization can we more quickly identify and remedy underperforming business. The additional reserves related primarily to Lincoln General's trucking policies written for the 2007 accident year. The results were also negatively impacted by exceptionally bad winter weather in certain of our operating regions."

"We continue to eliminate and reprice business at Lincoln and this has led to a change in its mix of business, in particular moving us away from the highly competitive commercial lines in the U.S. These reductions are being offset by increased premium levels from non-standard automobile through our Mendota subsidiary acquired in April 2007."

Mr. Jackson continued, "I have been working closely with our executive team and Board to address performance issues that are affecting our results. We continue to be well capitalized and have preserved a strong securities portfolio which has weathered the recent market volatility relatively well. Over the next few quarters we will be carefully reviewing those aspects of our operations that are not performing satisfactorily and will take decisive actions where required to improve profitability."

The property and casualty insurance markets in Canada and the U.S. remain highly competitive, with the industry experiencing continued soft pricing, and slow premium growth, while having increased levels of capital and surplus. We expect that industry combined ratios will continue to deteriorate throughout 2008 which, coupled with weak equity markets and potential impairments of assets, we believe will lead to firmer pricing in many of the markets before the end of 2008.

Kingsway will continue to execute a strategy which requires that its operating subsidiaries price their insurance products to achieve underwriting profitability. Over the last two years, this pricing discipline has reduced premium volumes, particularly in the U.S. commercial automobile business. However, we are now well positioned to benefit both from the earnings from our substantial securities portfolio and from any improvements in pricing. The Company has consistently reserved its estimate of gross provision for unpaid claims at or above the independent appointed actuary's point estimate and will continue to do so.

Normal Course Issuer Bid

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

Dividend

The Board of Directors has declared a quarterly dividend of C$0.075 per common share, payable on June 30, 2008 to shareholders of record on June 16, 2008.

Conference Call and Webcast

You are invited to participate in our quarterly results conference call that will take place on May 7, 2008 at 5:00 p.m. EDT. To access please dial 1-800-732-0232 about 5 minutes before the start of the call. An audio webcast will also be broadcast live and can be accessed through our website at http://www.kingsway-financial.com or directly at http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=2231460

The Company's Annual Meeting ("AGM") will be held tomorrow Thursday May 8, 2008 at 11:00am (EDT) at The Design Exchange, 234 Bay Street, Toronto, Ontario. A live webcast can be accessed at through our website at http://www.kingsway-financial.com or directly at http://www.newswire.ca/en/webcast/viewEvent.cgi?eventID=2241800.

About the Company

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

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

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Financial Summary and Highlights:

(in millions of dollars except per share amounts)	3 months to March 31: 2008	2007	Change
Gross premiums written	$ 457.1	$ 479.4	(5%)
Underwriting loss	(69.1)	(20.7)	234%
Investment income	37.4	31.6	18%
Net realized gains (loss)	(5.5)	9.1	(160%)
Operating earnings (loss)	(29.6)	11.9	(349%)
Net income (loss)	(34.4)	19.6	(276%)
Diluted earnings (loss) per share	(0.62)	0.35	(277%)
Book value per share	16.18	16.90	(4%)
Combined ratio	115.6%	105.0%	10.6%

- Gross premiums written decreased 5% to $457.1 million in the quarter compared to $479.4 million in Q1 last year. Excluding the impact of Mendota which was acquired in the second quarter of last year, gross premiums written would have decreased 13% compared to the same quarter last year.

- For the quarter the Company reported a net loss of $34.4 million compared to net income of $19.6 million in Q1 last year

- For the quarter the Company reported an operating loss of $29.6 million compared to operating income of $11.9 million in Q1 last year

- Diluted loss per share was $0.62 for the quarter compared to earnings of $0.35 per share for Q1 last year.

- The combined ratio was 115.6% in the quarter compared to 105.0% same quarter last year, with Canadian operations reporting a combined ratio of 112.6% and U.S. operations a combined ratio of 116.9%.

- Estimated net unfavourable reserve development was $58.8 million in the quarter, which increase the combined ratio by 13.3%. The consolidated impact of this development on an after tax basis was $0.97 per share for the quarter. The impact on income of the Lincoln reserve increases on an after tax basis was $0.87 per share in the quarter.

- Investment income, excluding net realized gains (losses), increased by 18% to $37.4 million compared to $31.6 million for the same quarter of 2007. Included in net realized losses were adjustments to the carrying values of securities for declines in market value considered other than temporary of $9.0 million (or $0.16 per share for the quarter).

- The fair value of the securities portfolio per share decreased by 3% since the beginning of the year to $61.02.

- As a result of the loss before taxes, a further $8 million of valuation allowance (or $0.14 per share for the quarter) was recorded against the future income tax asset for operating losses in the U.S. that do not expire for up to 20 years.

- As at March 31, 2008 the securities portfolio did not include any collateralized debt obligations nor any direct exposure to any asset backed commercial paper. The securities portfolio has an exposure of approximately $3.1 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities.

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

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

Non-GAAP Financial Measures

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

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

Premiums

(in millions of dollars)	3 Months to March 31:		
	2008	2007	Change
Gross premiums written			
Canada	$ 119.7	$ 116.1	3%
U.S.	337.4	363.3	(7%)
Total	$ 457.1	$ 479.4	(5%)
Net premiums written			
Canada	$ 114.0	$ 109.8	4%
U.S.	309.6	334.3	(7%)
Total	$ 423.6	$ 444.1	(5%)
Net premiums earned			
Canada	$ 131.6	$ 117.7	12%
U.S.	311.0	300.5	4%
Total	$ 442.6	$ 418.2	6%

The U.S. operations reported a 7% decrease in premiums written during the quarter including the April 1, 2007 acquisition of Mendota Insurance Company ("Mendota"), and a 19% decrease excluding the impact of Mendota which reported gross premiums written of $42.1 million in the first quarter 2008. Lincoln General's premium volume declined 32% in the quarter compared to Q1 2007 due to the impact of terminations of unprofitable programs and the soft market conditions for commercial automobile business in the U.S.

As a result of the strengthening Canadian dollar, gross premiums in U.S. dollars for the Canadian operations increased 3% in the quarter compared to the first quarter of last year. In Canadian dollars, gross premiums written from Canadian operations declined by 12% for the quarter compared to last year. Canadian operations experienced a decline of 25% in gross premiums written in the trucking line of business as fleet operators have been reducing their cross-border operations due to the slowing U.S. economy.

U.S. operations represented 74% of gross premiums written in the quarter compared with 76% in the same quarter last year. Non-standard automobile, trucking, and commercial automobile premiums represented 40%, 16% and 18%, respectively, of gross premiums written for the quarter compared with 31%, 22% and 21% for Q1 2007. Mendota writes primarily non-standard automobile insurance which primarily accounts for the increase in the percentage of non-standard automobile.

Investment Income

	3 months to March 31:		
(in millions of dollars)	2008	2007	Change
Investment income	$ 37.4	$ 31.6	18%

Investment income has increased in the first quarter compared to the same period last year due to an increase in the portfolio size as a result of the acquisition of Mendota. Also contributing to the increase is the impact of a higher cost based yield as maturing securities are reinvested in a higher interest rate environment as well as the impact of the stronger Canadian dollar on the investment income from Canadian operations reported in US dollars. The cost based yield on the fixed income portfolio increased to 4.7% compared to 4.5% for the first quarter of last year. The cost based yield represents the total interest income before expenses divided by the average amortized cost base of fixed income securities held in the portfolio during the period.

Net Realized Gains

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

	3 months to March 31:		
(in millions of dollars)	2008	2007	Change
Fixed income	$ 2.8	$ 0.1	2,700%
Equities	0.7	7.6	(91%)
Capital assets	-	5.4	(100%)
Impairments	(9.0)	(4.0)	125%
Total	$ (5.5)	$ 9.1	(160%)

For the three months ended March 31, 2008, sales from the securities portfolio and the write-down of securities that are considered to be other than temporarily impaired resulted in a net realized loss of $5.5 million compared to a net realized gain of $9.1 million for the three months ended March 31, 2007. The challenging fixed income and equity markets which began in the third quarter of 2007 have continued into 2008 resulting in the write-down of $9.0 million of securities in the first quarter of 2008 compared to $4.0 million in the first quarter of 2007. The net realized gain in the first quarter of 2007 includes a $5.4 million gain on the sale of the Company's former head office building.

Underwriting Results

	3 months to March 31:		
(in millions of dollars)	2008	2007	Change
Underwriting profit (loss)			
Canada	$ (16.6)	$ 5.9	(381%)
U.S.	(52.5)	(26.6)	97%
Total	$ (69.1)	$ (20.7)	234%
Combined ratio			
Canada	112.6%	95.0%	18%
U.S.	116.9%	108.9%	8%
Total	115.6%	105.0%	11%
Expense ratio			
Canada	37.9%	35.9%	2%
U.S.	29.7%	26.9%	3%
Total	32.1%	29.4%	3%
Loss ratio			
Canada	74.7%	59.1%	16%
U.S.	87.2%	82.0%	5%
Total	83.5%	75.6%	8%

The Canadian operations experienced estimated net unfavourable reserve development of $10.7 million (or 8.1% to the Canadian operations combined ratio) compared to favourable reserve development of $5.5 million in Q1 2007. The loss ratio in the quarter was 74.7% compared to 59.1% in Q1 2007. Weather related incidents added approximately $3.3 million (2.5% to the Canadian operations combined ratio) to the Canadian operations incurred losses in the quarter.

The U.S. operations loss ratio continued to be impacted this quarter by estimated unfavourable reserve development of $48.1 million ($44.7 million in Q1 last year), with Lincoln General accounting for $52.8 million (or $0.87 per share for the quarter) of this reserve development. Excluding the impact of the Lincoln General reserve development, the U.S. operations reported a combined ratio of 99.9% for the quarter.

	3 months to March 31:	
(in millions of dollars)	2008	2007
Favourable (unfavourable) change in estimated unpaid claims for prior accident years (note 1):		
Canada	$ (10.7)	$ 5.5
U.S.	(48.1)	(44.7)
Total	$ (58.8)	$ (39.2)
As a % of net premiums earned (note 2):		
Canada	8.1%	(4.6%)
U.S.	15.5%	14.9%
Total	13.3%	9.4%
As a % of unpaid claims (note 3):		
Canada	1.2%	(0.7%)
U.S.	3.6%	3.9%
Total	2.6%	2.0%

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

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

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

Expenses

The overall expenses increased in the quarter due to the acquisition of Mendota and the increased operating costs of the U.S. assigned risk business. Higher operating costs and depreciation expense of the new Head Office building in Canada also impacted the expenses. The general expense ratio increased to 14.8% compared to 12.4% in Q1 2007 primarily due to lower premium volume.

Interest Expense

Interest expense in the first quarter of 2008 was $9.9 million, compared to $8.2 million for the first quarter of 2007 as a result of the issuance of the C$100 million 6% debentures on July 10, 2007.

Income Taxes

Income taxes recovery for the first quarter of 2008 was $14.4 million as a result of losses recognized in the U.S. domiciled subsidiaries and the fully taxable status of the Canadian subsidiaries. This compares with a tax recovery of $8.8 million the same quarter last year.

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

Net income decreased by 276% in the first quarter to a loss of $34.4 million, compared to income of $19.6 million in the first quarter of last year. Diluted loss per share was $0.62 for the quarter compared to diluted earnings of $0.35 for the first quarter of 2007.

Operating Earnings

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

	3 months to March 31:		
(in millions of dollars except per share amounts)	2008	2007	Change
Net income (loss)	$ (34.4)	$ 19.6	(276%)
Net realized gains (losses) after tax:			
Net realized gains (losses) before tax	(5.5)	9.1	(160%)
Tax effect on realized gains (losses)	(0.7)	1.4	(150%)
	(4.8)	7.7	(162%)
Operating earnings (losses)	(29.6)	11.9	(349%)
Average outstanding shares diluted (in millions)	55.5	56.3	(1%)
Operating earnings (losses) per share	(0.53)	0.21	(352%)

Balance Sheet

The table below shows a review of selected categories from the balance sheet reported in the financial statements at the end of Q1 2008 compared to December 31, 2007.

	As at		
(in millions of dollars except per share amounts)	March 31, 2008	December 31, 2007	Change
Assets			
Securities	$ 3,140.7	$ 3,256.4	(4%)
Accounts receivable and other assets	385.2	365.4	5%
Income taxes recoverable	12.4	1.3	854%
Future income taxes	122.0	114.1	7%
Capital assets	129.3	133.4	(3%)
Goodwill and intangible assets	114.9	116.8	(2%)
Liabilities			
Bank indebtedness	163.3	172.4	(5%)
Unearned premiums	729.2	758.5	(4%)
Unpaid claims	2,263.3	2,267.1	-
Senior unsecured debentures	199.9	220.1	(9%)
Shareholders' Equity	893.9	940.8	(5%)
Book value per share	16.18	16.95	(5%)

(U.S. dollars)

Securities:
The fair value of the securities portfolio including cash decreased 4% to $3.4 billion, compared to $3.5 billion as at December 31, 2007. This decrease is primarily due to the net use of cash in operating activities and the impact of a slightly weaker Canadian dollar on the conversion of the Canadian dollar portfolio to U.S. dollars.

The fair value of the securities portfolio including cash decreased 3% to $61.02 per common share at March 31, 2008 compared to $63.22 at December 31, 2007.

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

Maturity Profile:

	Canadian Operations	U.S. Operations	Total
Due in less than one year	34.0%	16.7%	22.5%
Due in one through five years	32.7	53.0	46.2
Due in five through ten years	29.4	22.8	25.0
Due after ten years	3.9	7.5	6.3
Total	100.0%	100.0%	100.0%

Net unrealized gains on the total securities portfolio were $41.9 million or $0.76 per share outstanding at March 31, 2008 which is included as a component of "accumulated other comprehensive income", as compared to net unrealized gains of $34.6 million or $0.62 per share outstanding at December 31, 2007. Net unrealized losses on the common share portfolio were $13.0 million or $0.24 per share outstanding at March 31, 2008 compared to net unrealized gains of $16.0 million or $0.29 per share outstanding at December 31, 2007.

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

As at March 31, 2008 the securities portfolio did not include any collateralized debt obligations nor any direct exposure to any asset backed commercial paper. The securities portfolio has an exposure of approximately $3.1 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities. As at March 31, 2008, these securities had an aggregate net unrealized loss of $0.3 million.

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

Accounts receivable and other assets:
Accounts receivable and other assets increased by 5% to $385.2 million, primarily as a result of the seasonal direct written premium in taxi programs, as well as increased writings in most private passenger states at American Service Insurance.

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

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

Capital assets:
Capital assets decreased by 3% since the end of last year.

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

Bank indebtedness:
Bank indebtedness decreased from $172.4 million at December 31, 2007 to $163.3 million. During the quarter the Company repaid approximately $7.5 million of outstanding debt under our credit facilities. The undrawn amount available under the bank credit facility as at March 31, 2008 was approximately $80.4 million.

Bank indebtedness, which totaled $163.3 million as at March 31, 2008, is subject to compliance with financial covenants and other provisions of the Credit Agreement.

As a result of the loss before income taxes the interest coverage ratio was (0.5) as at March 31, 2008, placing the company in breach of this covenant. Subsequent to the balance sheet date, the Company has obtained a waiver over compliance with the March 31, 2008 interest coverage covenant under the Credit Agreement. Although the future terms of the Credit Agreement are currently under review, the borrowing costs on this facility will increase as a result of the covenant breach.

Unearned premiums:
Unearned premiums decreased 4% since December 31, 2007 as a result of decreased premium volume.

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

(in millions of dollars)		
Line of Business	March 31, 2008	December 31, 2007
Non – Standard Automobile	$ 563.8	$ 575.2
Standard Automobile	138.3	144.5
Commercial Automobile	238.7	239.2
Trucking	838.2	811.6
Motorcycle	119.6	126.8
Property & Liability	294.2	303.3
Other	70.5	66.5
Total	$ 2,263.3	$ 2,267.1

The provisions for unpaid claims decreased by 0.1% to $2.26 billion at the end of the first quarter compared to $2.27 billion at the end of 2007. At March 31, 2008 the provision for unpaid claims comprised case reserves for individual claims increased 1% to $1.33 billion ($1.31 billion at December 31, 2007) and a provision for Incurred But Not Reported (IBNR) claims which decreased 2% to $933.6 million ($952.8 million at December 31, 2007). IBNR at Lincoln General now represents 96 cents for every $1 of case reserves recorded.

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

Book value per share:
Book value per share decreased by 5% to $16.18 at March 31, 2008 from $16.95 at December 31, 2007.

Contractual Obligations

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

Liquidity and Capital Resources

During the three months ended March 31, 2008, the cash used in operating activities was $64.2 million as a result of higher than expected claims payments. The Company believes that the cash generated from the operating activities will be sufficient to meet its ongoing cash requirements, including interest payment obligations and dividend payments.

During the three months ended March 31, 2008, the Company repurchased 368,200 common shares under the normal course issuer bid for a total purchase price of $4.4 million at an average price of $11.87 (Cdn $11.93).

As at March 31, 2008 the Company's subsidiaries were adequately capitalized to support their premium volume. For a more detailed discussion of the capital adequacy of the Companies insurance and reinsurance subsidiaries see Note 7 to the financial statements.

Off-Balance Sheet Financing

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

Summary of Quarterly Results

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

	2008	2007				2006		
(in millions of dollars except per share)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Gross premiums written	$ 457.1	$ 449.0	$ 509.1	$ 525.2	$ 479.4	$ 409.1	$ 483.9	$ 532.5
Net premiums earned	442.6	464.5	485.3	474.0	418.2	425.0	458.3	456.2
Total revenue	474.5	510.1	528.1	538.6	458.9	466.6	498.2	499.5
Net income (loss)	(34.4)	(103.5)	23.6	41.7	19.6	16.8	37.4	40.2
Earnings (loss) per share								
Basic	(0.62)	(1.86)	0.43	0.75	0.35	0.30	0.67	0.71
Diluted	(0.62)	(1.84)	0.42	0.74	0.35	0.30	0.66	0.71

Supplementary Financial Information

Financial Strength Indicators:

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

	March 31, 2008	December 31, 2007
Rolling four quarter calculations:		
Net premiums written to estimated statutory surplus ratio	1.7x	1.6x
Interest coverage ratio	(0.5)x	0.9x
Total bank and senior debt to capitalization ratio	30.3%	31.0%

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

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

	3 months to March 31:	
(in millions of dollars except per share amount)	**2008**	**2007**
Gross premiums written	$ 459.0	$ 561.5
Net premiums earned	444.5	489.9
Net income	(34.4)	23.1
Earnings per share – diluted	(0.62)	0.41
Underwriting profit (loss)	(69.2)	(24.2)
Book value per share	16.61	19.52

Outlook

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

Disclosure Controls and Procedures

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

Internal Controls over Financial Reporting

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

Forward Looking Statements

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

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

(Unaudited)	**March 31 2008**	March 31 2007
Gross premiums written	**$ 457,100**	$ 479,354
Net premiums written	**$ 423,606**	$ 444,121
Revenue:		
Net premiums earned	**$ 442,615**	$ 418,189
Investment income	**37,377**	31,556
Net realized gains (losses)	**(5,477)**	9,116
	474,515	458,861
Expenses:		
Claims incurred	**$ 369,428**	$ 316,054
Commissions and premiums taxes	**76,860**	71,164
General and administrative expenses	**65,415**	51,679
Interest expense	**9,916**	8,219
Amortization of intangibles	**1,711**	876
	523,330	447,992
Income (loss) before income taxes	**(48,815)**	10,869
Income taxes (recovery)	**(14,416)**	(8,772)
Net income (loss)	**$ (34,399)**	$ 19,641
Earnings per share:		
Basic:	**$ (0.62)**	$ 0.35
Diluted:	**$ (0.62)**	$ 0.35
Weighted average shares outstanding (in ‘000s):		
Basic:	**55,411**	55,799
Diluted:	**55,502**	56,345

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

	March 31 2008 (unaudited)	December 31 2007
ASSETS		
Cash and cash equivalents	**$ 144,679**	$ 161,635
Securities	**3,140,673**	3,256,365
Accrued investment income	**29,976**	33,186
Financed premiums	**86,218**	91,851
Accounts receivable and other assets	**385,230**	365,410
Due from reinsurers and other insurers	**209,893**	207,137
Deferred policy acquisition costs	**169,953**	176,202
Income taxes recoverable	**12,412**	1,348
Future income taxes	**121,994**	114,066
Capital assets	**129,278**	133,431
Goodwill and intangible assets	**114,927**	116,774
	$ 4,545,233	$ 4,657,405
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Bank indebtedness	**$ 163,327**	$ 172,436
Loans payable	**66,222**	66,222
Accounts payable and accrued liabilities	**141,991**	144,940
Unearned premiums	**729,154**	758,490
Unpaid claims	**2,263,282**	2,267,082
Senior unsecured debentures	**199,948**	220,080
Subordinated indebtedness	**87,361**	87,354
	3,651,285	3,716,604
SHAREHOLDERS' EQUITY		
Share capital	**323,530**	326,151
Issued and outstanding number of common shares		
55,249,928 – March 31, 2008		
55,515,728– December 31, 2007		
Contributed surplus	**7,647**	7,619
Retained earnings	**481,506**	521,165
Accumulated other comprehensive income	**81,265**	85,866
	893,948	940,801
	$ 4,545,233	$ 4,657,405

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

	For the three months ended	
(Unaudited)	**March 31 2008**	March 31 2007
Share capital		
Balance at beginning of period	**$ 326,151**	$ 328,473
Issued during the period	**48**	278
Repurchased for cancellation	**(2,669)**	(2,321)
Balance at end of period	**323,530**	326,430
Contributed surplus		
Balance at beginning of period	**$ 7,619**	$ 5,352
Stock option expense	**28**	219
Balance at end of period	**7,647**	5,571
Retained earnings		
Balance at beginning of period	**$ 521,165**	$ 560,126
Net income (loss) for the period	**(34,399)**	19,641
Common share dividends	**(4,139)**	(3,574)
Repurchase of shares for cancellation	**(1,121)**	(3,741)
Balance at end of period	**481,506**	572,452
Accumulated other comprehensive income		
Balance at beginning of period	**$ 85,866**	$ 7,011
Cumulative effect of adopting new accounting policies	**-**	17,672
Other comprehensive income (loss)	**(4,601)**	10,365
Balance at end of period	**81,265**	35,048
Total shareholders' equity at end of period	**$ 893,948**	$ 939,501

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

	For the three months ended	
(Unaudited)	**March 31 2008**	March 31 2007
Comprehensive income		
Net income (loss)	**$ (34,399)**	$ 19,641
Other comprehensive income, net of taxes:		
• Change in unrealized gains on available-for securities:		
Unrealized gains arising during the period, net of income taxes [1]	**9,952**	9,212
Recognition of realized gains to net income, net of income taxes [2]	**(347)**	(2,141)
• Unrealized gains (losses) on translating financial statement of self-sustaining foreign operations	**(14,206)**	3,294
Other comprehensive income (loss)	**(4,601)**	10,365
Comprehensive income	**$ (39,000)**	$ 30,006

[1] Net of income tax of $(1,953) for the quarter to March 31, 2008 and $7,382 for the quarter to March 31, 2007
[2] Net of income tax of $266 for the quarter to March 31, 2008 and $510 for the quarter to March 31, 2007

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

	3 months to March 31:	
(Unaudited)	**2008**	2007
Cash flows from operating activities		
Net income	**$ (34,399)**	$ 19,641
Items not affecting cash:		
Amortization	**4,931**	2,899
Future and current income taxes	**(6,200)**	(17,091)
Net realized (gains) losses	**5,547**	(9,116)
Amortization of bond premiums and discounts	**(2,470)**	(1,995)
Net change in other non-cash balances	**(31,612)**	(22,437)
	(64,203)	(28,099)
Cash flows from financing activities		
Increase in share capital	**48**	278
Repurchase of common shares for cancellation	**(3,790)**	(6,062)
Dividends paid	**(4,139)**	(3,574)
Increase (decrease) in bank indebtedness and loans payable	**(10,655)**	106,951
Decrease in senior unsecured indebtedness	**(17,289)**	-
	(35,825)	97,593
Investing activities		
Purchase of securities	**(719,671)**	(990,626)
Proceeds from sale of securities	**801,273**	971,309
Financed premiums receivable, net	**3,156**	3,301
Acquisitions, net of cash acquired	**(212)**	(13,860)
Net change to capital assets	**(1,474)**	(75)
	83,072	(29,951)
Net change in cash and cash equivalents	**(16,956)**	39,543
Cash and cash equivalents at beginning of period	**161,635**	129,706
Cash and cash equivalents at end of period	**$ 144,679**	$ 169,249

NOTE 1 Basis of Presentation

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

NOTE 2 Change In Accounting Polices

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

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

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

NOTE 3 Stock-based Compensation

As reported on pages 74 – 75 of the Company's 2007 Annual Report, effective January 1, 2003 the Company adopted on a prospective basis the fair-value method of accounting for stock-based compensation awards granted to employees and non-employee directors. During the first quarter 2008, the Company recorded $28,000 of stock-based compensation expense included in employee compensation expense.

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

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

	As at March 31	
	2008	2007
Risk-free interest rate	3.22%	4.11%
Dividend yield	2.23%	1.30%
Volatility of the expected market price of the Company's common shares	27.8%	25.2%
Expected option life (in years)	4.0	3.7

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

NOTE 4 **Segmented Information**

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

	Three months ended March 31, 2008			
	Canada	United States	Corporate and other	Total
Gross premiums written	$ 119,729	$ 337,371	$ -	$ 457,100
Net premiums earned	131,566	311,049	-	442,615
Investment income (loss)	14,914	23,000	(537)	37,377
Net realized gains (losses)	(1,607)	(3,870)	-	(5,477)
Interest expense	-	8,586	1,330	9,916
Amortization of capital assets	543	1,708	1,139	3,390
Amortization of intangible assets	-	1,712	-	1,712
Net income tax expense (recovery)	(6,968)	(9,545)	2,097	(14,416)
Net income (loss)	(4,203)	(34,094)	3,898	(34,399)
Capital assets	$ 59,620	$ 61,820	$ 7,838	$ 129,278
Goodwill and intangible assets	8,954	105,973	-	114,927
Total assets	1,587,473	2,922,033	35,727	4,545,233

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

	Three months ended March 31, 2007			
	Canada	United States	Corporate and other	Total
Gross premiums written	$ 116,055	$ 363,299	$ -	$ 479,354
Net premiums earned	117,702	300,487	-	418,189
Investment income (loss)	13,155	18,529	(128)	31,556
Net realized gains	1,475	7,641	-	9,116
Interest expense	-	6,345	1,874	8,219
Amortization of capital assets	348	1,243	379	1,970
Amortization of intangible assets	-	876	-	876
Net income tax expense (recovery)	1,991	(13,654)	2,891	(8,772)
Net income (loss)	15,767	5,976	(2,102)	19,641
Capital assets	$ 49,686	$ 59,184	$ 3,259	$ 112,129
Goodwill and intangible assets	7,961	96,538	-	104,499
Total assets	1,583,342	2,611,812	42,122	4,237,276

NOTE 5 Securities

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

		March 31, 2008			
		Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits		$ 319,937	$ 2,218	$ 70	$ 322,085
Bonds:					
Canadian	- Government	239,933	9,166	-	249,099
	- Corporate	369,137	4,975	4,259	369,853
U.S	- Government	125,651	4,739	39	130,351
	- Corporate	1,464,656	43,322	10,782	1,497,196
Other	- Government	11,977	278	-	12,255
	- Corporate	142,443	7,803	307	149,939
Sub-total		**$ 2,673,734**	**$ 72,501**	**$ 15,457**	**$ 2,730,778**
Common shares	- Canadian	229,130	17,651	20,727	226,054
	- U.S	187,171	9,013	18,942	177,242
Preferred shares	- Canadian	7,929	-	2,064	5,865
	- U.S	780	-	46	734
		$ 3,098,744	**$ 99,165**	**$ 57,236**	**$ 3,140,673**

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

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

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

Net investment income for the quarter ended March 31 is comprised as follows:

	2008	2007
Investment income		
Interest on short term securities	$ 4,423	$ 4,699
Interest on Bonds	29,748	24,393
Dividends	2,836	3,227
Premium Finance	1,596	1,104
Other	806	129
Gross Investment Income	$ 39,409	$ 33,552
Investment Expenses	2,032	1,996
Net Investment Income	$ 37,377	$ 31,556

Net realized losses for the quarter ended March 31, 2008 were $5.5 million compared to net realized gains of $9.1 million for the quarter ended March 31, 2007. Included in net realized losses were adjustments to the carrying values of securities for declines in market value considered other than temporary of $9.0 million compared to $4.0 million for the quarter ended March 31, 2007.

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

NOTE 6 Financial Instruments

Risk Management

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

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

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

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

	March 31, 2008			December 31, 2007		
AAA/ Aaa	$1,415,018	51.8	%	$1,516,064	53.9	%
AA/Aa2	599,703	22.0		661,891	23.5	
A/A2	508,558	18.6		470,909	16.7	
BBB/Baa2	96,697	3.5		96,076	3.4	
BB/Ba2	8,079	0.3		8,081	0.3	
B/B2	11,687	0.4		12,629	0.4	
CCC/Caa or lower, or not rated	91,036	3.4		48,942	1.8	
Total consolidated	$2,730,778	100.0	%	$2,814,592	100.0	%

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

Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that an immediate hypothetical 100 basis point or 1 percent parallel increase in interest rates would decrease the market value of the fixed income securities by $86.0 million at March 31, 2008, representing 3.1% of the $2.7 billion fair value fixed income securities portfolio.

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

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

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

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

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

As at March 31, 2008	One year or less	One to five years	Five to ten years	More than ten years	No specific date	Total
Assets:						
Cash & cash equivalents	$ 144,679	$ -	$ -	$ -	$ -	$ 144,679
Securities	614,284	1,262,129	682,613	171,116	410,531	3,140,673
Accrued Investment Income	29,976	-	-	-	-	29,976
Finance Premiums	86,218	-	-	-	-	86,218
Accounts receivable and other assets	385,230	-	-	-	-	385,230
Due from reinsurers and other insurers	67,939	119,299	19,520	3,135		209,893
Liabilities:						
Bank Indebtedness	163,327	-	-	-	-	163,327
Loans payable	-	-	66,222	-	-	66,222
Accounts payable and accrued liabilities	141,991	-	-	-	-	141,991
Unpaid claims	732,593	1,286,406	210,483	33,800		2,263,282
Senior unsecured debentures	-	96,278	103,670	-	-	199,948
Subordinated indebtedness	-	-	-	87,361	-	87,361

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

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

Collateral pledged: As at March 31, 2008, bonds and term deposits with an estimated fair value of $51.7 million were on deposit with state and provincial regulatory authorities. Also, from time to time, the company pledges securities to third parties to collateralize liabilities incurred under its policies of insurance. At March 31, 2008, the amount of such pledged securities was $76.7 million. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's standard risk management controls.

On October 4, 2002 the Company entered into an annually renewable syndicated $350 million letter of credit facility. The letter of credit facility is principally used to collateralize inter-company reinsurance balances for statutory capital management purposes. The Company pledges securities to collateralize the utilized portion of the letter of credit facility. At March 31, 2008 the letter of credit facility utilization was $270.2 million.

Past due loans but not impaired: Past due loans are loans where repayment of principal or payment of interest is contractually in arrears. There are no such loans as at March 31, 2008.

Fair value:

Refer to Note 5 with respect to fair value disclosure on securities. The carrying value of unpaid claims does not take into consideration the time value of money or make an explicit provision for adverse deviation. In order to estimate the fair value of the unpaid claims, the Company uses an actuarial approach recognizing the time value of money which incorporates assumptions concerning projected cash flows and appropriate provisions for adverse deviation. As at March 31, 2008 the discounted value of the unpaid claims was $2,351.9 million ($2,196.4 million net of reinsurers' share of unpaid claims). There is no active market for policy liabilities, so a market value is not readily available.

The table below summarizes the fair valuation of debt liabilities:

	March 31, 2008		
	Total fair value*	Total carrying value	Favorable (Unfavorable)
Loans Payable	$ 57,112	$ 66,222	$ 9,110
Senior unsecured debentures	190,736	199,948	9,212
Subordinated indebtedness	90,500	87,361	(3,139)

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

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

The Company uses fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information (Level 3) in the valuation of securities as at March 31, 2008 were as follows:

($ in 000s)

Description	March 31, 2008	Quoted prices in active markets for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities	$ 3,140,673	$ 409,895	$ 2,730,778	$ -

NOTE 7 Capital Management

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

As at March 31, 2008 the Company was adequately capitalized to support the premium volume of the insurance subsidiaries. Canadian property and casualty insurance companies are regulated by the Office of the Superintendent of Financial Institutions (OSFI) and the Financial Services Commission of Ontario (FSCO) and are required to maintain a level of capital sufficient to achieve a target of 150% of a minimum capital test (MCT) formula. As at March 31, 2008 the MCT of the Canadian subsidiaries are above the target MCT level, with MCT margins ranging between 205% and 238% and aggregate available capital of approximately $80.5 million in excess of required capital.

In the United States, a risk based capital (RBC) formula is used by the National Association of Insurance Commissioners (NAIC) to identify property and casualty insurance companies that may not be adequately capitalized. The NAIC requires that capital and surplus not fall below 200% of the authorized control level. As at March 31, 2008 Lincoln General had an RBC ratio of 173%. The RBC ratios of the other U.S. subsidiaries range between 227% and 1,506% and have aggregate available capital of approximately $88.7 million in excess of required capital.

The reinsurance subsidiaries, which are domiciled in Barbados and Bermuda, are required by the regulator in the jurisdictions in which they operate to maintain minimum capital levels. As at March 31, 2008 the capital maintained by Kingsway Reinsurance Corporation was approximately $302.6 million in excess of the regulatory requirements in Barbados and the capital maintained by Kingsway Reinsurance (Bermuda) Limited was approximately $62.5 million in excess of regulatory requirements.

During the three months ended March 31, 2008, the Company repurchased 368,200 common shares under the normal course issuer bid for a total purchase price of $4.4 million at an average price of $11.87 (Cdn$11.93). For additional details, refer to page 39 to 42 of the 2007 Annual Report.

NOTE 8 Hedges

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

The swap transaction has been designated as a cash flow hedge. Any changes in the fair value of hedging instrument are recorded in other comprehensive income until the hedged item affects the Consolidated Statement of Income. Hedge ineffectiveness is measured and recorded in the current period in the Consolidated Statement of Income. The company has recorded a gain of $0.1 million during the quarter due to the ineffective portion of the designated hedge. As at March 31, 2008, the time length of cash flow hedge outstanding was less than five years. When the hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income will be recognized in income over the remaining term of the original hedge, or when the hedged item is derecognized.

NOTE 9 Acquisitions

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

During the first quarter of 2008, the final purchase price was determined at $51,112,265. The Company has recognized total goodwill $1,181,723 related to this acquisition, of which $211,516 was recorded in 2008 and $970,207 during 2007.

The Company also recognized total intangible assets of $10,669,125 related to this acquisition during 2007, of which $7,803,000 was assigned to insurance licenses with an indefinite life and not subject to amortization, $1,101,000 was assigned to computer software and is being amortized straight line over its defined useful life of 5 years and $1,765,000 assigned to agent relationships and is also being amortized of a 5 year term but based on a pattern in which the economic benefits of the asset are expected to be consumed.

NOTE 10 Bank Indebtedness

Bank indebtedness, which totaled $163.3 million as at March 31, 2008, is subject to compliance with financial covenants and other provisions of the Credit Agreement.

As a result of the loss before income taxes the interest coverage ratio was (0.5) as at March 31, 2008, placing the company in breach of this covenant. Subsequent to the balance sheet date, the Company has obtained a waiver over compliance with the March 31, 2008 interest coverage covenant under the Credit Agreement. Although the future terms of the Credit Agreement are currently under review, the borrowing costs on this facility will increase as a result of the covenant breach.

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

NOTE 11 Supplemental Condensed Consolidating Financial Information

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

Condensed Consolidating Statement of Operations

For the three months ended March 31, 2008

	KFSI (a "Guarantor")	KAI (a "Guarantor")	K2007GP (the "Issuer")	Other Subsidiaries (the "Non-Guarantor subsidiaries")	Consolidation adjustments	Total
Revenue:						
Net premiums earned	$ -	$ -	$ -	$ 442,615	$ -	$ 442,615
Investment related income	(537)	859	1,829	31,578	(1,829)	31,900
Management fees	30,008	4,471	-	-	(34,479)	-
	$ 29,471	$ 5,330	$ 1,829	$ 474,193	$ (36,308)	$ 474,515
Expenses:						
Claims incurred	$ -	$ -	$ -	$ 356,918	$ 12,510	$ 369,428
Commissions and premium taxes	-	-	-	76,860	-	76,860
Other expenses	22,147	6,927	59	86,811	(48,818)	67,126
Interest expense	1,330	7,141	1,498	(53)	-	9,916
	23,477	14,068	1,557	520,536	(36,308)	523,330
Income before income taxes	5,994	(8,738)	272	(46,343)	-	(48,815)
Income taxes	2,097	(2,971)	93	(13,635)	-	(14,416)
Equity in undistributed net income of subsidiaries	(38,296)	(28,241)	-	-	66,537	-
Net income (loss)	$ (34,399)	$ (34,008)	$ 179	$ (32,708)	$ 66,537	$ (34,399)

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

Condensed Consolidating Statement of Operations

For the three months ended March 31, 2007

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Revenue:						
Net premiums earned	$ -	$ -	$ -	$ 418,189	$ -	$ 418,189
Investment related income	(129)	836	-	39,965	-	40,672
Management fees	19,434	3,375	-	-	(22,809)	-
	$ 19,305	$ 4,211	$ -	$ 458,154	$ (22,809)	$ 458,861
Expenses:						
Claims incurred	$ -	$ -	$ -	$ 316,054	$ -	$ 316,054
Commissions and premium taxes	-	-	-	71,164	-	71,164
Other expenses	16,642	5,128	-	53,594	(22,809)	52,555
Interest expense	1,874	5,636	-	709	-	8,219
	18,516	10,764	-	441,521	(22,809)	447,992
Income before income taxes	789	(6,553)	-	16,633	-	10,869
Income taxes	2,891	(2,228)	-	(9,435)	-	(8,772)
Equity in undistributed net income of subsidiaries	21,743	(22,782)	-	-	1,039	-
Net income (loss)	$ 19,641	$ (27,107)	$ -	$ 26,068	$ 1,039	$ 19,641

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

Condensed Consolidating Balance Sheet

As at March 31, 2008

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Assets						
Investments in subsidiaries	$ 903,048	$ 686,218	$ -	$ (268,140)	$ (1,321,126)	$ -
Cash	8,510	2,653	838	132,678	-	144,679
Securities	-	-	-	3,226,891	-	3,226,891
Goodwill and other assets	9,780	-	-	105,147	-	114,927
Other assets	29,155	49,529	107,206	2,986,430	(2,113,584)	1,058,736
	$ 950,493	$ 738,400	$ 108,044	$ 6,183,006	$ (3,434,710)	$4,545,233
Liabilities and Shareholders' Equity						
Liabilities:						
Bank Indebtedness	$ 37,000	$ 170,175	$ -	$ 109,450	$ (87,076)	$ 229,549
Other liabilities	1,045	25,980	4,458	(20,578)	131,086	141,991
Unearned premiums	-	-	-	1,182,844	(453,690)	729,154
Unpaid claims	-	-	-	3,879,488	(1,616,206)	2,263,282
Senior unsecured debentures	18,500	125,000	93,288	(19,963)	(16,877)	199,948
Subordinated indebtedness	-	90,500	-	-	(3,139)	87,361
	56,545	411,655	97,746	5,131,241	(2,045,902)	3,651,285
Shareholders' equity:						
Share capital	323,530	380,293	10,667	1,783,031	(2,173,991)	323,530
Contributed surplus	7,647	-	-	-	-	7,647
Retained Earnings	481,506	(53,548)	2,233	(807,881)	859,196	481,506
Accumulated other comprehensive income	81,265	-	(2,602)	76,615	(74,013)	81,265
	893,948	326,745	10,298	1,051,765	(1,388,808)	893,948
	$ 950,493	$ 738,400	$ 108,044	$ 6,183,006	$ (3,434,710)	$4,545,233

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

Condensed Consolidating Balance Sheet

As at December 31, 2007

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

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

Condensed Consolidating Statement of Cash Flows

For the three months ended March 31, 2008

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Cash provided by (used in):						
Operating Activities:						
Net income	$ (34,399)	$ (34,008)	$ 179	$ (86,565)	$ 120,394	$ (34,399)
Adjustments to reconcile net income to net cash used by operating activities:						
Equity in undistributed earnings in subsidiaries	38,296	28,241	-	-	(66,537)	-
Other	(17,439)	(32,217)	36	2,527	17,289	(29,804)
	(13,542)	(37,984)	215	(84,038)	71,146	(64,203)
Financing Activities:						
Increase in share capital, net	48	37,843	-	-	(37,843)	48
Repurchase of common shares for cancellation	(3,790)	-	-	-	-	(3,790)
Common share dividend	(4,139)	-	-	-	-	(4,139)
Increase/(decrease) in bank indebtedness	-	-	57	(10,655)	(57)	(10,655)
Increase in senior unsecured indebtedness	-	-	-	-	(17,289)	(17,289)
	(7,881)	37,843	57	(10,655)	(55,189)	(35,825)
Investing Activities:						
Purchase of securities	-	-	-	(719,671)	-	(719,671)
Proceeds from sale of securities		-	-	801,273	-	801,273
Acquisitions	15,957	-	-	(212)	(15,957)	(212)
Other	260	(4,166)	-	5,588	-	1,682
	16,217	(4,166)	-	86,978	(15,957)	83,072
Increase (decrease) in cash during the year	(5,206)	(4,307)	272	(7,715)	-	(16,956)
Cash, beginning of year	13,716	6,960	566	140,393	-	161,635
	$ 8,510	$ 2,653	$ 838	$ 132,678	$ -	$ 144,679

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

Condensed Consolidating Statement of Cash Flows

For the three months ended March 31, 2007

	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation adjustments	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Cash provided by (used in):						
Operating Activities:						
Net income	$ 19,641	$ (27,107)	$ -	$ (19,517)	$ 46,624	$ 19,641
Adjustments to reconcile net income to net cash used by operating activities:						
Equity in undistributed earnings in subsidiaries	(21,743)	22,782	-	-	(1,039)	-
Other	4,612	(4,631)	-	(47,721)	-	(47,740)
	2,510	(8,956)	-	(67,238)	45,585	(28,099)
Financing Activities:						
Increase in share capital, net	278	110,000	-	-	(110,000)	278
Repurchase of common shares for cancellation	(6,062)	-	-	-	-	(6,062)
Common share dividend	(3,574)	-	-	-	-	(3,574)
Increase/(decrease) in bank indebtedness	-	-	-	106,951	-	106,951
Increase in senior unsecured indebtedness	-	-	-	-	-	-
	(9,358)	110,000	-	106,951	(110,000)	97,593
Investing Activities:						
Purchase of securities	-	-	-	(1,074,558)	83,932	(990,626)
Proceeds from sale of securities	99	-	-	971,210	-	971,309
Acquisitions	19,517	-	-	(13,860)	(19,517)	(13,860)
Other	(430)	(49,272)	-	52,928	-	3,226
	19,186	(49,272)	-	(64,280)	64,415	(29,951)
Increase (decrease) in cash during the year	12,338	51,772	-	(24,567)	-	39,543
Cash, beginning of year	3,580	3,204	-	122,922	-	129,706
	$ 15,918	$ 54,976	$ -	$ 98,355	$ -	$ 169,249