



## KINGSWAY ANNOUNCES FIRST QUARTER 2018 RESULTS

Toronto, Ontario (May 14, 2018) - (TSX: KFS, NYSE: KFS) Kingsway Financial Services Inc. (“Kingsway” or the “Company”) today announced its operating results for the first quarter ended March 31, 2018. All amounts are in U.S. dollars unless indicated otherwise.

### Management Comments

Larry G. Swets, Jr., Chief Executive Officer, stated, “This is our first full quarter with PWSC, and the results reaffirm our interest and desire to acquire further warranty assets. Trinity reported strong revenues during the quarter as it continues its turnaround to being a consistent contributor to our earnings and holding company cash flow. IWS maintained its steady contribution to our earnings. As we stated in last week’s announcement of our letter of intent to sell our non-standard auto business, we intend to shift our focus and resources toward future warranty acquisitions and merchant banking activity.”

### Operating Results

The Company reported net loss attributable to common shareholders of \$2.3 million (including a non-cash loss of \$0.9 million attributable to change in fair value of debt), or \$0.11 per diluted share, in the first quarter of 2018, compared to net loss attributable to common shareholders of \$1.8 million (including a non-cash loss of \$1.9 million attributable to change in fair value of debt), or \$0.08 per diluted share, in the first quarter of 2017.

Following are highlights of Kingsway’s first quarter 2018 results. Operating income (loss) reflects the Company’s core operating activities, including its reportable segments, passive investment portfolio, merchant banking activities and corporate operating expenses.

- Operating income was \$0.4 million for the first quarter of 2018 compared to operating loss of \$0.6 million for the first quarter of 2017.
  - Insurance Underwriting segment operating loss was \$0.3 million for the first quarter of 2018 compared to \$0.7 million for the first quarter of 2017.
  - Extended Warranty segment operating income was \$1.6 million for the first quarter of 2018 compared to \$0.6 million for the first quarter of 2017.
  - Leased Real Estate segment operating income was \$0.9 million for the first quarter of 2018 compared to \$0.9 million for the first quarter of 2017.
  - Net investment loss of \$0.7 million was reported for the first quarter of 2018 compared to net investment income \$0.7 million for the first quarter of 2017.
  - Net realized gains of \$0.0 million were reported for the first quarter of 2018 compared to \$0.4 million for the first quarter of 2017.
  - Gain on change in fair value of equity investments was \$1.2 million for the first quarter of 2018 compared to zero for the first quarter of 2017. See Recently Adopted Accounting Standard section below.
  - Other operating income and expense was a net expense of \$2.3 million for the first quarter of 2018 compared to \$2.5 million for the first quarter of 2017.
- Adjusted operating income was \$2.5 million for the first quarter of 2018 compared to \$4.1 million for the first quarter of 2017.
- Book value decreased to \$1.90 per share at March 31, 2018 from \$2.02 per share at December 31, 2017. The Company also carries a valuation allowance, in the amount of \$8.37 per share at March 31, 2018, against the deferred tax asset, primarily related to its loss carryforwards.

### Recently Adopted Accounting Standard

On January 1, 2018, the Company adopted ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). As required by ASU 2016-01, the Company recorded a gain on change in fair value of equity investments of \$1.2 million

during the first quarter of 2018 as a result of the increase in the fair value of its equity investments since December 31, 2017. Prior to the adoption of ASU 2016-01, changes in the fair value of the Company's equity investments were included in other comprehensive income (loss). In addition, as required by ASU 2016-01, the Company recorded an other comprehensive loss of \$0.4 million related to the portion of the change in fair value of subordinated debt related to the instrument-specific credit risk. Prior to the adoption of ASU 2016-01, the total change in fair value of subordinated debt was reported in net income (loss).

**About the Company**

Kingsway is a holding company functioning as a merchant bank with a focus on long-term value-creation. The Company owns or controls subsidiaries primarily in the insurance, extended warranty, asset management and real estate industries and pursues non-control investments and other opportunities acting as an advisor, an investor and a financier. The common shares of Kingsway are listed on the Toronto Stock Exchange and the New York Stock Exchange under the trading symbol "KFS."

**Consolidated Statements of Operations**  
**(in thousands, except per share data)**  
**(Unaudited)**

|  | Three months ended March 31, |                   |
|--|------------------------------|-------------------|
|  | 2018                         | 2017              |
| <b>Revenues:</b>   |                              |                   |
| Net premiums earned  | \$ 28,636                    | \$ 32,922         |
| Service fee and commission income  | 10,557                       | 6,562             |
| Rental income  | 3,348                        | 3,347             |
| Net investment (loss) income   | (682)                        | 714               |
| Net realized gains   | 13                           | 398               |
| Gain on change in fair value of equity investments                                     | 1,176                        | —                 |
| Other income   | 2,660                        | 2,798             |
| <b>Total revenues</b>  | <b>45,708</b>                | <b>46,741</b>     |
| <b>Operating expenses:</b>   |                              |                   |
| Loss and loss adjustment expenses  | 24,422                       | 26,410            |
| Commissions and premium taxes  | 5,443                        | 6,278             |
| Cost of services sold  | 2,252                        | 1,304             |
| General and administrative expenses  | 11,337                       | 11,272            |
| Leased real estate segment interest expense  | 1,552                        | 1,574             |
| Amortization of intangible assets  | 272                          | 291               |
| Impairment of intangible assets  | —                            | 250               |
| <b>Total operating expenses</b>  | <b>45,278</b>                | <b>47,379</b>     |
| <b>Operating income (loss)</b>   | <b>430</b>                   | <b>(638)</b>      |
| <b>Other expenses (revenues), net:</b>   |                              |                   |
| Interest expense not allocated to segments   | 1,386                        | 1,159             |
| Foreign exchange losses, net   | 2                            | 4                 |
| Loss on change in fair value of debt   | 919                          | 1,889             |
| Equity in net income of investee   | (101)                        | (2,385)           |
| <b>Total other expenses, net</b>   | <b>2,206</b>                 | <b>667</b>        |
| Loss before income tax expense   | (1,776)                      | (1,305)           |
| Income tax expense   | 251                          | 179               |
| <b>Net loss</b>  | <b>(2,027)</b>               | <b>(1,484)</b>    |
| Less: net income attributable to noncontrolling interests in consolidated subsidiaries | 135                          | 105               |
| Less: dividends on preferred stock, net of tax   | 129                          | 174               |
| <b>Net loss attributable to common shareholders</b>                                    | <b>\$ (2,291)</b>            | <b>\$ (1,763)</b> |
| <b>Loss per share – net loss attributable to common shareholders:</b>                  |                              |                   |
| Basic:   | \$ (0.11)                    | \$ (0.08)         |
| Diluted:   | \$ (0.11)                    | \$ (0.08)         |
| <b>Weighted-average shares outstanding (in '000s):</b>                                 |                              |                   |
| Basic:   | 21,708                       | 21,458            |
| Diluted:   | 21,708                       | 21,458            |

**Consolidated Balance Sheets**  
(in thousands, except share data)

|  | March 31, 2018    | December 31, 2017 |
|--|-------------------|-------------------|
|  | (unaudited)       |                   |
| <b>Assets</b>  |                   |                   |
| Investments:   |                   |                   |
| Fixed maturities, at fair value (amortized cost of \$51,403 and \$53,746, respectively)  | \$ 50,499         | \$ 53,214         |
| Equity investments, at fair value (cost of \$5,922 and \$9,146, respectively)  | 6,472             | 8,994             |
| Limited liability investments  | 25,749            | 25,173            |
| Limited liability investment, at fair value  | 8,925             | 10,314            |
| Other investments, at cost which approximates fair value   | 3,316             | 3,721             |
| Short-term investments, at cost which approximates fair value  | 151               | 151               |
| Total investments  | 95,112            | 101,567           |
| Cash and cash equivalents  | 47,197            | 44,286            |
| Investment in investee   | 5,331             | 5,230             |
| Accrued investment income  | 358               | 526               |
| Premiums receivable, net of allowance for doubtful accounts of \$115 and \$115, respectively   | 31,428            | 27,855            |
| Service fee receivable, net of allowance for doubtful accounts of \$333 and \$318, respectively  | 5,707             | 4,286             |
| Other receivables, net of allowance for doubtful accounts of zero and zero, respectively   | 7,398             | 7,139             |
| Deferred acquisition costs, net  | 10,646            | 13,045            |
| Property and equipment, net of accumulated depreciation of \$14,716 and \$13,600, respectively   | 107,166           | 108,230           |
| Goodwill   | 80,112            | 80,112            |
| Intangible assets, net of accumulated amortization of \$8,605 and \$8,333, respectively  | 87,343            | 87,615            |
| Other assets   | 15,202            | 4,709             |
| <b>Total Assets</b>  | <b>\$ 493,000</b> | <b>\$ 484,600</b> |
| <b>Liabilities and Shareholders' Equity</b>  |                   |                   |
| Liabilities:   |                   |                   |
| Unpaid loss and loss adjustment expenses:  |                   |                   |
| Property and casualty  | \$ 61,658         | \$ 63,652         |
| Vehicle service agreements   | 2,683             | 2,779             |
| Total unpaid loss and loss adjustment expenses   | 64,341            | 66,431            |
| Unearned premiums  | 39,921            | 36,686            |
| Note payable   | 185,530           | 186,469           |
| Bank loan  | 4,667             | 4,917             |
| Subordinated debt, at fair value   | 53,458            | 52,105            |
| Net deferred income tax liabilities  | 30,352            | 30,331            |
| Deferred service fees  | 41,072            | 39,741            |
| Income taxes payable   | 2,876             | 2,644             |
| Accrued expenses and other liabilities   | 24,135            | 15,966            |
| Total Liabilities  | 446,352           | 435,290           |
| Class A preferred stock, no par value; unlimited number authorized; 222,876 and 222,876 issued and outstanding at March 31, 2018 and December 31, 2017, respectively; redemption amount of \$5,572 | 5,469             | 5,461             |
| Shareholders' Equity:  |                   |                   |
| Common stock, no par value; unlimited number authorized; 21,708,190 and 21,708,190 issued and outstanding at March 31, 2018 and December 31, 2017, respectively                                    | —                 | —                 |
| Additional paid-in capital   | 356,313           | 356,021           |
| Accumulated deficit  | (356,273)         | (313,487)         |
| Accumulated other comprehensive income (loss)  | 35,844            | (3,852)           |
| Shareholders' equity attributable to common shareholders   | 35,884            | 38,682            |
| Noncontrolling interests in consolidated subsidiaries  | 5,295             | 5,167             |
| Total Shareholders' Equity   | 41,179            | 43,849            |
| Total Liabilities, Class A preferred stock and Shareholders' Equity  | \$ 493,000        | \$ 484,600        |

## Non-U.S. GAAP Financial Measures

### Segment Operating Income

Segment operating income represents one measure of the pretax profitability of Kingsway's segments and is derived by subtracting direct segment expenses from direct segment revenues. Please refer to the section entitled "Non-U.S. GAAP Financial Measures" in the Management's Discussion and Analysis section of the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for a detailed description of this non-U.S. GAAP measure.

### Adjusted Operating Income

Adjusted operating income represents another measure used by the Company to assess the profitability of the Company's segments, its passive investment portfolio and its merchant banking activities. Adjusted operating income is comprised of segment operating income as well as net investment (loss) income, net realized gains, gain on change in fair value of equity investments, equity in net income of investee and merchant banking transaction expenses, net. A reconciliation of segment operating income and adjusted operating income to net loss for the three months ended March 31, 2018 and 2017 is presented below:

| (in thousands)  | Three months ended March 31, |            |
|---|------------------------------|------------|
|   | 2018                         | 2017       |
| Segment operating income                              | \$ 2,153                     | \$ 762     |
| Net investment (loss) income                          | (682)                        | 714        |
| Net realized gains                                    | 13                           | 398        |
| Gain on change in fair value of equity investments    | 1,176                        | —          |
| Equity in net income of investee                      | 101                          | 2,385      |
| Merchant banking transaction expenses, net            | (234)                        | (162)      |
| Adjusted operating income                             | 2,527                        | 4,097      |
| Equity in net income of investee                      | (101)                        | (2,385)    |
| Corporate operating expenses and other <sup>(1)</sup> | (1,724)                      | (1,809)    |
| Amortization of intangible assets                     | (272)                        | (291)      |
| Impairment of intangible assets                       | —                            | (250)      |
| Operating income (loss)                               | 430                          | (638)      |
| Equity in net income of investee                      | 101                          | 2,385      |
| Interest expense not allocated to segments            | (1,386)                      | (1,159)    |
| Foreign exchange losses, net                          | (2)                          | (4)        |
| Loss on change in fair value of debt                  | (919)                        | (1,889)    |
| Loss before income tax expense                        | (1,776)                      | (1,305)    |
| Income tax expense                                    | (251)                        | (179)      |
| Net loss  | \$ (2,027)                   | \$ (1,484) |

(1) Corporate operating expenses and other includes corporate operating expenses and stock-based compensation expense.

**Forward-Looking Statements**

This press release includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not historical facts, and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. Words such as “expects,” “believes,” “anticipates,” “intends,” “estimates,” “seeks” and variations and similar words and expressions are intended to identify such forward-looking statements. Such forward-looking statements relate to future events or future performance, but reflect Kingsway management’s current beliefs, based on information currently available and include statements relating to the proposed sale of our insurance subsidiaries. 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, including the failure to reach a definitive agreement with respect to the proposed sale of our insurance subsidiaries, the timing to consummate the proposed sale, the failure to obtain necessary regulatory approvals and the diversion of management time on transaction-related matters. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, please refer to the section entitled “Risk Factors” in the Company’s 2017 Annual Report on Form 10-K. Except as expressly required by applicable securities law, 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 about Kingsway, including a copy of its 2017 Annual Report and filings on Forms 10-Q and 8-K, can be accessed on the Canadian Securities Administrators’ website at [www.sedar.com](http://www.sedar.com), 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).

For a current review of the Company and a discussion of its plan to create and sustain long-term shareholder value, management invites you to review its Annual Letter to Shareholders, which may be accessed at the Company’s website or directly at <http://bit.ly/kingsway2016>.