



## Kingsway Reports Second Quarter Loss and Provides Transformation Update

**Toronto, Ontario (August 7, 2009)** – Kingsway Financial Services Inc. (TSX/NYSE: KFS, “Kingsway”, or “the Company”) today announced its financial results for the second quarter ended June 30, 2009. It also announced changes to the Board of Directors and provided shareholders with an update on its company-wide transformation. The Company reported a net loss of \$38.4 million or \$0.70 per share diluted, compared with a net income of \$6.3 million or \$0.11 per share diluted in the second quarter of 2008. The loss reflects the adverse development in run-off businesses, transition costs, a significant drop in revenue from discontinued and run-off businesses, a reduced return on investments and several one-time charges. All amounts are in U.S. dollars unless indicated otherwise.

“The second quarter’s poor financial results reflect the legacy of past business strategies and practices that we are rapidly eliminating or changing through our ongoing transformation work,” said Mr. Simpson. “Since being appointed to the role of CEO early in the second quarter, I have restructured the senior management team to get the right talent in key roles and taken steps to put the company back on a solid financial footing. The team has reached out to regulators to explain the new directions we’re taking and seek their support. We believe the Kingsway that emerges from the transformation – considerably streamlined, with less complexity, and with strengthened relationships with key stakeholders – will succeed, over time, in delivering solid results to shareholders.”

Actions taken in the second quarter:

- Appointed Daniel Brazier to the role of interim Chief Financial Officer in May 2009, with a mandate to closely examine all accounting practices with fresh eyes, rigour and discipline. Dan brings significant experience in strategy development, business transformation and financial re-engineering to the task. Under Dan’s guidance, the Company accelerated plans to restore financial stability by
  - Launching a debt buy-back plan through a structured Capital Initiative
  - Recapitalizing the core operating units by repatriating funds currently committed to reinsurance subsidiaries. As of June 30, 2009, both our Canadian subsidiaries had an MCT of over 200, and our U.S. subsidiaries (with the exception of Lincoln General Insurance Company - “Lincoln General”) had an RBC in excess of 200 - above minimum statutory capital requirements. The repatriation of funds will further strengthen the capital positions of these operations and should enable us to continue with additional debt or share purchases
  - Continuing to seek and leverage cost reduction opportunities
- Appointed Scott Wollney, previously announced as Chief Executive Officer of U.S. Commercial Lines, to head the consolidated operations for Kingsway in the U.S.
- Charged Roberto Espin, Chief Executive Officer of Hamilton Risk Management, with a new mandate to expand this successful Miami-based business
- Secured acceptance by the Pennsylvania Department of Insurance of Kingsway’s plan for Lincoln General, on May 28, 2009. This voluntary process provides for a solvent and orderly run-off of the Lincoln General business, including efficient resolution and payment of all policy-related and other obligations. Appointed external senior run-off management experts to the Lincoln General management team and board to ensure the successful execution of the plan
- Met with U.S. regulators to underscore the Company’s commitment to addressing outstanding issues as well as improving service and claims handling. Continued to build key relationships with regulators, advisors and ratings agencies
- Largely completed the process of aligning the employee population in the U.S. with the new operating model, applying a disciplined and rigorous approach to getting people with the right skills and experience in the right roles to drive a successful turnaround of the business
- Consolidated support functions (human resources, information technology, corporate legal) across the organization to reduce duplication and eliminate unnecessary cost
- Further reduced staffing levels by a total of 165 in the quarter across the Company
- Achieved \$14 million or 40.2% of the 2009 expense savings target of \$34.8 million, while incurring approximately \$10 million in transition costs.

As a result of this quarter’s progress, the Company is ahead of plan on a number of key deliverables, and on track to achieve an annualized savings run-rate of \$120 million by year-end 2010:

- By accelerating execution of the transformation strategy, the Company has already succeeded in achieving 97% or \$33.7 million of the previously disclosed \$34.8 million savings target for 2009:
  - Savings related to workforce reductions stand at \$21.9 million, more than double the \$10m savings target for 2009;
  - As part of the claims improvement initiative, the Company completed an extensive review of the claims handling process. Execution is in the early stages and will take some time to complete.
- Year to date, the Company has achieved more than 60% (610) of the 1,000 total position eliminations targeted to be complete by the end of 2010. Approximately 400 of these reductions were in U.S. operations and 200 in Canada.
- The Company remains on target to incur \$15-20 million in transition costs. One-time costs of \$12.9 million have been incurred to date.

The Company further announced that Colin Simpson, Kingsway's President and Chief Executive Officer (CEO), is joining the Board of Directors, effective August 6, 2009. Mr. Simpson replaces William Andrus, who resigned from the Board effective August 1, 2009.

"Management and the Board of Directors are completely aligned and unrelenting in our focus on execution," said Simpson. "The overarching strategy has not changed: we are focusing on profitable core business, getting the right infrastructure in place to support it, and reducing our cost base to become more competitive in the marketplace. We will continue to evaluate and refine the details of the plan as business conditions shift to ensure we meet our objectives of returning the Company to financial stability, restoring shareholder value, and building a strong foundation for the future. While we have made significant progress to date, it will take time for the positive effects of many of these actions, such as our major business unit consolidations, to be reflected in our financial results. We expect to continue to gain momentum during the remainder of 2009 and throughout 2010."

#### **Detailed Financial Results**

This quarter's results reflect the businesses continuing under the transformation plan and the businesses put in run-off. The result from continuing business before restructuring, software write-offs and settlements of lawsuits was a loss of \$2.6 million for the quarter. The year-to-date results from continuing businesses reflect a loss of \$17.4 million.

As a direct result of our transformation plan, gross premiums written for the Canadian operations decreased 25% in the quarter (25% year to date) compared to the same periods last year. This decrease results from the Company's execution of its plan to discontinue writing unprofitable lines of business within its commercial lines. U.S. operations reported a decrease in premiums written of \$44.4 million during the quarter (24% less than in Q2 2008) and \$74.0 million year to date (down 19% compared to the previous year). The run-off business premium volume declined by \$93.8 million in the quarter (\$218.7 million year to date) compared to the same period last year due to the majority of the business being placed into run-off in early 2009.

As a result of the Company re-focusing its efforts on its core profitable business, non-standard automobile premiums for the six months to June 30, 2009 were \$252.7 million or 50% of the total gross premiums written compared to 41% in the same period of the prior year.

Adverse reserve development recorded in the quarter totaled \$49.1 million of which \$36.2 million related to the run-off business, \$3.6 million related to the ongoing Canadian operations and \$9.3 million to the ongoing U.S. operations.

During the quarter, the Company decided to decommission computer software that was not being fully utilized in the business. As a result of this decision, the amortization of the software for the quarter was increased by \$2.0 million and in addition, \$3.2 million of prepaid expenses relating to computer software were written off and included in general and administrative expenses.

The Company has incurred restructuring costs of \$10.0 million in the quarter (\$12.9 million year to date). Of the total restructuring costs, severance costs associated with the Company's corporate restructuring account for \$6.1 million in the quarter (\$8.1 million year to date).

Also included in expenses in the quarter is an additional allowance for doubtful accounts of approximately \$5.5 million, primarily in Lincoln General.

Investment income, excluding net realized gains, was \$29.1 million compared to \$32.7 million for the same quarter of 2008, an 11% decrease. Included in net realized gains were adjustments to the carrying values of securities for declines in market value considered other than temporary of \$3.3 million.

As at June 30, 2009 the securities portfolio did not include any collateralized debt obligations nor any direct exposure to any asset backed commercial paper. The securities portfolio has an exposure of approximately \$1.5 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities.

As at June 30, 2009 the book value per share was \$6.67 compared to \$8.24 as at December 31, 2008 and \$15.49 at June 30, 2008.

### **Dividend**

The Board of Directors has decided not to declare a quarterly dividend for the second quarter of 2009.

### **Capital Initiative**

The Board of Directors has delegated to the Capital Committee of the Board the authority to repurchase debt of the Company up to a maximum of \$40 million subject to an assessment of liquidity levels, market conditions and any costs related to the unwinding of hedges and other related financial instruments. The Company has issued two tenders. The first tender for a series of affiliated debt closed on August 4, 2009 and 22.24% of the instruments were tendered. The second tender for a direct bond issue remains open. To date Kingsway has spent \$8 million buying back debt under these tenders as well as \$6 million outside of these tenders.

The Company has also issued and recently expanded a Normal Course Issuer Bid to repurchase up to 10% of its public float or approximately 5.5 million shares. A portion of the \$40 million allotment may be used for this latter purpose.

### **Conference Call and Webcast**

You are invited to participate in our quarterly results conference call that will take place on August 7, 2009 at 8:30 a.m. EDT. To access please dial 1-800-732-1073 about five 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=2729980>.

### **About the Company**

Kingsway Financial Services Inc. ("Kingsway" or the "Company") focuses on non-standard automobile insurance in North America. Kingsway's primary businesses are the insuring of automobile risks for drivers who do not meet the criteria for coverage by standard automobile insurers, and commercial automobile insurance. The Company operates through wholly-owned insurance subsidiaries in Canada and the U.S. which it is currently consolidating to reduce overhead and strengthen its competitive position. 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".

This news release contains forward-looking information. This news release also contains certain non-GAAP measures. Please refer to the sections entitled "Forward Looking Statements" and "Non-GAAP Financial Measures" in the following Management's Discussion and Analysis.

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## Financial Summary:

(in millions of dollars except per share values)	Three months ended June 30:			Six months ended June 30:		
	2009	2008	Change	2009	2008	Change
Gross premiums written	\$ 251.4	\$ 422.0	(40%)	\$ 510.4	\$ 853.1	(40%)
Underwriting loss	(74.0)	(24.6)	201%	(132.7)	(90.6)	46%
Investment income	29.1	32.7	(11%)	56.1	68.9	(19%)
Net realized gains (loss)	(0.7)	10.7	(107%)	(20.3)	5.0	(506%)
Operating earnings (loss)	(39.0)	0.2	(19600%)	(77.8)	(30.0)	159%
Net income (loss)	(38.4)	6.3	(710%)	(96.6)	(28.1)	244%
Diluted earnings (loss) per share	(0.70)	0.11	(736%)	(1.75)	(0.51)	243%
Book value per share	6.67	15.49	(57%)	6.67	15.49	(57%)
Combined ratio	127.4%	106.2%	21.2%	124.0%	111.2%	12.8%

## Segmented Results

Three months ended June 30, 2009							
(in thousands of dollars)	Canada	United States	Corporate and Other	Total Continuing Business	Run-off	Grand Total	
Income (loss) from continuing operations	\$ (1,437)	\$ 2,091	\$ (2,619)	\$ (1,965)	\$ (36,412)	\$ (38,377)	
Add back: Restructuring Charges	307	2,161	4,678	7,146	2,832	9,978	
Add back: Accelerated software amortization and write-offs	-	3,200	-	3,200	2,000	5,200	
Deduct: Proceeds on settlement of law suits	3,850	7,150	-	11,000	-	11,000	
Income (loss) before restructuring, software write-offs and settlements of law suits	\$ (4,980)	\$ 302	\$ 2,059	\$ (2,619)	\$ (31,580)	\$ (34,199)	

  

Six months ended June 30, 2009							
(in thousands of dollars)	Canada	United States	Corporate and Other	Total Continuing Business	Run-off	Grand Total	
Income (loss) from continuing operations	\$ (9,165)	\$ (11,801)	\$ 1,712	\$ (19,254)	\$ (73,551)	\$ (92,805)	
Add back: Restructuring Charges	518	3,212	5,930	9,660	3,261	12,921	
Add back: Accelerated software amortization and write-offs	-	3,200	-	3,200	2,000	5,200	
Deduct: Proceeds on settlement of law suits	3,850	7,150	-	11,000	-	11,000	
Income (loss) before restructuring, software write-offs and settlements of law suits	\$ (12,497)	\$ (12,539)	\$ 7,642	\$ (17,394)	\$ (68,290)	\$ (85,684)	

- This quarter's results reflect the businesses continuing under the transformation plan and the businesses put in run-off. The result from continuing business before restructuring, software write-offs and settlements of lawsuits was a loss of \$2.6 million for the quarter. The year-to-date results from continuing businesses reflect a loss of \$17.4 million.
- As a direct result of our transformation plan, gross premiums written for the Canadian operations decreased 25% in the quarter (25% year to date) compared to the same periods last year. This decrease results from the Company's execution of its plan to discontinue writing unprofitable lines of business within its commercial lines and the K-Plus program in Canada. U.S. operations reported a decrease in premiums written of \$44.4 million during the quarter (24% less than in Q2 2008) and \$74.0 million year to date (down 19% compared to the previous year). The run-off business premium volume declined by \$93.8 million in the quarter (\$218.7 million year to date) compared to the same period last year due to the majority of the business being placed into run-off in early 2009.

- As a result of the Company re-focusing its efforts on its core profitable business, non-standard automobile premiums for the six months to June 30, 2009 were \$252.7 million or 50% of the total gross premiums written compared to 41% in the same period of the prior year.
- Adverse reserve development recorded in the quarter totaled \$49.1 million of which \$36.2 million related to the run-off business, \$3.6 million related to the ongoing Canadian operations and \$9.3 million to the ongoing U.S. operations.
- During the quarter, the Company decided to decommission computer software that was not being fully utilized in the business. As a result of this decision, the amortization of the software for the quarter was increased by \$2.0 million and in addition, \$3.2 million of prepaid expenses relating to computer software were written off and included in general and administrative expenses.
- The Company has incurred restructuring costs of \$10.0 million in the quarter (\$12.9 million year to date) as a result of implementing the transformation plan announced in the first quarter of 2009. Of the total restructuring costs, severance costs associated with the Company's corporate restructuring plan account for \$6.1 million in the quarter (\$8.1 million year to date).
- Also included in expenses in the quarter is an additional allowance for doubtful accounts of approximately \$5.5 million, primarily in Lincoln General.
- The Company settled two lawsuits during the quarter and received proceeds of \$11.0 million. The settlements approximated the professional services expense incurred in previous years to initiate and support the actions and have been recorded as a reduction of professional service expense included in general and administrative expenses.
- Investment income, excluding net realized gains was \$29.1 million compared to \$32.7 million for the same quarter of 2008, an 11% decrease. Included in net realized gains were adjustments to the carrying values of securities for declines in market value considered other than temporary of \$3.3 million or \$0.06 per share for the quarter.
- As at June 30, 2009, the securities portfolio did not include any collateralized debt obligations nor any direct exposure to any asset backed commercial paper. The securities portfolio has an exposure of approximately \$1.5 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities.
- As at June 30, 2009, the book value per share was \$6.67 compared to \$8.24 as at December 31, 2008, and \$15.49 as at June 30, 2008.

**Kingsway Financial Services Inc.'s Management Discussion and Analysis**

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

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

**Non-GAAP Financial Measures**

The Company uses both GAAP and certain non-GAAP financial measures to assess performance. Securities regulators require that companies caution readers about non-GAAP financial measures that do not have a standardized meaning under GAAP and are unlikely to be comparable to similar measures used by other companies. Kingsway, like many insurance companies, analyzes performance based on underwriting ratios such as combined, expense and loss ratios. These terms are defined in the glossary of terms section beginning on page 106 of the 2008 Annual Report. Although there is not a property and casualty industry defined standard that is consistently applied in calculating these ratios, Kingsway has historically included costs such as corporate office expenses and excluded premium finance revenues whereas other public companies have done otherwise in the calculation of their expense and combined ratios. Readers are therefore cautioned when comparing Kingsway's combined ratios to those of other public companies as they may not have been calculated on a comparable basis.

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 income from continuing operations excluding after-tax net realized gains and losses on securities and after tax gains on redemption of senior notes to assess the profitability of its operations. A reconciliation of net income to operating earnings is presented in the section titled 'Operating Earnings'.

**Date of MD&A**

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

**RESULTS OF OPERATIONS**

**Premiums**

<i>(in millions of dollars)</i>	Three months ended June 30:			Six months ended June 30:		
	2009	2008	Change	2009	2008	Change
<b>Gross premiums written</b>						
Canada	\$ 95.8	\$ 128.2	(25%)	\$ 149.0	\$ 199.0	(25%)
U.S.	140.4	184.8	(24%)	323.0	397.0	(19%)
Run-off	15.2	109.0	(86%)	38.4	257.1	(85%)
<b>Total</b>	<b>\$ 251.4</b>	<b>\$ 422.0</b>	<b>(40%)</b>	<b>\$ 510.4</b>	<b>\$ 853.1</b>	<b>(40%)</b>
<b>Net premiums written</b>						
Canada	\$ 93.0	\$ 125.7	(26%)	\$ 143.6	\$ 194.4	(26%)
U.S.	110.1	137.0	(20%)	280.9	313.2	(10%)
Run-off	21.9	124.7	(82%)	49.0	277.7	(82%)
<b>Total</b>	<b>\$ 225.0</b>	<b>\$ 387.4</b>	<b>(42%)</b>	<b>\$ 473.5</b>	<b>\$ 785.3</b>	<b>(40%)</b>
<b>Net premiums earned</b>						
Canada	\$ 76.4	\$ 85.0	(10%)	\$ 138.8	\$ 155.7	(11%)
U.S.	135.1	142.1	(5%)	289.5	286.9	1%
Run-off	58.1	167.9	(65%)	124.8	365.1	(66%)
<b>Total</b>	<b>\$ 269.6</b>	<b>\$ 395.0</b>	<b>(32%)</b>	<b>\$ 553.1</b>	<b>\$ 807.7</b>	<b>(32%)</b>

U.S. operations reported a decrease in premiums written of \$44.4 million (or 24%) during the quarter and \$74.0 million (or 19%) year to date compared with the same periods of the prior year. This decrease is a result of the Company's decision to discontinue writing unprofitable lines of business within its commercial and non-standard auto lines. The run-off business premium volume declined by \$93.8 million in the quarter (\$218.7 million year to date) compared to the same periods last year due to the majority of the business being placed into run-off in early 2009. Non-standard automobile premiums decreased 30% to \$118.2 million for the quarter (28% to \$252.7 million year to date) compared to the same periods of the prior year. Excluding the run-off business, gross written premiums declined 25% in the second quarter to \$236.2 million (21% to \$472.0 million year to date) compared to the same periods last year.

Gross premiums written for the Canadian operations decreased 25% in the quarter (25% year to date) compared to the same periods of the prior year. This decrease is also the direct result of the Company's decision to discontinue writing unprofitable lines of business within its commercial and non-standard auto lines.

U.S. operations represented 56% of gross premiums written in the quarter (63% year to date) compared with 44% in the same quarter (47% year to date) last year. Non-standard automobile, trucking, and commercial automobile premiums represented 50%, 6% and 14%, respectively, of gross premiums written for the quarter compared with 41%, 16% and 16% for Q2 2008 reflecting the decision to exit the trucking and some commercial lines business.

**Investment Income**

<i>(in millions of dollars)</i>	Three months ended June 30:			Six months ended June 30:		
	2009	2008	Change	2009	2008	Change
Investment income	\$ 29.1	\$ 32.7	(11%)	\$ 56.1	\$ 68.9	(19%)

Investment income decreased 11% to \$29.1 million in the quarter (decreased 19% to \$56.1 million year to date), compared to the same periods last year, primarily due to a reduction in the size of the portfolio as a result of reduced premium volumes due to certain lines of business being put into voluntary run-off, the repayment of the Company's bank debt in the second half of 2008 and the sale of York Fire in late 2008. Also contributing to the decrease in investment income in the quarter are lower short-term yields on the Canadian portfolio and a weaker Canadian dollar compared to the same period last year which reduces the investment income earned by the Canadian operations when reported in U.S. dollars. The cost

**Kingsway Financial Services Inc.**  
**Management's Discussion and Analysis**  
**For the three and six months ended June 30, 2009**  
**(All amounts in U.S. dollars except where noted)**  
Page 3

based yield on the fixed income portfolio decreased to 4.1% compared to 4.5% for the same quarter last year (4.2% year to date compared to 4.6% for the same period in the prior 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 (Losses)**

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

<i>(in millions of dollars)</i>	Three months ended June 30:			Six months ended June 30:		
	2009	2008	Change	2009	2008	Change
Fixed income	\$ 2.3	\$ 2.1	10%	\$ 2.6	\$ 4.6	(43%)
Equities	0.3	18.5	(98%)	(17.9)	19.2	(193%)
Impairments	(3.3)	(9.9)	(67%)	(5.0)	(18.8)	(73%)
Total	\$ (0.7)	\$ 10.7	(107%)	\$ (20.3)	\$ 5.0	(506%)

For the three months ended June 30, 2009, 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 \$0.7 million (\$20.3 million year to date) compared to a net realized gain of \$10.7 million for the three months ended June 30, 2008 (\$5.0 million year to date). Net realized gains on the sale of fixed income securities amounted to \$2.3 million for the three months ended June 30, 2009 (\$2.6 million year to date) compared to a net realized gain of \$2.1 million for the same period last year (\$4.6 million year to date).

As was previously announced, the Company elected to dispose of virtually all of its common share equities during the first quarter of 2009. In addition to the \$91.9 million impairment charge on the common share equity portfolio taken in the fourth quarter of 2008, the liquidation resulted in a realized loss of \$18.2 million in the first quarter of 2009. The decision to liquidate the equity portfolio has significantly reduced the number and value of securities in an unrealized loss position and, consequently, the value of securities considered to be other than temporarily impaired as at June 30, 2009. Also, contributing to the reduction in securities judged to be other than temporary impaired is the sale by the Company during the quarter of certain fixed income securities considered to be of a higher credit risk than desired.

**Underwriting Results**



**Kingsway Financial Services Inc.**  
**Management's Discussion and Analysis**  
**For the three and six months ended June 30, 2009**  
**(All amounts in U.S. dollars except where noted)**  
Page 4

<i>(in millions of dollars)</i>	Three months ended June 30:			Six months ended June 30:		
	2009	2008	Change	2009	2008	Change
<b>Underwriting profit (loss)</b>						
Canada	\$ (5.1)	\$ (3.9)	30.8%	\$ (14.9)	\$ (9.6)	55.2%
U.S.	(21.0)	2.3	(1013.0%)	(24.1)	7.4	(425.7%)
Run-off	(47.9)	(23.0)	108.3%	(93.7)	(88.4)	6.0%
<b>Total</b>	<b>\$ (74.0)</b>	<b>\$ (24.6)</b>	<b>200.8%</b>	<b>\$ (132.7)</b>	<b>\$ (90.6)</b>	<b>46.5%</b>
<b>Combined ratio</b>						
Canada	104.8%	103.6%	1.2%	110.7%	106.2%	4.5%
U.S.	110.9%	98.8%	12.1%	107.4%	97.4%	10.0%
Run-off	195.4%	113.7%	81.7%	177.3%	124.2%	53.1%
<b>Total</b>	<b>127.4%</b>	<b>106.2%</b>	<b>21.2%</b>	<b>124.0%</b>	<b>111.2%</b>	<b>12.8%</b>
<b>Expense ratio</b>						
Canada	37.7%	36.0%	1.7%	37.5%	39.2%	(1.7%)
U.S.	31.9%	31.8%	0.1%	30.0%	31.8%	(1.8%)
Run-off	43.9%	34.6%	9.3%	44.1%	30.8%	13.3%
<b>Total</b>	<b>36.1%</b>	<b>33.9%</b>	<b>2.2%</b>	<b>35.1%</b>	<b>32.7%</b>	<b>2.4%</b>
<b>Loss ratio</b>						
Canada	67.1%	67.6%	(0.5%)	73.2%	67.0%	6.2%
U.S.	79.0%	67.0%	12.0%	77.4%	65.6%	11.8%
Run-off	151.5%	79.1%	72.4%	133.2%	93.4%	39.8%
<b>Total</b>	<b>91.3%</b>	<b>72.3%</b>	<b>19.0%</b>	<b>88.9%</b>	<b>78.5%</b>	<b>10.4%</b>

**Adverse Development on Unpaid Claims**

<i>(in millions of dollars)</i>	Three months ended June 30:		Six months ended June 30:	
	2009	2008	2009	2008
<b>Favourable (unfavourable) change in estimated unpaid claims for prior accident years (note 1):</b>				
Canada	\$ (3.6)	\$ (2.2)	\$ (7.5)	\$ (4.6)
U.S.	(9.3)	3.8	(6.5)	9.2
Run-off	(36.2)	(7.7)	(65.2)	(69.5)
<b>Total</b>	<b>\$ (49.1)</b>	<b>\$ (6.1)</b>	<b>\$ (79.2)</b>	<b>\$ (64.9)</b>
<b>As a % of net premiums earned (note 2):</b>				
Canada	4.8%	2.6%	5.4%	3.0%
U.S.	6.9%	(2.7%)	2.2%	(3.2%)
Run-off	62.3%	4.6%	52.2%	19.0%
<b>Total</b>	<b>18.2%</b>	<b>1.5%</b>	<b>14.3%</b>	<b>8.0%</b>
<b>As a % of unpaid claims (note 3):</b>				
Canada			1.6%	0.7%
U.S.			1.9%	(0.7%)
Run-off			6.1%	5.8%
<b>Total</b>			<b>4.2%</b>	<b>2.9%</b>

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

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

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

The Canadian operations experienced estimated unfavourable unpaid claims development of \$3.6 million for the quarter (\$7.5 million year to date) or 4.8% to the Canadian operations combined ratio for the quarter (5.4% year to date) compared to unfavourable unpaid claims development of \$2.2 million for the second quarter last year (\$4.6 million year to date).

**Kingsway Financial Services Inc.**  
**Management's Discussion and Analysis**  
**For the three and six months ended June 30, 2009**  
**(All amounts in U.S. dollars except where noted)**  
Page 5

---

The U.S. operations experienced estimated net unfavourable unpaid claims development of \$9.3 million for the quarter (\$6.5 million year to date) or 6.9% to the U.S. operations combined ratio for the quarter (2.2% year to date) compared with estimated net favourable unpaid claims development of \$3.9 million in the same quarter (\$9.2 million year to date) last year.

The business in run-off experienced estimated net unfavourable unpaid claims development of \$36.2 million for the quarter (\$65.2 million year to date) or 62.3% to the run-off business combined ratio for the quarter (52.2% year to date) compared with \$7.7 million in the same quarter (\$69.5 million year to date) last year.

### **Expenses**

Overall, the expense ratio increased to 36.1% in the quarter (35.1% year to date) compared to 33.9% for the same quarter (32.7% year to date) last year. The increase in the general & administrative expense ratio is attributed primarily to the disproportionate decrease in net premiums earned versus general & administrative expenses. Net premiums earned decreased by 31.7% in the quarter (31.5% year to date) compared to last year. Actual general and administrative expenses decreased by \$15.1 million from the second quarter last year (\$23.5 million year to date from the same period of the prior year) as a result of lower administrative costs resulting from the execution of the transformation plan and the receipt of \$11.0 million in proceeds as the result of the settlement of two lawsuits.

Amortization of intangibles increased in the quarter primarily due to \$2.0 million of accelerated amortization of computer software as a result of the decision to decommission computer software not fully utilized in the business.

The Company has incurred restructuring costs of \$10.0 million in the quarter (\$12.9 million year to date) as a result of implementing the transformation plan announced in the first quarter of 2009. Of the total restructuring costs, severance costs associated with the Company's corporate restructuring plan accounts for \$6.1 million in the quarter (\$8.1 million year to date).

### **Interest Expense**

Interest expense in the second quarter was \$5.9 million (\$12.2 million year to date), compared to \$8.9 million for the second quarter of 2008 (\$18.8 million year to date) as a result of the repayment of all the short term bank debt in 2008.

### **Gain on Buy-Back of Senior Notes**

During the quarter Kingsway America Inc. purchased and cancelled \$4.6 million face value of its senior unsecured debentures for \$2.0 million recording a gain of \$2.6 million.

### **Income Taxes**

Income tax recovery on continuing operations for the second quarter was \$15.3 million (\$21.4 million year to date) compared with income tax of \$0.2 million for the same quarter last year (tax recovery of \$13.5 million year to date). A reduction in the valuation allowance of \$2.8 million was recorded in the quarter as a result of utilization of some of the operating losses in the U.S. that do not expire for up to 20 years.

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

In the second quarter, the Company reported a net loss of \$38.4 million (\$96.6 million year to date), compared to net income of \$6.3 million in the second quarter of last year (net loss of \$28.1 million year to date). Diluted loss per share was \$0.70 for the quarter (\$1.75 year to date), compared to diluted earnings per share of \$0.11 for the second quarter of 2008 (diluted loss per share of \$0.51 year to date).

### **Operating Earnings**

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

**Kingsway Financial Services Inc.**  
**Management's Discussion and Analysis**  
**For the three and six months ended June 30, 2009**  
**(All amounts in U.S. dollars except where noted)**  
Page 6

<i>(in millions of dollars except per share values)</i>	Three months ended June 30:		Six months ended June 30:	
	2009	2008	2009	2008
Income (loss) from continuing operations	\$ (38.4)	\$ 6.8	\$ (92.8)	\$ (28.4)
Net realized gains (losses) after tax:				
Net realized gains(losses) before tax	1.9	10.7	(17.7)	5.0
Tax effect on realized gains (losses)	1.3	4.1	(2.7)	3.4
	0.6	6.6	(15.0)	1.6
Operating earnings (losses)	(39.0)	0.2	(77.8)	(30.0)
Average outstanding shares diluted (in millions)	55.1	55.2	55.1	55.4
Operating earnings (losses) per share	(0.71)	0.00	(1.41)	(0.54)

**Balance Sheet**

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

<i>(in millions of dollars except per share values)</i>	As at		
	June 30, 2009	December 31, 2008	Change
<b>Assets</b>			
Securities	2,170.9	2,370.5	(8%)
Accounts receivable and other assets	270.7	276.5	(2%)
Income taxes recoverable	46.6	14.7	217%
Future income taxes	17.4	25.3	(31%)
Capital assets	57.3	95.3	(40%)
Goodwill and intangible assets	58.5	63.9	(8%)
<b>Liabilities</b>			
Unearned premiums	462.2	536.5	(14%)
Unpaid claims	1,830.7	1,879.0	(3%)
Senior unsecured debentures	185.0	185.2	(0%)
<b>Shareholders' Equity</b>			
Book value per share	6.67	8.24	(19%)

**Securities:**

The fair value of the securities portfolio, including cash, decreased 6% to \$2.4 billion, compared to \$2.5 billion as at December 31, 2008. This decrease is primarily due to the decline in premium volumes throughout the group, particularly at Lincoln General. Partially offsetting this factor is the impact of a stronger Canadian dollar at the balance sheet date on the conversion of the Canadian dollar portfolio to U.S. dollars.

As previously announced, the Company elected to dispose of virtually all of its common share equities during the first quarter of 2009 in order to reduce volatility of the balance sheet and protect the Company's capital. The common share equity portfolio was substantially disposed of during the first quarter and proceeds were reinvested in high quality fixed income securities. As at June 30, 2009, the fair value of the common share equity portfolio was \$4.0 million. These common share equity holdings are being monitored in the context of the risk profile of the total portfolio.

As at June 30, 2009, 93.5% of the fixed income portfolio is rated 'A' or better. For a quantitative analysis of the credit exposure of the Company from its investment in fixed income securities and term deposits by rating as assigned by S&P or Moody's Investor Services see Note 7 to the financial statements.

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

**Kingsway Financial Services Inc.**  
**Management's Discussion and Analysis**  
**For the three and six months ended June 30, 2009**  
**(All amounts in U.S. dollars except where noted)**  
Page 7

	Canadian Operations	U.S. Operations	Total
Due in less than one year	24.7%	16.2%	19.0%
Due in one through five years	25.2%	57.0%	46.5%
Due in five through ten years	43.1%	17.5%	26.0%
Due after ten years	7.0%	9.3%	8.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

There were net unrealized gains of \$53.6 million on the total securities portfolio at June 30, 2009 which are included as a component of "accumulated other comprehensive income", as compared to net unrealized gains of \$35.0 million outstanding at December 31, 2008.

For a quantitative analysis of the impact to the fair value of the fixed income portfolio of a change in interest rates, see Note 7 to the financial statements.

As at June 30, 2009 the securities portfolio did not include any collateralized debt obligations nor any direct exposure to any asset backed commercial paper. The securities portfolio has a small exposure of approximately \$1.5 million to the sub-prime mortgage market in the U.S. through home equity loan asset backed securities. As at June 30, 2009, these securities had an aggregate net unrealized loss of \$0.2 million.

*Accounts receivable and other assets:*

Included in other assets is Assets Held for Sale in the amount of \$37.7 million which have been reclassified from Capital assets. As part of the announced transformation program, management is actively marketing some of its land and buildings.

Overall, accounts receivable have decreased primarily as a result of the settlement of reinsurance and a decline in the premiums written.

*Income taxes recoverable:*

Income taxes recoverable increased as a result of the continuing losses experienced in the quarter.

*Future income taxes:*

Future income taxes have decreased primarily due to a valuation allowance recorded in during the first half of the year. During the quarter a reduction in the valuation allowance of \$2.8 million was recorded, however for the year an overall increase in the valuation allowance of \$7.6 million was recorded as a result of the continued losses of the U.S. operations. Uncertainty over the Company's ability to utilize these losses over the short term has led to the Company recording the additional allowance.

*Capital assets:*

Capital assets decreased by 40% since the end of last year primarily as a result of the reclassification of \$37.7 million of Assets Held for Sale to Accounts receivable and other assets.

*Goodwill and intangible assets:*

Goodwill and intangible assets decreased by 8% since the end of last year mainly as a result of the accelerated amortization of computer software in certain of the U.S. subsidiaries.

*Unearned premiums:*

Unearned premiums decreased 14% since December 31, 2008 as a result of lower written premiums.

*Unpaid claims:*

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

**Kingsway Financial Services Inc.**  
**Management's Discussion and Analysis**  
**For the three and six months ended June 30, 2009**  
**(All amounts in U.S. dollars except where noted)**  
Page 8

<i>(in millions of dollars)</i>	As at	
	June 30, 2009	December 31, 2008
Line of Business		
Non – Standard Automobile	\$ 501.4	\$ 489.3
Standard Automobile	1.8	1.7
Commercial Automobile	221.1	217.8
Trucking	600.2	657.4
Motorcycle	120.8	118.1
Property & Liability	296.7	317.4
Other	88.7	77.3
Total	\$ 1,830.7	\$ 1,879.0

The provisions for unpaid claims decreased by 3% to \$1.83 billion at the end of the second quarter compared to \$1.88 billion at the end of 2008. The provision for unpaid claims comprised case reserves for individual claims of \$1.09 billion (\$1.05 billion at December 31, 2008) and a provision for Incurred But Not Reported (IBNR) claims which decreased 10.4% to \$741.6 million (\$828.1 million at December 31, 2008). The Run-off business had \$523.8 million of case reserves and \$479.7 million provision for IBNR claims as at June 30, 2009, a decrease of 13% since December 31, 2008.

*Book value per share:*

Book value per share decreased by 19% to \$6.67 (C\$7.76) at June 30, 2009 from \$8.24 (C\$10.03) at December 31, 2008 as a result of the diluted loss per share of \$1.75 and the increase of \$13.2 million in the "Accumulated other comprehensive income" component of shareholders' equity.

**Contractual Obligations**

Information concerning contractual maturities of financial instruments as at June 30, 2009 is shown in Note 7 of the financial statements. For further details on the Company's long term debt and interest obligations, refer to Note 20 of the Company's 2008 audited consolidated financial statements and pages 35 to 40 of the 2008 Annual Report which sets out the Company's contractual obligations as at December 31, 2008.

On June 29, 2009, Kingsway and Lincoln General entered into a consulting agreement with an external run-off manager to provide certain consulting services relating to Lincoln General, including advice and assistance in the development of a Run-off Plan. In addition to base compensation of \$1.3 million annually, the agreement provides for a minimum of \$2.5 million to be paid to the Run-off Manager at the termination of the contract (provided the contract is not terminated for cause), which, at the latest will be March 1, 2014. This bonus may be increased upon the occurrence of certain events, the likelihood of which will be re-measured and accrued quarterly. The minimum bonus amount of \$2.5 million is being accrued over the term of the contract.

**Liquidity and Capital Resources**

During the three and six months ended June 30, 2009, the cash used in operating activities were \$82.2 million and \$183.5 million, respectively. The Company's insurance subsidiaries fund their obligations primarily through the premium and investment income and maturities in the securities portfolio.

As a holding company, Kingsway derives cash from its subsidiaries generally in the form of dividends and management fees to meet its obligations, which primarily consist of dividend and interest payments. The Company believes that it has the flexibility to obtain the funds needed to fulfill its cash requirements and also to satisfy regulatory capital requirements over the next twelve months. The operating insurance subsidiaries require regulatory approval for the return of capital and, in certain circumstances, prior to the payment of dividends. In the event that dividends and management fees available to Kingsway are inadequate to service its obligations, the Company would need to raise capital, sell assets or restructure its debt obligations. The Company holds \$489.0 million in cash and high grade short term assets, representing approximately 20% of invested assets. The majority of the other fixed income securities are also liquid.

On June 26, 2009, KFS Capital LLC, an indirect wholly-owned subsidiary of Kingsway, commenced a take-over bid (the "KLROC Offer") to acquire up to 1,000,000 preferred, retractable, redeemable, cumulative units of Kingsway Linked Return of Capital Trust at a price per unit of C\$12.00 in cash. The KLROC Offer expired at 5:00 p.m. (Toronto time) on Tuesday, August 4, 2009 and 694,015 units were tendered. This tender was paid for using available cash.

**Kingsway Financial Services Inc.**  
**Management's Discussion and Analysis**  
**For the three and six months ended June 30, 2009**  
**(All amounts in U.S. dollars except where noted)**  
Page 9

---

Kingsway 2007 General Partnership, an indirect wholly-owned subsidiary of Kingsway announced on July 14, 2009 the commencement of a modified "Dutch Auction" tender offer (the "2012 Offer") for a portion of its outstanding Unsecured 6% Debentures due July 11, 2012 (the "2012 Debentures"). The 2012 Offer provides for a cash purchase of 2012 Debentures at a price per C\$1,000 principal amount of debentures of not less than C\$540 and not greater than C\$620, for a maximum aggregate purchase price to the offeror not to exceed C\$31 million (excluding accrued and unpaid interest). The 2012 Offer expires at 5:00 p.m. (Toronto time) on August 14, 2009, unless extended or earlier terminated by the Offeror. The Company expects to pay for the 2012 offer using available cash and/or proceeds from an undrawn \$20 million line of credit.

Kingsway announced on July 29, 2009 an amendment to its normal course issuer bid for common shares had been approved by the TSX. The normal course issuer bid was originally announced by Kingsway on November 28, 2008. Purchases under the normal course issuer bid from December 2, 2008 to December 1, 2009 were limited to 2,753,426 common shares (or approximately 5% of the aggregate number of common shares outstanding on November 15, 2008). Purchases under the normal course issuer bid, as amended, are now limited to 5,386,545 common shares, or 10% of the public float on November 28, 2008. Purchases under the normal course issuer bid, as amended, will terminate on December 1, 2009.

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

As at June 30, 2009 the Company was adequately capitalized to support the premium volume of the insurance subsidiaries. The Company's Canadian operating entities 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") ratio. As at June 30, 2009 the MCT's of Jevco Insurance Company and Kingsway General Insurance Company were 221% and 203% respectively. As at June 30, 2009 the Canadian insurance companies have aggregate capital of approximately \$46.4 million in excess of the 150% level.

In the United States, a risk based capital ("RBC") formula is used by the National Association of Insurance Commissioners ("NAIC") to identify property and casualty insurance companies that may not be adequately capitalized. The NAIC requires that capital and surplus not fall below 200% of the authorized control level. As at June 30, 2009, all U.S. subsidiaries, with the exception of Lincoln General, are estimated to be above the required RBC levels, with RBC ratio estimates ranging between 264% and 42,600%, and have estimated aggregate capital (excluding Lincoln General) of approximately \$83.6 million in excess of the 200% level. As at June 30, 2009, Lincoln General's estimated RBC was 63%.

Lincoln General submitted its regulatory action plan on May 7, 2009 that the Pennsylvania Insurance Department subsequently determined is satisfactory. Please refer to Note 9 of the 2008 Annual Report and Note 8 to the interim financial statements for further details.

The Company's reinsurance subsidiaries, which are domiciled in Barbados and Bermuda, are required by the regulator in the jurisdictions in which they operate to maintain minimum capital levels. As at June 30, 2009 the capital maintained by Kingsway Reinsurance Corporation was approximately \$49.9 million in excess of the regulatory requirements in Barbados and the capital maintained by Kingsway Reinsurance (Bermuda) Limited was approximately \$12.6 million in excess of regulatory requirements in Bermuda.

As part of the ongoing transformation program, during the second quarter the Company began terminating all related party reinsurance treaties. As at June 30, 2009 the treaties between Lincoln General and Kingsway Reinsurance Corporation have been commuted. All other treaties between Kingsway Reinsurance Corporation and the U.S. operating companies are expected to be commuted in the third quarter of 2009. Treaties between the Canadian operating companies and Kingsway Reinsurance (Bermuda) Limited are expected to be commuted before the end of 2009. The objective of this initiative is to increase capital in our operating companies and release excess capital to be used for corporate purposes.

#### **Off-Balance Sheet Financing**

The Company entered into an off-balance sheet transaction through the Kingsway Linked Return of Capital Trust transaction that was completed on July 14, 2005 which is more fully described in Note 20(d) of the 2008 audited

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

#### **Critical accounting estimates and assumptions**

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

There are no new critical accounting estimates or assumptions compared to the information provided in the annual MD&A.

#### **Related Party Transactions**

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

In March 2009, the Company obtained a facility from a related party to allow for specific capital initiatives. The facility is at fair market terms and conditions and is more fully described in Note 14 of the interim financial statements.

#### **International Financial Reporting Standards (IFRS)**

In 2006, the Accounting Standards Board (AcSB) published a new plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publically-listed companies to use IFRS, replacing existing Canadian GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. The Company has begun assessing the adoption of IFRS for 2011, which is more fully described on pages 43 and 44 of the 2008 Annual Report.

#### **Disclosure of Outstanding Share Data**

As at June 30, 2009, the Company had 55,068,528 common shares outstanding and there have been no changes up to the reporting date.

**Kingsway Financial Services Inc.**  
**Management's Discussion and Analysis**  
**For the three and six months ended June 30, 2009**  
**(All amounts in U.S. dollars except where noted)**  
Page 11

**Summary of Quarterly Results**

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

	2009		2008			2007		
<i>(in millions of dollars except per share values)</i>	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Gross premiums written	\$ 251.4	\$ 259.0	\$ 295.6	\$ 354.6	\$ 422.0	\$ 431.0	\$ 418.8	\$ 478.2
Net premiums earned	269.6	283.5	305.6	371.0	395.0	412.7	432.8	451.6
Total revenue	298.0	290.9	219.6	374.5	438.4	443.1	480.8	490.9
Net income (loss)	(38.4)	(58.3)	(360.4)	(17.4)	6.3	(34.4)	(103.5)	23.6
Earnings (loss) per share								
Basic	(0.70)	(1.06)	(6.53)	(0.31)	0.11	(0.62)	(1.86)	0.43
Diluted	(0.70)	(1.06)	(6.53)	(0.32)	0.11	(0.62)	(1.84)	0.42

**Supplementary Financial Information from Continuing Operations**

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Rolling four quarter calculations:		
Net premiums written to estimated statutory surplus ratio	2.0x	2.1x
Senior debt to capitalization ratio	36.9%	31.9%
Total debt to capitalization ratio	49.1%	42.9%

**Selected Financial Information expressed in Canadian dollars**

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.

	Three months ended June 30:		Six months ended June 30:	
<i>(in millions of dollars except per share values)</i>	2009	2008	2009	2008
Gross premiums written	C\$ 293.8	C\$ 426.2	C\$ 615.8	C\$ 859.1
Net premiums earned	315.2	398.9	668.8	790.7
Net income (loss)	(42.8)	6.1	(85.3)	(28.3)
Earnings (loss) per share – diluted	(0.78)	0.1	(1.56)	(0.5)
Underwriting loss	(83.6)	(26.7)	(157.1)	(94.6)
Book value per share	7.76	15.80	7.76	15.80



## **Outlook**

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

## **Disclosure Controls and Procedures**

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

## **Internal Controls over Financial Reporting**

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

## **Forward Looking Statements**

This press release (including the Management's Discussion and Analysis) includes "forward looking statements" that are subject to risks and uncertainties. These statements relate to future events or future performance and reflect management's current expectations and assumptions. The words "anticipate", "expect", "believe", "may", "should", "estimate", "project", "outlook", "forecast" or similar words are used to identify such forward looking information. Such forward looking statements reflect management's current beliefs and are based on information currently available to management of the Company. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward looking statements, see Kingsway's securities filings, including its 2008 Annual Report under the heading Risk Factors in the Management's Discussion and Analysis section. The securities filings can be accessed on the Canadian Securities Administrators' website at [www.sedar.com](http://www.sedar.com), and on the EDGAR section of the U.S. Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov) or through the Company's website at [www.kingsway-financial.com](http://www.kingsway-financial.com). The Company disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

## **Additional Information**

Additional information relating to Kingsway, including Kingsway's Annual Report and Kingsway's Annual Information Form is on SEDAR at [www.sedar.com](http://www.sedar.com).

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

<i>(Unaudited)</i>	Three months ended June 30:		Six months ended June 30:	
	2009	2008	2009	2008
<b>Gross premiums written</b>	\$ 251,392	\$ 422,043	\$ 510,370	\$ 853,070
<b>Net premiums written</b>	\$ 224,974	\$ 387,329	\$ 473,505	\$ 785,317
<b>Revenue:</b>				
Net premiums earned	\$ 269,629	\$ 395,014	\$ 553,121	\$ 807,669
Investment income (Note 6)	29,114	32,672	56,114	68,852
Net realized gain (loss) (Note 6)	(734)	10,671	(20,309)	4,953
	<b>298,009</b>	<b>438,357</b>	<b>588,926</b>	<b>881,474</b>
<b>Expenses:</b>				
Claims incurred	\$ 246,076	\$ 285,583	\$ 491,925	\$ 633,749
Commissions and premiums taxes	43,585	74,893	86,156	146,083
General and administrative expenses	43,901	58,995	94,879	118,401
Restructuring costs (Note 10)	9,978	-	12,921	-
Interest expense	5,919	8,872	12,215	18,788
Amortization of intangibles (Note 2)	4,915	2,994	7,688	6,318
	<b>354,374</b>	<b>431,337</b>	<b>705,784</b>	<b>923,339</b>
Income (loss) before unusual item and income taxes	(56,365)	7,020	(116,858)	(41,865)
Gain on buy-back of senior notes (Note 13)	2,647	-	2,647	-
Income (loss) from continuing operations before income taxes	(53,718)	7,020	(114,211)	(41,865)
Income taxes (recovery)	(15,341)	216	(21,406)	(13,505)
Income (loss) from continuing operations	(38,377)	6,804	(92,805)	(28,360)
Income (loss) from discontinued operations, net of taxes (Note 3)	-	(483)	(2,223)	282
Loss on disposal of discontinued operations, net of taxes (Note 3)	-	-	(1,616)	-
<b>Net income (loss)</b>	\$ (38,377)	\$ 6,321	\$ (96,644)	\$ (28,078)
<b>Earnings (loss) per share - continuing operations:</b>				
Basic:	\$ (0.70)	\$ 0.12	\$ (1.69)	\$ (0.51)
Diluted:	\$ (0.70)	\$ 0.12	\$ (1.69)	\$ (0.51)
<b>Earnings (loss) per share – net income (loss):</b>				
Basic:	\$ (0.70)	\$ 0.11	\$ (1.75)	\$ (0.51)
Diluted:	\$ (0.70)	\$ 0.11	\$ (1.75)	\$ (0.51)
Weighted average shares outstanding (in '000s):				
Basic:	55,069	55,159	55,069	55,284
Diluted:	55,091	55,231	55,111	55,357

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

	June 30, 2009 (unaudited)	December 31, 2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 154,709	\$ 105,656
Securities (Note 6)	2,170,908	2,370,485
Accrued investment income	23,878	24,554
Financed premiums	68,771	61,616
Accounts receivable and other assets (Note 12)	270,742	276,450
Due from reinsurers and other insurers	163,353	177,945
Deferred policy acquisition costs	107,903	127,555
Income taxes recoverable	46,559	14,737
Future income taxes	17,405	25,291
Capital assets (Note 2 and 12)	57,258	95,259
Goodwill and intangible assets (Note 2)	58,455	63,893
	<b>\$ 3,139,941</b>	<b>\$ 3,343,441</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Loans payable	\$ 73,208	\$ 66,222
Accounts payable and accrued liabilities	134,222	135,565
Unearned premiums	462,223	536,480
Unpaid claims	1,830,741	1,879,016
Senior unsecured debentures	185,003	185,203
Subordinated indebtedness	87,399	87,383
	<b>2,772,796</b>	<b>2,889,869</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	322,344	322,344
<i>Issued and outstanding number of common shares</i>		
<i>55,068,528 – June 30, 2009</i>		
<i>55,068,528 – December 31, 2008</i>		
Contributed surplus	8,670	9,791
Retained earnings	71	98,564
Accumulated other comprehensive income	36,060	22,873
	<b>367,145</b>	<b>453,572</b>
	<b>\$ 3,139,941</b>	<b>\$ 3,343,441</b>

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

	Six months ended June 30:	
<i>(Unaudited)</i>	<b>2009</b>	2008
<b>Share capital</b>		
Balance at beginning of period	\$ 322,344	\$ 326,151
Issued during the period	-	48
Repurchased for cancellation	-	(3,097)
Balance at end of period	<b>322,344</b>	<b>323,102</b>
<b>Contributed surplus</b>		
Balance at beginning of period	\$ 9,791	\$ 7,619
Stock option expense	(1,121)	668
Balance at end of period	<b>8,670</b>	<b>8,287</b>
<b>Retained earnings</b>		
Balance at beginning of period	\$ 98,564	\$ 521,165
Net loss for the period	(96,644)	(28,078)
Common share dividends	(1,849)	(8,208)
Repurchase of shares for cancellation	-	(1,281)
Balance at end of period	<b>71</b>	<b>483,598</b>
<b>Accumulated other comprehensive income</b>		
Balance at beginning of period	\$ 22,873	\$ 85,866
Other comprehensive income (loss)	13,187	(46,412)
Balance at end of period	<b>36,060</b>	<b>39,454</b>
<b>Total shareholders' equity at end of period</b>	<b>\$ 367,145</b>	<b>\$ 854,441</b>

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

	Three months ended June 30:		Six months ended June 30:	
<i>(Unaudited)</i>	2009	2008	2009	2008
<b>Comprehensive income</b>				
Net income (loss)	\$ (38,377)	\$ 6,321	\$ (96,644)	\$ (28,078)
Other comprehensive income, net of taxes:				
· Change in unrealized gains (losses) on available-for securities:				
Unrealized gains (losses) arising during the period, net of income taxes <sup>(1)</sup>	19,507	(44,433)	15,763	(31,962)
Recognition of realized losses (gains) to net income, net of income taxes <sup>(2)</sup>	2,281	(1,399)	(6,340)	(4,265)
· Unrealized gains (losses) on translating financial statement of self-sustaining foreign operations	4,442	4,021	(5,081)	(10,185)
· Gain (loss) on cash flow hedge	10,205	-	8,845	-
Other comprehensive income (loss)	36,435	(41,811)	13,187	(46,412)
Comprehensive income (loss)	\$ (1,942)	\$ (35,490)	\$ (83,457)	\$ (74,490)

<sup>(1)</sup> Net of income tax of \$ 12,676 for the three months ended June 30, 2009 (\$ 7,704 for year to date) and \$ 6,281 for the three months ended June 30, 2008 (\$ 6,995 for year to date).

<sup>(2)</sup> Net of income tax of \$ 819 for the three months ended June 30, 2009 (\$ 629 for year to date) and \$ 1219 for the three months ended June 30, 2008 (\$ 2,724 for year to date).

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

	Three months ended June 30:		Six months ended June 30:	
<i>(Unaudited)</i>	<b>2009</b>	2008	<b>2009</b>	2008
<b>Cash provided by (used in):</b>				
<b>Operating activities</b>				
Net income (loss)	\$ (38,377)	\$ 6,321	\$ (96,644)	\$ (28,078)
Items not affecting cash:				
Amortization	6,058	6,308	9,886	11,239
Future and current income taxes	(2,695)	(949)	1,904	(7,149)
Net realized (gains) losses	(1,913)	(10,946)	19,603	(5,469)
Amortization of bond premiums and discounts	640	(1,562)	704	(4,032)
Net change in other non-cash balances	(37,517)	(13,647)	(110,536)	(45,189)
	<b>(73,804)</b>	<b>(14,475)</b>	<b>(175,083)</b>	<b>(78,678)</b>
<b>Financing activities</b>				
Increase (decrease) in share capital	(279)	-	(279)	48
Repurchase of common shares for cancellation	-	(588)	-	(4,378)
Dividends paid payable	(977)	(4,069)	(1,849)	(8,208)
Decrease in senior unsecured indebtedness	-	(228)	-	(17,517)
	<b>1,330</b>	<b>(9,513)</b>	<b>90</b>	<b>(45,338)</b>
<b>Investing activities</b>				
Purchase of securities	(1,038,816)	(872,409)	(1,571,836)	(1,592,080)
Proceeds from sale of securities	1,052,066	958,539	1,804,674	1,759,812
Financed premiums receivable, net	(7,214)	(16,409)	(5,221)	(13,253)
Acquisitions, net of cash acquired	-	-	-	(212)
Net proceeds from sale of discontinued operations	-	-	(1,941)	-
Net change to capital assets and intangible assets	1,243	(1,864)	(1,630)	(3,338)
	<b>7,279</b>	<b>67,857</b>	<b>224,046</b>	<b>150,929</b>
Net change in cash and cash equivalents	(65,195)	43,869	49,053	26,913
Cash and cash equivalents at beginning of period	219,904	144,679	105,656	161,635
Cash and cash equivalents at end of period	\$ 154,709	\$ 188,548	\$ 154,709	\$ 188,548

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

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**NOTE 1 | Basis of Presentation**

These interim consolidated financial statements have been prepared in accordance with The Canadian Institute of Chartered Accountants (“CICA”) Canadian generally accepted accounting principles (“GAAP”) using the same accounting policies as were used for the Company’s consolidated financial statements for the year ended December 31, 2008 except for the changes in accounting policies as noted below. These interim consolidated financial statements do not contain all disclosures required by generally accepted accounting principles and accordingly should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2008 as set out on pages 65 to 104 of the Company’s 2008 Annual Report. The results of the operations for the interim periods are not necessarily indicative of the full-year results.

**NOTE 2 | Change In Accounting Polices**

Commencing January 1, 2009, the Company adopted the CICA Handbook Section 3064 Goodwill and Intangible Assets. As a result of adopting the new standard, certain software costs previously recorded as Capital assets are now recorded as Intangible assets in the Consolidated Balance Sheet. Accordingly, \$18.1 million as at December 31, 2008 (\$17.9 million as at June 30, 2008) was reclassified from Capital assets to Intangible assets. The related amortization expense that was previously recorded in General and administrative expenses on the Consolidated Statement of Operations is now recorded as Amortization of intangibles. Accordingly, \$1.9 million for the three months ended June 30, 2008 (\$3.5 million for the six months ended June 30, 2008) was reclassified from General and administrative expenses to Amortization of intangibles.

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

**NOTE 3 | Discontinued Operations**

On September 30, 2008 the company completed its previously announced sale of York Fire and Casualty Insurance Company (York Fire), a primarily standard insurance writer, for C\$95 million in cash. The Company has classified York Fire as discontinued operations and the results of its operations are reported separately for all periods presented. Prior to the sale, York Fire was part of the Canadian reporting segment. The final settlement was completed in the first quarter of 2009 and the adjustments are reflected accordingly.

Summarized financial information for discontinued York Fire operations is shown below.

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

	Three months ended June 30:		Six months ended June 30:	
	2009	2008	2009	2008
<b>Operations:</b>				
Revenue	\$ -	\$ 22,437	\$ (215)	\$ 53,835
Loss from discontinued operations before taxes	-	(1,685)	(2,750)	(1,615)
Income tax (recovery)	-	(1,202)	(527)	(1,897)
Income (loss) from discontinued operations before disposal, net of taxes	\$ -	\$ (483)	\$ (2,223)	\$ 282
<b>Disposals:</b>				
Loss on disposal before income taxes	\$ -	\$ -	\$ (1,941)	\$ -
Income tax (recovery)	-	-	(325)	-
Loss on disposal, net of taxes	\$ -	\$ -	\$ (1,616)	\$ -
<b>Total gain (loss) from discontinued operations, net of taxes</b>	<b>\$ -</b>	<b>\$ (483)</b>	<b>\$ (3,839)</b>	<b>\$ 282</b>

**NOTE 4 | Stock-based Compensation**

As reported on pages 81 – 84 of the Company's 2008 Annual Report, effective January 1, 2003 the Company adopted on a prospective basis the fair-value method of accounting for stock-based compensation awards granted to employees and non-employee directors.

During March 2009, the Company issued two option grants at varying exercise prices. The per share fair value of these grants was C\$0.97 and C\$0.45. Per share fair value of options granted during 2008 was C\$2.88 in February, C\$2.43 in May and C\$2.45 in September. The fair value of the options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	As at June 30:	
	2009	2008
Risk-free interest rate	1.78%	3.22%
Dividend yield	4.21%	2.23%
Volatility of the expected market price of the Company's common shares	88.1%	27.8%
Expected option life (in years)	4.0	4.0

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

**NOTE 5 | Segmented Information**

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



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

	Three months ended June 30, 2009				
	Canada	United States	Run-off	Corporate	Total
Gross premiums written	\$ 95,775	\$ 140,362	\$ 15,255	\$ -	\$ 251,392
Net premiums earned	76,393	135,147	58,089	-	269,629
Investment income (loss)	6,333	18,238	5,928	(1,385)	29,114
Net realized gain (loss)	1,118	(1,480)	(775)	403	(734)
Interest expense	-	5,919	-	-	5,919
Amortization of capital assets	413	546	13	171	1,143
Amortization of intangible assets	-	4,230	-	685	4,915
Income tax expense (recovery)	(1,369)	(13,795)	3,878	(4,055)	(15,341)
Income (loss) from operations	(1,437)	2,091	(36,412)	(2,619)	(38,377)

	Three months ended June 30, 2008				
	Canada	United States	Run-off	Corporate	Total
Gross premiums written	\$ 128,226	\$ 184,765	\$ 109,052	\$ -	\$ 422,043
Net premiums earned	85,019	142,144	167,851	-	395,014
Investment income (loss)	9,067	17,576	6,235	(206)	32,672
Net realized gain	7,125	724	2,822	-	10,671
Interest expense	-	8,002	-	870	8,872
Amortization of capital assets	524	809	38	667	2,038
Amortization of intangible assets	-	2,264	-	730	2,994
Income tax expense (recovery)	(932)	619	(4,338)	4,867	216
Income (loss) from operations	12,379	9,737	(9,561)	(5,751)	6,804

	Six months ended June 30, 2009				
	Canada	United States	Run-off	Corporate	Total
Gross premiums written	\$ 149,020	\$ 322,969	\$ 38,381	\$ -	\$ 510,370
Net premiums earned	138,820	289,497	124,804	-	553,121
Investment income	11,651	32,236	10,752	1,475	56,114
Net realized loss	(2,130)	(12,919)	(3,721)	(1,539)	(20,309)
Interest expense	-	12,215	-	-	12,215
Amortization of capital assets	807	1,094	-	296	2,197
Amortization of intangible assets	-	6,365	-	1,323	7,688
Income tax expense (recovery)	(2,123)	(8,913)	(6,334)	(4,036)	(21,406)
Income (loss) from operations	(9,165)	(11,801)	(73,551)	1,712	(92,805)
Capital assets	\$ 11,528	\$ 19,892	\$ 25,037	\$ 801	\$ 57,258
Goodwill and intangible assets	6,279	43,804	5,516	2,856	58,455
Total assets	221,740	1,488,527	1,337,941	91,733	3,139,941

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

	Six months ended June 30, 2008					Total
	Canada	United States	Run-off	Corporate		
Gross premiums written	\$ 199,020	\$ 396,956	\$ 257,094	\$ -	\$ -	\$ 853,070
Net premiums earned	155,668	286,877	365,124	-	-	807,669
Investment income (loss)	18,669	38,571	12,355	(743)	-	68,852
Net realized gain (loss)	5,833	(3,433)	2,553	-	-	4,953
Interest expense	-	16,588	-	2,200	-	18,788
Amortization of capital assets	1,056	1,579	77	1,091	-	3,803
Amortization of intangible assets	-	4,874	-	1,444	-	6,318
Income tax expense (recovery)	(7,204)	7,787	(21,052)	6,964	-	(13,505)
Income (loss) from operations	12,600	13,332	(52,439)	(1,853)	-	(28,360)
Capital assets	\$ 60,091	\$ 18,380	\$ 27,446	\$ 4,399	\$ -	\$ 110,316
Goodwill and intangible assets	9,014	114,105	5,516	3,208	-	131,843
Total assets	1,489,941	1,123,263	1,802,265	35,287	-	4,450,756

**NOTE 6 | Securities**

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

	June 30, 2009				Fair Value
	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses		
Term Deposits	\$ 331,375	\$ 2,935	\$ 20	\$ -	\$ 334,290
Bonds:					
Canadian - Government	209,594	3,381	783	-	212,192
- Corporate	221,780	8,391	928	-	229,243
- Commercial mortgage backed	53,500	-	4,819	-	48,681
- Other asset backed	19,071	477	145	-	19,403
U.S - Government	507,262	27,668	123	-	534,807
- Corporate	580,454	17,715	3,690	-	594,479
- Commercial mortgage backed	10,229	-	1,290	-	8,939
- Residential mortgage backed	121,612	4,490	91	-	126,011
- Other asset backed	18,310	406	451	-	18,265
Other - Corporate	34,450	1,146	219	-	35,377
<b>Sub-total</b>	<b>2,107,637</b>	<b>66,609</b>	<b>12,559</b>	<b>-</b>	<b>2,161,687</b>
Common shares - Canadian	2,294	1,719	-	-	4,013
- U.S	15	14	-	-	29
Preferred shares - Canadian	6,879	-	2,127	-	4,752
- U.S	531	-	104	-	427
	<b>\$ 2,117,356</b>	<b>\$ 68,342</b>	<b>\$ 14,790</b>	<b>\$ -</b>	<b>\$ 2,170,908</b>

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

	December 31, 2008			
	Amortized cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term Deposits	\$ 184,381	\$ 3,610	\$ 20	\$ 187,971
Bonds:				
Canadian - Government	149,200	8,310	7	157,503
- Corporate	178,269	1,881	7,562	172,588
- Commercial mortgage backed	66,185	455	4,731	61,909
- Other asset backed	13,304	78	127	13,255
U.S - Government	420,540	39,498	895	459,143
- Corporate	772,171	11,289	23,279	760,181
- Commercial mortgage backed	6,507	-	1,328	5,179
- Residential mortgage backed	126,574	3,621	868	129,327
- Other asset backed	22,128	8	2,032	20,104
Other - Corporate	128,382	4,328	999	131,711
<b>Sub-total</b>	<b>\$ 2,067,641</b>	<b>\$ 73,078</b>	<b>\$ 41,848</b>	<b>\$ 2,098,871</b>
Common shares - Canadian	114,167	2,590	-	116,757
- U.S	146,408	4,883	-	151,291
Preferred shares - Canadian	6,692	8	3,629	3,071
- U.S	634	-	139	495
	<b>\$ 2,335,542</b>	<b>\$ 80,559</b>	<b>\$ 45,616</b>	<b>\$ 2,370,485</b>

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

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

	June 30, 2009			
	Less than 12 months		12 months or greater	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Term Deposits	\$ 19,985	\$ 20	-	\$ -
Bonds:				
Canadian - Government	57,589	783	-	-
- Corporate	12,761	145	21,232	783
- Commercial mortgage backed	11,371	502	36,653	4,317
- Other asset backed	4,154	41	1,758	104
U.S. - Government	106,151	117	2,193	6
- Corporate	96,720	1,115	39,267	2,575
- Commercial mortgage backed	3,003	210	9,427	1,080
- Residential mortgage backed	7,878	91	-	-
- Other asset backed	822	80	1,946	371
Other - Corporate	4,190	143	784	76
<b>Sub-total</b>	<b>\$ 324,624</b>	<b>\$ 3,247</b>	<b>\$ 113,260</b>	<b>\$ 9,312</b>
Common shares - Canadian	-	-	-	-
- U.S.	-	-	-	-
Preferred shares - Canadian	-	-	4,752	2,127
- U.S.	-	-	427	104
	<b>\$ 324,624</b>	<b>\$ 3,247</b>	<b>\$ 118,439</b>	<b>\$ 11,543</b>

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

	December 31, 2008			
	Less than 12 months		12 months or greater	
	Fair value	Unrealized loss	Fair value	Unrealized loss
Term Deposits	\$ 18,856	\$ 20	\$ -	\$ -
Bonds:				
Canadian - Government	2,482	7	-	-
- Corporate	63,037	5,392	30,564	2,170
- Commercial mortgage backed	17,493	1,023	31,397	3,708
- Other asset backed	3,279	29	3,472	98
U.S. - Government	11,415	769	376	126
- Corporate	258,079	16,349	94,665	6,930
- Commercial mortgage backed	4,790	1,212	389	116
- Residential mortgage backed	33	1	711	867
- Other asset backed	16,269	1,451	2,329	581
- Corporate	6,381	112	3,321	887
<b>Sub-total</b>	<b>\$ 402,114</b>	<b>\$ 26,365</b>	<b>\$ 167,224</b>	<b>\$ 15,483</b>
Common shares - Canadian	-	-	-	-
- U.S.	-	-	-	-
Preferred shares - Canadian	-	-	3,072	3,629
- U.S.	101	3	394	136
	<b>\$ 402,215</b>	<b>\$ 26,368</b>	<b>\$ 170,690</b>	<b>\$ 19,248</b>

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

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

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

As a result of the above analysis performed by management to determine declines in market value that are other than temporary, write downs for other-than-temporary impairments were \$3.3 million compared to \$9.9 million for the quarter ended June 30, 2008 and the entire amount of other-than-temporary impairments has been recognized in earnings.

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

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

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

	Three months ended June 30:		Six months ended June 30:	
	2009	2008	2009	2008
Investment income				
Interest on short term securities	748	3,040	1,616	7,277
Interest on Bonds	22,337	28,501	44,831	57,881
Dividends	146	1,648	1,506	4,447
Premium Finance	1,504	1,108	2,367	2,097
Other	5,391	(7)	8,153	800
<b>Gross Investment Income</b>	<b>30,126</b>	<b>34,290</b>	<b>58,473</b>	<b>72,502</b>
Investment Expenses	1,012	1,618	2,359	3,650
<b>Net Investment Income</b>	<b>29,114</b>	<b>32,672</b>	<b>56,114</b>	<b>68,852</b>

Net realized losses for the quarter ended June 30, 2009 were \$0.7 million compared to net realized gains of \$10.7 million for the quarter ended June 30, 2008.

**NOTE 7 | Financial Instruments**

**Risk Management**

The Company's risk management policies and practices are described on pages 18 to 20, 45 to 53 and 74 to 78 of the Company's 2008 Annual Report. There has been no significant change in the risk management framework.

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

*Credit risk:*

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of U.S. and Canadian government bonds) as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company's credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by agents, program managers or brokers who manage cash collection on its behalf. The Company has policies to evaluate the financial 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:

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

	June 30, 2009		December 31, 2008	
AAA/ Aaa	1,160,455	53.7%	1,146,703	54.7%
AA/Aa2	399,061	18.5%	341,280	16.3%
A/A2	461,418	21.3%	505,748	24.1%
BBB/Baa2	98,636	4.6%	65,255	3.1%
BB/Ba2	8,309	0.4%	5,122	0.2%
B/B2	9,597	0.4%	7,838	0.4%
CCC/Caa or lower, or not rated	24,211	1.1%	26,925	1.2%
<b>Total consolidated</b>	<b>2,161,687</b>	<b>100.0%</b>	<b>2,098,871</b>	<b>100.0%</b>

As at June 30, 2009, 93.5% of the fixed income portfolio is rated 'A' or better. The 'not rated' category consists primarily of investments in money market instruments. Changes in this balance period over period are primarily due to timing of investment maturities and reinvestment.

*Market risk:*

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

Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that an immediate hypothetical 100 basis point or 1 percent parallel increase in interest rates would decrease the market value of the fixed income securities by \$71.6 million at June 30, 2009, representing 3.3% of the \$2.2 billion fair value fixed income securities portfolio.

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

As at June 30, 2009	One year or less	One to five years	Five to ten years	More than ten years	No specific date	Total
<b>Assets:</b>						
Cash & cash equivalents	154,709	-	-	-	-	154,709
Securities	411,005	1,004,046	561,744	184,694	9,419	2,170,908
Accrued Investment Income	23,878	-	-	-	-	23,878
Finance Premiums	68,771	-	-	-	-	68,771
Accounts receivable and other assets	266,188	-	-	-	-	266,188
Due from reinsurers and other insurers	57,507	88,105	15,649	2,092	-	163,353
<b>Total:</b>	<b>982,058</b>	<b>1,092,151</b>	<b>577,393</b>	<b>186,786</b>	<b>9,419</b>	<b>2,847,807</b>
<b>Liabilities:</b>						
Loans payable	-	-	66,222	6,986	-	73,208
Accounts payable and accrued liabilities	134,222	-	-	-	-	134,222
Unpaid claims	644,501	987,408	175,383	23,449	-	1,830,741
Senior unsecured debentures	-	185,003	-	-	-	185,003
Subordinated indebtedness	-	-	-	87,399	-	87,399
<b>Total:</b>	<b>778,723</b>	<b>1,172,411</b>	<b>241,605</b>	<b>117,834</b>	<b>-</b>	<b>2,310,573</b>

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

As at December 31, 2008	One year or less	One to five years	Five to ten years	More than ten years	No specific date	Total
<b>Assets:</b>						
Cash & cash equivalents	105,656	-	-	-	-	105,656
Securities	405,619	986,244	524,479	182,529	271,614	2,370,485
Accrued investment income	24,554	-	-	-	-	24,554
Finance premiums	61,616	-	-	-	-	61,616
Accounts receivable and other assets	276,450	-	-	-	-	276,450
Due from reinsurers and other insurers	63,195	95,990	16,533	2,227	-	177,945
<b>Total:</b>	<b>937,090</b>	<b>1,082,234</b>	<b>541,012</b>	<b>184,756</b>	<b>271,614</b>	<b>3,016,706</b>
<b>Liabilities:</b>						
Loans payable	-	-	66,222	-	-	66,222
Accounts payable and accrued liabilities	135,565	-	-	-	-	135,565
Unpaid claims	667,307	1,013,611	174,579	23,519	-	1,879,016
Senior unsecured debentures	-	81,137	104,066	-	-	185,203
Subordinated indebtedness	-	-	-	87,383	-	87,383
<b>Total:</b>	<b>802,872</b>	<b>1,094,748</b>	<b>344,867</b>	<b>110,902</b>	<b>-</b>	<b>2,353,389</b>

Collateral pledged: As at June 30, 2009, bonds and term deposits with an estimated fair value of \$52.3 million were on deposit with state and provincial regulatory authorities. Also, from time to time, the Company pledges securities to third parties to collateralize liabilities incurred under its policies of insurance. At June 30, 2009, the amount of such pledged securities was \$116.0 million. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's standard risk management controls.

The company has a syndicate letter of credit facility which is principally used to collateralize inter-company reinsurance balances for statutory capital management purposes. The Company pledges securities to collateralize the utilized portion of the letter of credit facility. At June 30, 2009 the letter of credit facility utilization was \$20.2 million.

**Fair value:**

Refer to Note 6 with respect to fair value disclosure on securities. The carrying value of unpaid claims does not take into consideration the time value of money or make an explicit provision for adverse deviation. In order to estimate the fair value of the unpaid claims, the Company uses an actuarial approach recognizing the time value of money which incorporates assumptions concerning projected cash flows and appropriate provisions for adverse deviation. As at June 30, 2009 the estimated fair value of the unpaid claims was \$1,974.8 million (\$1,836.4 million net of reinsurers' share of unpaid claims). The estimated fair value is approximately \$144.1 million above the undiscounted carrying value as a result of a provision for adverse development totaling \$186.6 million in addition to the present value of unpaid claims. There is no active market for policy liabilities, so a market value is not readily available.

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

	June 30, 2009		
	Total fair value*	Total carrying value	Favorable
Loans Payable	\$ 35,036	\$ 73,208	\$ 38,172
Senior unsecured debentures	50,421	99,744	49,323
Subordinated indebtedness	22,254	87,399	65,145



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

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

\*The fair value is based on observable market inputs.

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

The Company uses fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information (Level 3) in the valuation of securities as at June 30, 2009 was as follows:

Description	June 30 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Available for sale securities:				
Term deposits:	\$ 334,290	\$ -	\$ 334,290	\$ -
<u>Debt securities:</u>				
Canadian- Government	212,192	-	212,192	-
- Corporate	229,243	-	229,243	-
- Commercial mortgage backed	48,681	-	48,681	-
- Other asset backed	19,403	-	19,403	-
U.S- Government	534,807	-	534,807	-
- Corporate	594,479	-	594,479	-
- Commercial mortgage backed	8,939	-	8,939	-
- Residential mortgage backed	126,011	-	126,011	-
- Other mortgage/ asset backed	18,265	-	18,265	-
Other- Corporate	35,377	-	35,377	-
<u>Equity Securities:</u>				
Canadian	4,013	4,013	-	-
US	29	29	-	-
<u>Preferred Securities:</u>				
Canadian	4,752	4,752	-	-
US	427	427	-	-
<b>Total</b>	<b>\$ 2,170,908</b>	<b>\$ 9,221</b>	<b>\$ 2,161,687</b>	<b>\$ -</b>

**NOTE 8 | Capital Management**

On June 26, 2009, KFS Capital LLC, an indirect wholly-owned subsidiary of Kingsway, commenced a take-over bid (the "KLROC Offer") to acquire up to 1,000,000 preferred, retractable, redeemable, cumulative units of Kingsway Linked

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

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Return of Capital Trust at a price per unit of C\$12.00 in cash. The KLROC Offer expired at 5:00 p.m. (Toronto time) on Tuesday, August 4, 2009 and 694,015 units were tendered. This tender was paid for using available cash.

Kingsway 2007 General Partnership, an indirect wholly-owned subsidiary of Kingsway announced on July 14, 2009 the commencement of a modified “Dutch Auction” tender offer (the “2012 Offer”) for a portion of its outstanding Unsecured 6% Debentures due July 11, 2012 (the “2012 Debentures”). The 2012 Offer provides for a cash purchase of 2012 Debentures at a price per C\$1,000 principal amount of debentures of not less than C\$540 and not greater than C\$620, for a maximum aggregate purchase price to the offeror not to exceed C\$31 million (excluding accrued and unpaid interest). The 2012 Offer expires at 5:00 p.m. (Toronto time) on August 14, 2009, unless extended or earlier terminated by the Offeror. The Company expects to pay for the 2012 offer using available cash and/or proceeds from an undrawn \$20 million line of credit.

As at June 30, 2009 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) ratio. As at June 30, 2009 the MCT’s of Jevco Insurance Company and Kingsway General Insurance Company were 221% and 203% respectively. As at June 30, 2009 the Canadian insurance companies have aggregate capital of approximately \$46.4 million in excess of the 150% level.

In the United States, a risk based capital (RBC) formula is used by the National Association of Insurance Commissioners (NAIC) to identify property and casualty insurance companies that may not be adequately capitalized. The NAIC requires that capital and surplus not fall below 200% of the authorized control level. As at June 30, 2009, all U.S. subsidiaries, with the exception of Lincoln General, are estimated to be above the required RBC levels, with RBC ratios estimates ranging between 263% and 42,600% and have estimated aggregate capital excluding Lincoln General of approximately \$83.6 million in excess of the 200% level. As at June 30, 2009 Lincoln General’s estimated RBC was 63%.

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

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

Lincoln General submitted its regulatory action plan on May 7, 2009 which the Pennsylvania Insurance Department has subsequently determined is satisfactory. The plan is a run-off plan that provides for the orderly, efficient resolution and payment of all policy-related claims and other obligations in full and when due. To execute the run-off plan the Company has engaged a run-off manager, principals in which have been appointed to key positions at Lincoln General.

The reinsurance subsidiaries, which are domiciled in Barbados and Bermuda, are required by the regulator in the jurisdictions in which they operate to maintain minimum capital levels. As at June 30, 2009 the capital maintained by Kingsway Reinsurance Corporation was approximately \$49.9 million (\$ 77.9 million as at December 31, 2008) in excess of the regulatory requirements in Barbados and the capital maintained by Kingsway Reinsurance (Bermuda) Limited was approximately \$12.6 million (\$15.4 million as at December 31, 2008) in excess of regulatory requirements in Bermuda.

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

On June 2, 2009, the company discontinued the swap transaction which was designated as a cash flow hedge. When the hedge is discontinued, any cumulative adjustment to either the hedged item or other comprehensive income is recognized in income over the remaining term of the hedged item, or when the hedged item is derecognized. The amount of loss recorded in other comprehensive income is \$6.2 million before tax of which \$0.2 million has been reclassified to net income for the period ended June 30, 2009 as a result of the discontinuance of the cash flow hedge.

**NOTE 10 | Restructuring charges**

During the first quarter of 2009, the Company announced the corporate restructuring plan to concentrate on its core and profitable lines of business and is targeted to improve the Company's financial stability. The Company is consolidating operations in U.S. and Canada, simplifying the management structure, reducing costs through synergies and operational efficiencies and positioning the Company to seize competitive advantage. As the Company exits businesses and streamlines operations, approximately 1,000 employees will be removed from the total workforce. Restructuring plan costs will be approximately \$20 million, to be incurred over fiscal 2009 and 2010, of which \$12.9 million was expensed in the first six months of 2009.

During the six months ended June 30, 2009, the Company continued to implement these restructuring work plans. Restructuring charges for the six months ended June 30, 2009 were as follows:

	Restructuring charges				
	Severance and benefits	Consulting expense	Total	Three months ended June 30, 2009	Six months ended June 30, 2009
Provision balance at January 1, 2009	\$ -	\$ -	\$ -		
(Income) expense	8,095	4,826	12,921	\$ 9,978	\$ 12,921
Payments	3,084	4,826	7,910		
Provision balance at June 30, 2009	\$ 5,011	\$ -	\$ 5,011		
Total restructuring charges				\$ 9,978	\$ 12,921

Restructuring charges are included in the statement of operations under General and administrative expenses.

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

	Three months ended June 30, 2009				
	Canada	U.S.	Run-off	Corporate	Total
Total restructuring charges	\$ 307	\$ 2,161	\$ 2,832	\$ 4,678	\$ 9,978

	Six months ended June 30, 2009				
	Canada	U.S.	Run-off	Corporate	Total
Total restructuring charges	\$ 518	\$ 3,212	\$ 3,261	\$ 5,930	\$ 12,921

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

	Over the span of the restructuring plan				
	Canada	U.S.	Run-off	Corporate	Total
Total expected costs for restructuring plan	\$ 3,200	\$ 7,000	\$ 3,100	\$ 6,700	\$ 20,000

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

**NOTE 11** | **Acquisitions**

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

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

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

**NOTE 12** | **Assets held for sale**

Assets held for sale are included in accounts receivable and other assets in the consolidated balance sheets. The major components of the assets held for sale as at June 30, 2009 are:

	June 30, 2009
Land	\$ 5,616
Building	32,072
Total assets held for sale	\$ 37,688

**NOTE 13** | **Buy-Back of Senior Notes**

During the quarter, Kingsway America Inc. bought back \$4.6 million face value of the senior notes due in 2014 at a market rate of \$2.0 million. Kingsway America Inc. realized a gain of \$2.6 million during the quarter.

**NOTE 14** | **Related Party Transaction**

In March 2009, the Company obtained a facility from a related party to allow for specific purpose capital initiatives. This is a related party transaction for financial reporting purposes as there is common board representation between the related parties. The facility is at fair market terms and conditions. As of June 30, 2009, the facility remains undrawn.

**NOTE 15** | **Contractual Obligation**

On June 29, 2009, Kingsway and Lincoln General entered into a consulting agreement with an external run-off manager to provide certain consulting services relating to Lincoln General, including advice and assistance in the development of a Run-off Plan. In addition to base compensation of \$1.3 million annually, the agreement provides for a minimum of \$2.5 million to be paid to the Run-off Manager at the termination of the contract (provided the contract is not terminated for cause), which, at the latest will be March 1, 2014. This bonus may be increased upon the occurrence of certain events, the likelihood of which will be remeasured and accrued quarterly. The minimum bonus amount of \$2.5 million is being accrued over the term of the contract.

**NOTE 16** | **Subsequent Events**

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

The subsequent events have been evaluated up to August 07, 2009, the date the financial statements are issued. There are no subsequent events noted.

**NOTE 17 | Supplemental Condensed Consolidating Financial Information**

On July 10, 2007, K2007GP issued C\$100 million of 6% senior unsecured debentures unconditionally guaranteed by the Company (“KFSI”) and Kingsway America Inc. (“KAI”), a wholly-owned subsidiary of the Company. The following is the condensed consolidating financial information for the Company as of June 30, 2009 and December 31, 2008, and for the period ended June 30, 2009 and 2008, with a separate column for each Guarantor, the issuer and the other businesses of the Company combined (“Non-Guarantor subsidiaries”).

Condensed Consolidating Statement of Operations						
For the six months ended June 30, 2009						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a “Guarantor”)	(a “Guarantor”)	(the “Issuer”)	(the “Non-Guarantor subsidiaries”)		
<b>Revenue:</b>						
Net premiums earned	\$ -	\$ -	\$ -	\$ 565,754	\$ (12,633)	\$ 553,121
Investment related income	(63)	1,869	9,646	32,852	(8,499)	35,805
Management fees	26,166	10,346	-	-	(36,512)	-
	\$ 26,103	\$ 12,215	\$ 9,646	\$ 598,606	\$ (57,644)	\$ 588,926
<b>Expenses:</b>						
Claims incurred	\$ -	\$ -	\$ -	\$ 524,560	\$ (32,635)	\$ 491,925
Commissions and premium	-	-	-	86,156	-	86,156
Other expenses	30,369	7,527	274	99,299	(21,981)	115,488
Interest expense	-	13,227	2,604	(588)	(3,028)	12,215
	30,369	20,754	2,878	709,427	(57,644)	705,784
Income (loss) before unusual item and income taxes	(4,266)	(8,539)	6,768	(110,821)	-	(116,858)
Gain on buy-back of senior	-	2,647	-	-	-	2,647
Income (loss) from continuing operations before income taxes	(4,266)	(5,892)	6,768	(110,821)	-	(114,211)
Income taxes (recovery)	(4,362)	(2,003)	2,301	(17,342)	-	(21,406)
Income (loss) from continuing operations	96	(3,889)	4,467	(93,479)	-	(92,805)
Loss from discontinued operations	-	-	-	(2,223)	-	(2,223)
Loss on disposal of discontinued operations	-	-	-	(1,616)	-	(1,616)
Equity in undistributed net income of subsidiaries	(59,040)	(19,990)	-	-	79,030	-
Net income (loss)	\$ (58,944)	\$ (23,879)	\$ 4,467	\$ (97,318)	\$ 79,030	\$ (96,644)

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

Condensed Consolidating Statement of Operations						
For the six months ended June 30, 2008						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
<b>Revenue:</b>						
Net premiums earned	\$ -	\$ -	\$ -	\$ 815,124	\$ (7,455)	\$ 807,669
Investment related income	\$ (742)	\$ 1,817	\$ 3,582	\$ 81,157	\$ (12,009)	\$ 73,805
Management fees	\$ 51,440	\$ 9,158	\$ -	\$ -	\$ (60,598)	\$ -
	\$ 50,698	\$ 10,975	\$ 3,582	\$ 896,281	\$ (80,062)	\$ 881,474
<b>Expenses:</b>						
Claims incurred	\$ -	\$ -	\$ -	\$ 658,518	\$ (24,769)	\$ 633,749
Commissions and premium	\$ -	\$ -	\$ -	\$ 146,083	\$ -	\$ 146,083
Other expenses	\$ 43,869	\$ 12,961	\$ 117	\$ 119,565	\$ (51,793)	\$ 124,719
Interest expense	\$ 2,200	\$ 14,142	\$ 3,064	\$ 2,882	\$ (3,500)	\$ 18,788
	\$ 46,069	\$ 27,103	\$ 3,181	\$ 927,048	\$ (80,062)	\$ 923,339
Income (loss) before unusual item and income taxes	\$ 4,629	\$ (16,128)	\$ 401	\$ (30,767)	\$ -	\$ (41,865)
Gain on buy-back of senior	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income (loss) from continuing operations before income taxes	\$ 4,629	\$ (16,128)	\$ 401	\$ (30,767)	\$ -	\$ (41,865)
Income taxes (recovery)	\$ 6,964	\$ (5,483)	\$ 136	\$ (15,122)		\$ (13,505)
Income (loss) from continuing operations	\$ (2,335)	\$ (10,645)	\$ 265	\$ (15,645)	\$ -	\$ (28,360)
Income from discontinued operations	\$ -	\$ -	\$ -	\$ 282		\$ 282
Gain (loss) on disposal of discontinued operations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity in undistributed net income of subsidiaries	\$ (25,743)	\$ (39,287)	\$ -	\$ -	\$ 65,030	\$ -
Net income (loss)	\$ (28,078)	\$ (49,932)	\$ 265	\$ (15,363)	\$ 65,030	\$ (28,078)

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

Condensed Consolidating						
As at June 30, 2009						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
<b>Assets</b>						
Investments in subsidiaries	\$ 269,714	\$ 816,155	\$ -	\$ (1,442,859)	\$ 356,990	\$ -
Cash	30,530	8,096	528	115,555	-	154,709
Securities	-	-	-	2,255,206	(15,527)	2,239,679
Goodwill and intangible assets	6,279	-	-	52,176	-	58,455
Other assets	58,827	83,420	105,755	1,578,447	(1,139,351)	687,098
	\$ 365,350	\$ 907,671	\$ 106,283	\$ 2,558,525	\$ (797,888)	\$ 3,139,941
<b>Liabilities and Shareholders'</b>						
<b>Liabilities:</b>						
Bank Indebtedness	\$ -	\$ 210,175	\$ -	\$ (176,967)	\$ 40,000	\$ 73,208
Other liabilities	(1,795)	32,135	2,608	82,385	18,889	134,222
Unearned premiums	-	-	-	644,877	(182,654)	462,223
Unpaid claims	-	-	-	2,453,754	(623,013)	1,830,741
Senior unsecured debentures	-	120,400	85,260	(3,778)	(16,879)	185,003
Subordinated indebtedness	-	90,500	-	-	(3,101)	87,399
	\$ (1,795)	\$ 453,210	\$ 87,868	\$ 3,000,271	\$ (766,758)	\$ 2,772,796
<b>Shareholders' equity:</b>						
Share capital	322,344	503,612	14,867	1,941,304	(2,459,783)	322,344
Contributed surplus	8,670	-	-	-	-	8,670
Retained Earnings	71	(49,151)	6,863	(2,415,261)	2,457,549	71
Accumulated other	36,060	-	(3,315)	32,211	(28,896)	36,060
	367,145	454,461	18,415	(441,746)	(31,130)	367,145
	\$ 365,350	\$ 907,671	\$ 106,283	\$ 2,558,525	\$ (797,888)	\$ 3,139,941

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

Condensed Consolidating Balance Sheet						
As at December 31, 2008						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(an "Issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
<b>Assets</b>						
Investments in subsidiaries	\$ 409,577	\$ 743,825	\$ -	\$ (1,470,854)	\$ 317,452	\$ -
Cash	21,335	5,603	543	78,175	-	105,656
Securities	-	-	-	2,449,194	(17,093)	2,432,101
Goodwill and other assets	5,996	-	-	57,897	-	63,893
Other assets	21,447	80,769	113,519	2,466,287	(1,940,231)	741,791
	\$ 458,355	\$ 830,197	\$ 114,062	\$ 3,580,699	\$ (1,639,872)	\$ 3,343,441
<b>Liabilities and Shareholders'</b>						
<b>Liabilities:</b>						
Bank indebtedness	\$ -	\$ 170,175	\$ -	\$ -	\$ (103,953)	\$ 66,222
Other liabilities	4,784	30,652	16,818	(36,642)	119,953	135,565
Unearned premiums	-	-	-	823,071	(286,591)	536,480
Unpaid claims	-	-	-	3,109,263	(1,230,247)	1,879,016
Senior unsecured debentures	-	125,000	93,464	(16,383)	(16,878)	185,203
Subordinated indebtedness	-	90,500	-	-	(3,117)	87,383
	\$ 4,784	\$ 416,327	\$ 110,282	\$ 3,879,309	\$ (1,520,833)	\$ 2,889,869
<b>Shareholders' equity:</b>						
Share capital	322,344	459,133	10,667	1,880,918	(2,350,718)	322,344
Contributed surplus	9,791	-	-	-	-	9,791
Retained Earnings	98,563	(45,263)	2,397	(2,211,705)	2,254,572	98,564
Accumulated other	22,873	-	(9,284)	32,177	(22,893)	22,873
	453,571	413,870	3,780	(298,610)	(119,039)	453,572
	\$ 458,355	\$ 830,197	\$ 114,062	\$ 3,580,699	\$ (1,639,872)	\$ 3,343,441



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

Condensed Consolidating Statement of Cash Flows						
For the six months ended June 30, 2009						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Cash provided by (used in):						
Operating activities:						
Net income (loss)	\$ (58,944)	\$ (23,879)	\$ 4,467	\$ (97,318)	\$ 79,030	\$ (96,644)
Adjustments to reconcile net income to net cash used by operating activities:						
Equity in undistributed earnings in subsidiaries	59,040	19,990	-	-	(79,030)	-
Other	(35,591)	(4,007)	(478)	(165,543)	127,180	(78,439)
	(35,495)	(7,896)	3,989	(262,861)	127,180	(175,083)
Financing Activities:						
Increase in share capital, net	(279)	44,479	4,200	-	(48,679)	(279)
Repurchase of common shares for cancellation	-	-	-	-	-	-
Common share dividend	(1,849)	-	-	-	-	(1,849)
Increase/(decrease) in bank indebtedness	-	39,828	(8,204)	2,218	(31,624)	2,218
Increase in senior unsecured indebtedness	-	(1,953)	-	-	1,953	-
	(2,128)	82,354	(4,004)	2,218	(78,350)	90
Investing Activities:						
Purchase of securities	-	-	-	(1,571,836)	-	(1,571,836)
Proceeds from sale of	-	-	-	1,804,674	-	1,804,674
Proceeds from sale of discontinued operations	(1,941)	-	-	-	-	(1,941)
Acquisitions	48,830	(76,302)	-	76,302	(48,830)	-
Other	(71)	4,337	-	(11,117)	-	(6,851)
	46,818	(71,965)	-	298,023	(48,830)	224,046
Increase (decrease) in cash during the year	9,195	2,493	(15)	37,380	-	49,053
Cash, beginning of year	21,335	5,603	543	78,175	-	105,656
	\$ 30,530	\$ 8,096	\$ 528	\$ 115,555	\$ -	\$ 154,709

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

Condensed Consolidating Statement of Cash Flows						
For the six months ended June 30, 2008						
	KFSI	KAI	K2007GP	Other Subsidiaries	Consolidation	Total
	(a "Guarantor")	(an "issuer" / "Guarantor")	(an "Issuer")	(the "Non-Guarantor subsidiaries")		
Cash provided by (used in):						
Operating activities:						
Net income	\$ (28,078)	\$ (49,932)	\$ 265	\$ (15,363)	\$ 65,030	\$ (28,078)
Adjustments to reconcile net income to net cash used by operating activities:						-
Equity in undistributed earnings in subsidiaries	25,743	39,287	-	-	(65,030)	-
Other	7,552	(31,549)	(129)	(150,091)	123,617	(50,600)
	5,217	(42,194)	136	(165,454)	123,617	(78,678)
Financing Activities:						
Increase in share capital, net	48	103,619	-	-	(103,619)	48
Repurchase of common shares for cancellation	(4,378)	-	-	-	-	(4,378)
Common share dividend	(8,208)	-	-	-	-	(8,208)
Increase/(decrease) in bank indebtedness	(6,552)	-	114	(15,283)	6,438	(15,283)
Increase in senior unsecured indebtedness	-	-	-	-	(17,517)	(17,517)
	(19,090)	103,619	114	(15,283)	(114,698)	(45,338)
Investing Activities:						
Purchase of securities	-	-	-	(1,592,080)	-	(1,592,080)
Proceeds from sale of	-	-	-	1,759,812	-	1,759,812
Acquisitions	8,919	-	-	(212)	(8,919)	(212)
Other	(457)	(59,835)	-	43,701	-	(16,591)
	8,462	(59,835)	-	211,221	(8,919)	150,929
Increase (decrease) in cash during the year	(5,411)	1,590	250	30,484	-	26,913
Cash, beginning of year	13,716	6,960	566	140,393	-	161,635
	\$ 8,305	\$ 8,550	\$ 816	\$ 170,877	\$ -	\$ 188,548