

Report of Organizational Actions Affecting Basis of Securities

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name Kingsway Financial Services Inc.		2 Issuer's employer identification number (EIN) 98-0475673	
3 Name of contact for additional information Robert P. Hames	4 Telephone No. of contact (847) 700-8044	5 Email address of contact rhames@kingswayfinancial.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact 150 Pierce Road, 6th Floor		7 City, town, or post office, state, and Zip code of contact Itasca, Illinois 60143	
8 Date of action Rights Offering Issuance on August 16, 2013		9 Classification and description Rights Offering	
10 CUSIP number 496904202	11 Serial number(s)	12 Ticker symbol KFS	13 Account number(s)

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ **On August 16, 2013, Kingsway Financial Services Inc. commenced a Rights Offering pursuant to which stockholders of record as of August 9, 2013 received, at no cost to them, one transferable subscription right for each share of common stock owned. Four subscription rights entitled the holder to purchase one unit consisting of one common share, one Series A warrant and one Series B warrant (a "Unit"). Each warrant entitles the holder to purchase one common share. The subscription price is \$4.00 per Unit. The Rights Offering expired on September 6, 2013. Under the Rights Offering, subscription rights holders exercised subscription rights to purchase 3,280,790 Units in the Rights Offering. Accordingly, the Company issued 3,280,790 shares of common stock, 3,280,790 Series A warrants to purchase 3,280,790 shares of common stock and 3,280,790 Series B warrants to purchase 3,280,790 shares of common stock.**

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ **Based upon available market data, the value of each subscription right on the date of distribution was less than 15% of the aggregate fair market value of the share of common stock with respect to which it was distributed. Accordingly, absent an election by a shareholder, the subscription rights are allocated a zero basis for U.S. federal income tax purposes.**

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ **Based upon available market data, the value of each subscription right on the date of distribution was less than 15% of the aggregate fair market value of the share of common stock with respect to which it was distributed. Accordingly, a change in basis calculation is not necessary.**

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ Internal Revenue Code Sections 305 and 307

Multiple horizontal lines for listing applicable Internal Revenue Code sections.

18 Can any resulting loss be recognized? ▶ Not applicable

Multiple horizontal lines for providing information regarding loss recognition.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ Not applicable

Multiple horizontal lines for providing other necessary information.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here Signature ▶ *William A. Hickey, Jr.* Date ▶ SEPTEMBER 26, 2013
Print your name ▶ William A. Hickey, Jr. Title ▶ Chief Financial Officer

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶	Firm's EIN ▶			
	Firm's address ▶	Phone no.			