

KINGSWAY FINANCIAL SERVICES INC

Form S-4/A

November 15, 2018

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As filed with the Securities and Exchange Commission on November 15, 2018

Registration No. 333-227577

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Amendment No. 2
to
Form S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

KINGSWAY FINANCIAL SERVICES INC.
(Exact Name of Registrant as Specified in Its Charter)

Ontario* (State or Other Jurisdiction of Incorporation)	6331 (Primary Standard Industrial Classification Code Number) 45 St. Clair Avenue West, Suite 400 Toronto, Ontario, Canada M4V 1K9	Not applicable (I.R.S. Employer Identification Number)
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(416) 848-1171

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

with copies to:

John T. Fitzgerald
President and Chief Executive Officer
Kingsway Financial Services Inc.
150 Pierce Road, 6th Floor
(847) 700-9154

Eric Orsic
McDermott Will & Emery LLP
444 West Lake Street, Suite 4000
Chicago, IL 60606-0029
(312) 372-2000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective and the consummation of the Domestication transaction covered hereby.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earliest effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act .

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-border Issuer Tender Offer)

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant files a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

* The Registrant intends, subject to shareholder approval, to effect domestication under Section 388 of the General Corporation Law of the State of Delaware, pursuant to which the Registrant's state of incorporation will be Delaware.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY SUBJECT TO COMPLETION DATED NOVEMBER 15, 2018

KINGSWAY FINANCIAL SERVICES INC.

PROPOSED DOMESTICATION YOUR VOTE IS VERY IMPORTANT

Dear Shareholders:

We are furnishing this management proxy circular to shareholders of Kingsway Financial Services Inc. in connection with the solicitation of proxies by our management for use at a Special Meeting of our shareholders. The meeting will be held on December 14, 2018 at 1:00 p.m. (Toronto time), at Norton Rose Fulbright Canada LLP, Suite 3800, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2Z4.

The purpose of the meeting is to obtain shareholder approval to change our jurisdiction of incorporation from the province of Ontario to the State of Delaware in the United States of America through the adoption of a certificate of corporate domestication and a new certificate of incorporation.

We believe that our Domestication will enable us to eliminate a number of potentially material income tax inefficiencies we believe we would inevitably encounter, particularly once we close our previously announced sale of our property-casualty insurance companies including the related distribution to Kingsway America Inc., a subsidiary of Kingsway Financial Services Inc., of the passive investments currently owned by our property-casualty insurance companies. We believe our Domestication will also reduce operating expenses and transactional inefficiencies that currently result from being subject to Canadian corporate laws despite having no operations in Canada.

We chose the State of Delaware to be our domicile because the more favourable corporate environment afforded by Delaware will help us compete effectively in raising the capital necessary for us to continue to implement our strategic plan, particularly our announced focus on growing our extended warranty segment with accretive acquisitions.

If we complete the Domestication, we will continue our legal existence in Delaware as if we had originally been incorporated under Delaware law. In addition, each outstanding Common Share of Kingsway Financial Services Inc. as an Ontario corporation will then represent one Common Share of Kingsway Financial Services Inc. as a Delaware corporation. Our Common Shares are currently traded on the New York Stock Exchange (NYSE) and on the Toronto Stock Exchange (TSX) under the symbol KFS, and our Series B Warrants are traded on the TSX under the symbol KFS-WV . In connection with the Domestication, we anticipate seeking to delist our Common Shares and Series B Warrants from the TSX. We also anticipate reduced listing fees in connection with delisting from the TSX. Following the completion of our Domestication, our Common Shares will continue to be listed on the NYSE under the symbol KFS and our Series B Warrants will continue to be listed on the OTC under the symbol KFSYF. Our Common Shares and Series B Warrants will no longer be listed on the TSX following the completion of the Domestication.

The proposal for Domestication is subject to approval by at least two-thirds of the votes cast by the holders of our Common Shares, voting together as a single class, whether in person or by proxy at a meeting. Dissenting shareholders have the right to be paid the fair value of their shares under Section 185 of the Ontario Business Corporations Act. Our Board of Directors has reserved the right to terminate or abandon our Domestication at any time prior to its effectiveness, notwithstanding shareholder approval, if it determines for any reason that the consummation of our Domestication would be inadvisable or not in our and your best interests.

The Board may, in its sole discretion, decide not to act on this Resolution even if the Resolution is passed by shareholders. The Board's determination in this regard may specifically include considering whether shareholders exercise dissent rights, and, if so, the number of shareholders that exercise such dissent rights, and the corresponding costs to the Corporation of effecting the Domestication with respect to the exercise of such dissent rights.

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If approved by our shareholders, it is anticipated that the Domestication will become effective on or about December 14, 2018 or as soon as practicable after the meeting of our shareholders.

Direct Registration Statements (DRS) have been provided to holders of our Kingsway Financial Services Inc. Class A Preferred Shares, Series 1 non-voting shares and Common Shares voting shares. The DRS will represent the same number of the same class of shares of our capital stock after the Domestication without any action on your part. We will issue new stock certificates to you representing shares of capital stock of Kingsway Financial Services Inc. as a Delaware corporation upon a transfer of the shares by you or at your request.

The accompanying management proxy circular provides a detailed description of our proposed Domestication and other information to assist you in considering the proposal on which you are asked to vote. We urge you to review this information carefully and, if you require assistance, to consult with your financial, tax or other professional advisers.

Our Board of Directors unanimously recommends that you vote FOR the approval of our Domestication as further described in this management proxy circular.

Your vote is very important. Whether or not you plan to attend the meeting, we ask that you indicate the manner in which you wish your shares to be voted and sign and return your proxy as promptly as possible in the enclosed envelope so that your vote may be recorded. If your shares are registered in your name, you may vote your shares in person if you attend the meeting, even if you send in your proxy.

We appreciate your continued interest in our company.

Very truly yours,

/s/ Terence M. Kavanagh
Terence M. Kavanagh
Chairman of the Board of Directors

These securities involve a high degree of risk. See Risk Factors beginning on page 12 of this management proxy circular for a discussion of specified matters that should be considered.

Neither the Securities and Exchange Commission nor any state securities commission, or similar authority in any province of Canada, has approved or disapproved of these securities or determined if the management proxy circular is truthful or complete. Any representation to the contrary is a criminal offense.

This management proxy circular is dated November 15, 2018 and is first being mailed to shareholders on or about November 23, 2018.

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**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS OF
KINGSWAY FINANCIAL SERVICES INC.
MANAGEMENT PROXY CIRCULAR
FOR THE MEETING TO BE HELD ON DECEMBER 14, 2018**

DATED NOVEMBER 15, 2018

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NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT a special meeting (the Meeting) of the shareholders of Kingsway Financial Services Inc. (the Corporation) will be held at 1:00 pm (Toronto time) on December 14, 2018 at the offices of Norton Rose Fulbright Canada LLP, Suite 3800, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2Z4, for the following purposes:

- 1) To consider, and if deemed advisable, pass, with or without variation, a special resolution authorizing the board of directors to change the jurisdiction of incorporation of the Corporation from the province of Ontario to the State of Delaware, as described in greater detail in the accompanying management proxy circular (the Resolution); and
- 2) To transact such other business as may properly come before the Meeting, and any postponements or adjournments thereof.

The accompanying management proxy circular provides additional information relating to the matters to be dealt with at the Meeting and is deemed to form part of this Notice of Meeting.

Only shareholders of record at the close of business on November 14, 2018 are entitled to notice of the Meeting and to vote at the Meeting or any adjournment or postponement thereof.

SHAREHOLDERS WHO ARE UNABLE TO ATTEND THE MEETING IN PERSON SHOULD COMPLETE, DATE AND SIGN THE ENCLOSED FORM OF PROXY, AND RETURN IT IN THE ENVELOPE PROVIDED FOR THAT PURPOSE, OR VOTE BY TELEPHONE OR OVER THE INTERNET.

Registered shareholders have the right to dissent in respect of the Resolution pursuant to Section 185 of the Ontario Business Corporations Act (OBCA). It is recommended that any shareholder wishing to avail itself of its dissent rights seek legal advice, as failure to comply strictly with the provisions of Section 185 of the OBCA may prejudice any such rights. See the section entitled Dissenting Rights of Shareholders in the accompanying management proxy circular.

Proxies to be used at the Meeting must be deposited with Computershare Investor Services Inc., Proxy Department, 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1, before 1:00 pm (Toronto time) on December 12, 2018, or if the Meeting is adjourned or postponed, no later than 5:00 p.m. (Toronto time) on the second business day preceding the day to which the Meeting is adjourned or postponed. The proxy voting cut-off may be waived or extended by the Chairman of the Board at his discretion without notice.

By Order of the Board of Directors

Terence M. Kavanagh

Terence M. Kavanagh

Chairman of the Board of Directors

Toronto, Ontario

November 15, 2018

IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY OF PROXY MATERIALS FOR THE MEETING OF SHAREHOLDERS TO BE HELD ON DECEMBER 14, 2018.

The management proxy circular and Annual Report on Form 10-K, including all amendments thereto, are available on our website, www.kingsway-financial.com.

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REFERENCES TO ADDITIONAL INFORMATION

This management proxy circular constitutes part of a registration statement on Form S-4 that was filed with the SEC.

You may request copies of this management proxy circular or other information concerning Kingsway Financial Services Inc., without charge, by written request to Kingsway Financial Services Inc., Attention: Investor Relations, 45 St. Clair Avenue West, Suite 400, Toronto, Ontario, M4V 1K9 Canada.

In order for you to receive timely delivery of the documents in advance of the Meeting, you must request the information no later than five business days prior to the date of the Meeting, by December 7, 2018.

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MANAGEMENT PROXY CIRCULAR

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QUESTIONS AND ANSWERS ABOUT DOMESTICATION AND THE MEETING

The following are some questions that you, as a shareholder of Kingsway Financial Services Inc. may have regarding the Domestication (as defined below) and the Meeting of the Corporation's shareholders (which is referred to as the Meeting in this management proxy circular), and brief answers to those questions. Unless otherwise provided in this management proxy circular (the Circular), references to the Corporation, we, us, and our refer to Kingsway Financial Services Inc., a corporation formed under the laws of Ontario, prior to the Domestication. References to Kingsway Delaware refer solely to Kingsway Financial Services Inc., a Delaware corporation, as of the effective time of the Domestication. We urge you to read carefully the remainder of this Circular because the information in this section may not provide all the information that might be important to you with respect to the Domestication being considered at the Meeting. Additional important information is also contained in the annexes to this Circular.

Set forth below in a question and answer format is general information regarding the Meeting, to which this Circular relates. This general information regarding the Meeting is followed by a more detailed summary of the process relating to, reasons for and effects of our proposed change in jurisdiction of incorporation to which we refer in this Circular as the Domestication.

Q: What am I voting on?

A: Shareholders are voting on a special resolution authorizing us to change the jurisdiction of the Corporation from the province of Ontario to the State of Delaware and adopt a certificate of incorporation of Kingsway Financial Services Inc. to be effective as of the date of the Corporation's Domestication.

Q. Who is entitled to vote?

A: Shareholders as of the close of business on the Record Date are entitled to vote. Each common share of the Corporation (a Common Share) is entitled to one (1) vote on those items of business identified in the Notice of Meeting. Holders of the currently outstanding class A convertible preferred shares, series 1 of the Corporation (the Preferred Shares) are not entitled to vote at the Meeting. The form of proxy you received indicates the number of Common Shares that you own and are entitled to vote.

Q: How do I vote?

A: If you are a registered shareholder there are a number of ways you can vote your Common Shares:

In Person: You may vote in person at the Meeting.

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By Mail: You may sign the enclosed form of proxy appointing the named persons or some other person you choose, who need not be a shareholder, to represent you as proxyholder and vote your Common Shares at the Meeting. Return the form of proxy by mail to:

Computershare Investor Services

100 University Avenue, 8th Floor

Toronto, Ontario

M5J 2Y1

By Telephone: Shareholders located in Canada or in the United States may vote by telephone by calling 1-866-732-8683. You will need to enter the 15-digit control number provided on the form of proxy to vote your Common Shares over the phone.

By Internet: You may vote over the Internet by going to www.investorvote.com. You will need to enter the 15-digit control number provided on the form of proxy to vote your Common Shares over the internet.

Voting by telephone or on the Internet is fast, convenient and your vote is immediately confirmed and tabulated. If you choose to vote by telephone or on the Internet, instructions to do so are set forth on the

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form of proxy. The telephone and Internet voting procedures are designed to authenticate votes cast by use of a control number, which appears on the form of proxy. These procedures allow shareholders to appoint a proxy to vote their Common Shares and to confirm that their instructions have been properly recorded. If you vote by telephone, you will not be able to appoint a proxyholder. If you vote by telephone or on the Internet, your vote must be received by 1:00 pm (Toronto time), on December 12, 2018.

If you are a beneficial shareholder, the intermediary (usually a bank, trust company, broker, securities dealer or other financial institution) through which you hold your Common Shares will send you instructions on how to vote your Common Shares. Please follow the instructions on your voting instruction form.

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

A: If you are a registered shareholder and plan to attend the Meeting on December 14, 2018 and wish to vote your Common Shares in person at the Meeting, do not complete or return the form of proxy. When you arrive to vote in person at the Meeting, please register with the transfer agent, Computershare Investor Services Inc. (Computershare), and your vote will be counted in person. If your Common Shares are held in the name of a nominee and you wish to attend the Meeting, refer to the answer to the question If my Common Shares are not registered in my name but are held in the name of a nominee (a bank, trust company, securities broker, trustee or other), how do I vote my Common Shares? for voting instructions.

Q: Who is soliciting my proxy?

A: **Your proxy is being solicited by or on behalf of management and the Board.** The associated costs will be borne by the Corporation. The solicitations will be made primarily by mail, but proxies may also be solicited personally or by telephone by directors, officers and regular employees of the Corporation, none of whom will receive additional compensation for assisting with the solicitation, and the estimated cost of which will be nominal. We encourage you to vote as soon as possible after carefully reviewing this Circular.

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

A: Signing the enclosed form of proxy gives authority to Terence M. Kavanagh, Chairman of the Board, or failing him, John T. Fitzgerald, President and Chief Executive Officer of the Corporation, respectively, or to another person you have appointed, to vote your Common Shares at the Meeting.

Q: Can I appoint someone other than these representatives to vote my Common Shares?

A: Yes, you may appoint a person or company to represent you at the Meeting other than the persons assigned in the form of proxy. Write the name of this person or entity, who need not be a shareholder, in the blank space provided in the form of proxy. It is important to ensure that any other person you appoint is attending the Meeting and is aware that he or she has been appointed to vote your Common Shares. Proxyholders should, upon arrival at

the Meeting, register with Computershare.

Q: What do I do with my completed proxy?

A: Return it to Computershare in the envelope provided or at Computershare Investor Services Inc., Proxy Department, 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1. Your form of proxy must be received by Computershare by no later than 48 hours (excluding Saturdays, Sundays and holidays) before the time and the date of the Meeting, or in the case of any adjournment or postponement thereof, no later than 48 hours (excluding Saturdays, Sundays and holidays) before the time and the date at which the Meeting is reconvened. This will ensure that your vote is recorded. The proxy voting cut-off may be waived or extended by the Chairman of the Board at his discretion without notice.

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Q: How will my Common Shares be voted if I give my proxy?

A: On the form of proxy, you can indicate how you want your proxyholder to vote your Common Shares, or you can let your proxyholder decide for you. Your proxyholder must vote or withhold from voting in accordance with your instructions on any ballot that may be called for, and if you have specified on the form of proxy how you want your Common Shares to be voted on any matter to be acted upon, your Common Shares will be voted accordingly.

If you have not specified on the form of proxy how you want your Common Shares to be voted on a particular issue, then your proxyholder can vote your Common Shares as he or she sees fit in accordance with their best judgment.

In the absence of such directions, however, the management nominees will vote your Common Shares in favour of the Resolution.

Q: If I change my mind, can I revoke or change my proxy once I have given it?

A: Yes. You may revoke your proxy and change your vote at any time before the Meeting in one of four ways:

- (i) Send a written notice that is received by the deadline specified below stating that you revoke your proxy to the Corporation's Executive Vice President & Chief Financial Officer at the following address: 45 St. Clair Avenue West, Suite 400, Toronto, Ontario, M4V 1K9 Canada. The statement must be signed by you or your attorney as authorized in writing or, if the shareholder is a corporation, signed under its corporate seal or by a duly authorized officer or attorney of the corporation;
- (ii) If you sent a form of proxy by mail, complete a new form of proxy bearing a later date and properly submit it so that it is received before the deadline set forth below;
- (iii) Log onto the Internet website specified on the form of proxy in the same manner you would to submit your proxy electronically or call the toll-free number specified on the form of proxy prior to the Meeting, in each case if you are eligible to do so, and follow the instructions on the form of proxy; or
- (iv) Appear in person at the Meeting, declare your prior proxy to be revoked and then vote in person at the Meeting (although merely attending the Meeting will not revoke your proxy).

Any revocation of a proxy must be delivered either to the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting or any adjournment or postponement of the Meeting, or to the Chairman of the Board on the day of the Meeting, December 14, 2018, or any adjournment or postponement of the Meeting, prior to the time of the Meeting.

Q:

What if amendments are made to the matter to be voted upon or if other matters are brought before the Meeting?

A: The persons named in the form of proxy will have discretionary authority with respect to amendments or variations to matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting or any adjournment or postponement thereof, whether or not the amendment, variation or other matter that comes before the Meeting is routine, and whether or not the amendment, variation or other matter that comes before the Meeting is contested.

As of the date of this Circular, management of the Corporation and the Board know of no such amendment, variation or other matter expected to come before the Meeting. If any other matter properly comes before the Meeting, the persons named in the accompanying form of proxy will vote on such matter in accordance with their best judgment.

Q: What are the tax consequences of the Domestication?

A: *Canadian Income Tax Considerations*

Under the *Income Tax Act* (Canada), the Domestication will cause the Corporation to cease to be resident in Canada and as a result the Corporation will be deemed to have a tax year end. The Corporation will also be

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deemed to have disposed of each of its properties immediately before its deemed year end for proceeds of disposition equal to the fair market value of such properties and to have reacquired such properties immediately thereafter at a cost amount equal to fair market value. The Corporation will be subject to income tax on any income and net taxable capital gains realized as a result of the deemed dispositions of its properties. The Corporation will also be subject to an additional emigration tax on the amount by which the fair market value, immediately before its deemed year end resulting from the Domestication, of all of the property owned by the Corporation, exceeds the total of certain of its liabilities and the paid-up capital of all the issued and outstanding shares of the Corporation immediately before the deemed year end. Management of the Corporation has advised that, in its view and as of the date hereof, (i) the fair market value of the property of the Corporation does not exceed the adjusted cost base of such property and (ii) the aggregate of the paid-up capital of the shares and the liabilities of the Corporation is not less than the aggregate fair market value of all of the property of the Corporation. Accordingly, management of the Corporation expects that the deemed disposition of the Corporation's properties that will occur on the Domestication will not result in any taxable income to the Corporation under Part I of the *Income Tax Act (Canada)* and that the Domestication will not result in any liability for emigration tax.

Shareholders who are resident in Canada for purposes of the *Income Tax Act (Canada)* will not be considered to have disposed of their Common Shares as a result of the Domestication. If a Canadian resident shareholder sells or otherwise disposes of Common Shares following the Domestication, such shareholder will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition for the Common Shares exceed (or are exceeded by) the aggregate of the adjusted cost base of such Common Shares and any reasonable costs of disposition.

The foregoing is a brief summary of the principal income tax considerations only and is qualified in its entirety by the more detailed description of income tax considerations in the Canadian Income Tax Considerations section of this Circular, which shareholders are urged to read. This summary does not discuss all aspects of Canadian tax consequences that may apply in connection with the Domestication. Shareholders should consult their own tax advisors as to the tax consequences of the Domestication applicable to them.

U.S. Federal Income Tax Considerations

As discussed more fully under U.S. Federal Income Tax Considerations below, it is intended that the Domestication will constitute a tax-free reorganization within the meaning of Section 368(a)(1)(F) of the Internal Revenue Code of 1986, as amended (the Code). Assuming that the Domestication so qualifies, U.S. Holders (as defined in U.S. Federal Income Tax Considerations below) of Common Shares will be subject to Section 367(b) of the Code and, as a result:

A U.S. Holder of Common Shares whose Common Shares have a fair market value of less than \$50,000 USD on the date of the Domestication will not recognize any gain or loss and will not be required to include any part of Corporation's earnings in income.

A U.S. Holder of Common Shares whose Common Shares have a fair market value of \$50,000 USD or more, but who on the date of the Domestication owns (actually and constructively) less than 10% of the total combined voting power of all classes of Common Shares entitled to vote, will generally recognize gain (but not loss) on the deemed exchange of Common Shares for Kingsway Delaware Common Shares pursuant to the Domestication. As an alternative to recognizing gain, such U.S. Holders may file an election to include in income, as a dividend, the all earnings and profits amount (as defined in the Treasury Regulations under Section 367) attributable to its Common Shares provided certain other requirements are satisfied.

A U.S. Holder of Common Shares whose Common Shares have a fair market value of \$50,000 USD or more, and who on the date of the Domestication owns (actually and constructively) 10% or more of the total combined voting power

of all classes of Common Shares entitled to vote, will generally be required to include in income, as a dividend, the all earnings and profits amount (as defined in the Treasury Regulations under Section 367) attributable to its Common Shares provided certain other requirements are satisfied.

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The Corporation has calculated its earnings and profits for the tax years 2008 through 2017. Based on these calculations, the Corporation generated negative earnings and profits in the years 2011, 2013, 2014, 2016 and 2017 and positive earnings and profits in 2008, 2009, 2010, 2012 and 2015. However, there can be no assurance the Internal Revenue Service (IRS) would agree with our earnings and profits calculations. If the IRS does not agree with our earnings and profits calculations, a shareholder may owe additional U.S. federal income taxes as a result of the Domestication. The Corporation intends to provide on its website (kingsway-financial.com) information regarding the Corporation's earnings and profits for the years 2008 through 2017, which will be updated to include 2018 (through the date of the Domestication) once the information is available. Currently, the Corporation does not anticipate that it will generate a positive earnings and profits in 2018 through the date of the Domestication. However, there can be no assurance that once all of the Corporation's activities through the date of the Domestication are considered, the Corporation's 2018 earnings and profits will remain negative.

As discussed further under U.S. Federal Income Tax Considerations below, the Corporation believes that it was not a passive foreign investment company (PFIC) before 2018 and it does not anticipate that it will be a PFIC in 2018, but there can be no assurance that the Corporation will not become a PFIC in 2019. Accordingly, the Domestication will likely not be a taxable event for any U.S. Holder under the PFIC rules if the Domestication occurs during 2018. The determination of whether a foreign corporation is a PFIC is primarily factual, and there is little administrative or judicial authority on which to rely to make a determination. Therefore, the IRS might not agree that the Corporation is not and has never been a PFIC. If the Corporation is considered a PFIC for U.S. federal income tax purposes, proposed Treasury Regulations, if finalized in their current form, would generally require U.S. Holders of Common Shares to recognize gain on the deemed exchange of Common Shares for Kingsway Delaware Common Shares pursuant to the Domestication unless such U.S. Holder has made certain tax elections with respect to such holder's Common Shares. The tax on any such gain would be imposed at the rate applicable to ordinary income and an interest charge would apply based on complex rules designed to offset the tax deferral to such holders on the undistributed earnings, if any, of the Corporation. It is not possible to determine at this time whether, in what form, and with what effective date, final Treasury Regulations under Section 1291(f) will be adopted. For a more complete discussion of the potential application of the PFIC rules to U.S. Holders as a result of the Domestication, see U.S. Federal Income Tax Considerations beginning on page 33 of this Circular.

Additionally, the Domestication may cause non-U.S. Holders (as defined in U.S. Federal Income Tax Considerations below) to become subject to U.S. federal income withholding taxes on any dividends paid in respect of such non-U.S. Holder's Kingsway Delaware Common Shares subsequent to the Domestication.

The tax consequences of the Domestication are complex and will depend on a holder's particular circumstances. All holders are strongly urged to consult their tax advisor for a full description and understanding of the tax consequences of the Domestication, including the applicability and effect of U.S. federal, state, local and foreign income and other tax laws. For a more complete discussion of the U.S. federal income tax considerations of the Domestication, see U.S. Federal Income Tax Considerations beginning on page 33 of this Circular.

The foregoing is a brief summary of the principal income tax considerations only and is qualified in its entirety by the more detailed description of income tax considerations in the U.S. Federal and Canadian Income Tax Considerations section of this Circular, which shareholders are urged to read. This summary does not discuss all aspects of the United States and Canadian tax consequences that may apply in connection with the Domestication. Shareholders should consult their own tax advisors as to the tax consequences of the Domestication applicable to them.

Q. How many Common Shares are entitled to vote?

A: As of the Record Date, there were 21,787,728 Common Shares entitled to be voted at the Meeting. Each registered shareholder has one (1) vote for each Common Share held at the close of business on the Record Date.

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Q: What vote is required to approve the Domestication?

A: Two-thirds of those votes cast at the Meeting by the holders of Common Shares.

Q: How will the votes be counted?

A: Approval of the Domestication requires two-thirds of votes cast at the Meeting by holders of Common Shares. In the case of equal votes, the Chairman of the Meeting is not entitled to a second or casting vote. Abstentions from voting and broker non-votes will not be counted and will have no effect on the approval of matters to be considered at the Meeting. A broker non-vote occurs when a broker does not vote on some matter on the form of proxy because the broker does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

Q: Who counts the votes?

A: The Corporation's transfer agent, Computershare, counts and tabulates the proxies.

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

A: You can contact the transfer agent as follows:

by mail:

Computershare Investor Services Inc.

Proxy Department

100 University Avenue, 8th Floor

Toronto, Ontario, M5J 2Y1

by telephone or email:

within Canada and the United States at 1-800-564-6253

all other countries at (416) 981-9633

or by email: service@computershare.com

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

A: Generally, your Common Shares may be voted in one of two ways:

- (i) Unless you have previously informed your nominee that you do not wish to receive material relating to the Meeting, you will have received this Circular from your nominee, together with a request for voting instructions for the number of Common Shares you hold. If you do not plan on attending the Meeting, or do not otherwise wish to vote in person at the Meeting, please follow the voting instructions provided by your nominee.

- (ii) If you wish to attend and vote your Common Shares at the Meeting, the Corporation will have no record of your shareholdings or of your entitlement to vote unless your nominee has appointed you as proxyholder. Therefore, if you wish to vote in person at the Meeting, insert your own name in the space provided on the voting instruction form sent to you by your nominee. Then sign and return the voting instruction form by following the signing and returning instructions provided by your nominee. By doing so, you are instructing your nominee to appoint you as proxyholder. Do not otherwise complete the voting instruction form as your vote will be taken at the Meeting. Please register with the transfer agent, Computershare, upon arrival at the Meeting.

Notwithstanding the foregoing, shareholders must explicitly follow any instructions provided by their nominee.

Q: How can I obtain additional information about the Corporation?

A: Financial Information is provided in our Annual Report on Form 10-K for the year ended December 31, 2017, and all amendments thereto (the Form 10-K), can be found under the Corporation's name on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com, on the Securities and Exchange Commission's (SEC) Electronic Data Gathering, Analysis, and Retrieval System

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(EDGAR) at www.sec.gov, or on our website at www.kingsway-financial.com. We will furnish to any shareholder, upon written request, any exhibit described in the list accompanying the Form 10-K without charge. Any such requests should include a representation that the shareholder was the beneficial owner of Common Shares on the Record Date, and should be directed to Kingsway Financial Services Inc., Attention: Investor Relations, 45 St. Clair Avenue West, Suite 400, Toronto, Ontario M4V 1K9 Canada. You may also access the exhibits described in the Form 10-K through the SEC website at www.sec.gov.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), which requires that we file reports, proxy statements and other information with the SEC. The SEC maintains a website on the Internet that contains reports, proxy and information statements and other information regarding registrants, including us, that file electronically with the SEC. The SEC s website address is www.sec.gov. In addition, our Exchange Act filings, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, DC 20549. Copies of such materials may also be obtained by mail from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, DC 20549, upon payment of the SEC s customary fees. Information regarding the public reference facilities may be obtained from the SEC by telephoning 1-800-SEC-0330.

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KINGSWAY FINANCIAL SERVICES INC.

MANAGEMENT PROXY CIRCULAR

SUMMARY

This summary highlights selected information appearing elsewhere in this the Circular, and does not contain all the information that you should consider in making a decision with respect to the proposal described in this Circular. You should read this summary together with the more detailed information, including our financial statements and the related notes, included elsewhere in this Circular, as well as the exhibits attached hereto. You should carefully consider, among other things, the matters discussed in *Risk Factors* and *Management's Discussion and Analysis of Financial Condition and Results of Operations* which are included in this Circular. You should read this Circular in its entirety.

All of the dollar amounts in this Circular are expressed in U.S. dollars, except where otherwise indicated. References to dollars or \$ are to U.S. dollars, and any references to CAD\$ are to Canadian dollars.

Kingsway Financial Services Inc.

45 St. Clair Avenue West, Suite 400,

Toronto, Ontario, M4V 1K9 Canada

(416) 848-1171

Kingsway Financial Services Inc. is currently a Canadian holding company with operating subsidiaries located in the United States. We own or control subsidiaries primarily in the insurance, extended warranty, asset management and real estate industries. Kingsway Financial Services Inc. conducts its business through the following two reportable segments: Extended Warranty (formerly Insurance Services) and Leased Real Estate. Extended Warranty and Leased Real Estate conduct their business and distribute their products in the United States.

Quorum

A quorum is required in order for the Meeting to be properly constituted. Two (2) or more shareholders personally present and representing, either in their own right or by proxy, not less than twenty-five percent (25%) of the issued and outstanding Common Shares shall constitute a quorum of the Meeting.

Continuation of the Corporation from the Province of Ontario to the State of Delaware (see page 28)

The Board is proposing to change the Corporation's jurisdiction of incorporation from the province of Ontario to the State of Delaware pursuant to a continuance effected in accordance with Section 181 of the Ontario Business Corporations Act (OBCA), also referred to as a domestication (the Domestication) under Section 388 of the General Corporation Law of the State of Delaware (the DGCL). The Corporation will become subject to the DGCL on the date of the Domestication, but will be deemed for the purposes of the DGCL to have commenced its existence in Delaware on the date the Corporation originally commenced its existence in Ontario. Under the DGCL, a corporation becomes domesticated in Delaware by filing a certificate of corporate domestication and a certificate of incorporation for the corporation being domesticated. The Board has unanimously approved the Corporation's Domestication and the related certificate of incorporation, believes it to be in the Corporation's best interests and in the best interests of its

shareholders, and unanimously recommends approval of the Domestication to its shareholders.

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The Domestication will be effective on the date set forth in the certificate of corporate domestication and the certificate of incorporation, as filed with the office of the Secretary of State of the State of Delaware. Thereafter, the Corporation will be subject to the certificate of incorporation filed in Delaware. Proposed forms of the certificate of corporate Domestication, the certificate of incorporation and amended and restated by-laws that will be adopted by the Corporation are set out in Exhibits B, C and D, respectively.

Risk Factors (see page 12)

In evaluating the Domestication, you should carefully read this Circular and especially consider the factors discussed in the section titled *Risk Factors* beginning on page 12 of this Circular.

The Meeting; Shareholders Entitled to Vote; Required Vote (see page 26)

The Meeting of the Shareholders to be held on December 14, 2018 at 1:00 pm (Toronto time) at the offices of Norton Rose Fulbright Canada LLP, Suite 3800, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2Z4. At the Meeting, the Corporation's shareholders will be asked to:

- 1) Consider and, if deemed advisable, pass, with or without variation, a special resolution authorizing the board of directors to change the jurisdiction of incorporation of the Corporation from the province of Ontario to the State of Delaware, as described herein; and
- 2) Transact such other business as may properly come before the Meeting, and any postponements or adjournments thereof.

Only shareholders of record at the close of business on November 14, 2018 are entitled to notice of the Meeting and to vote at the Meeting or any adjournment or postponement thereof.

The authorized capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of Preferred Shares issuable in series. As of the close of business on November 14, 2018, the record date for the Meeting (the Record Date), 22,380,178 Common Shares were outstanding of which 592,450 Common Shares are currently restricted from voting (each a Restricted Common Share) pursuant to the Corporation's 2013 Equity Incentive Plan, as amended (the 2013 Equity Incentive Plan). The Restricted Common Shares represent 2.6% of the Common Shares; therefore, there are 21,787,728 Common Shares entitled to vote at the Meeting. Each Common Share is entitled to one (1) vote. The Common Shares are listed on the Toronto Stock Exchange (the TSX) and the New York Stock Exchange (the NYSE) under the symbol KFS.

As of the close of business on November 24, 2018, there were 222,876 Preferred Shares issued and outstanding. Each Preferred Share is convertible into 6.25 Common Shares at a conversion price of \$4.00 per Common Share at the option of the holder at any time prior to April 1, 2021. The currently outstanding Preferred Shares are not entitled to vote at the Meeting. Holders of Preferred Shares have no right to participate if a takeover bid is made for the Common Shares.

Stock Ownership of Directors and Executive Officers

As of the Record Date, the directors and executive officers of the Corporation beneficially owned and were entitled to vote 8,785,177 shares of the Corporation's Common Shares, which represent approximately 39.3% of Corporation's

Common Shares outstanding on that date.

Regulatory Approvals; Canadian and US Securities Laws and Stock Exchange Implications.

We anticipate that we will file with the Secretary of State of the State of Delaware a certificate of corporate domestication and a certificate of incorporation pursuant to Section 388 of the DGCL, and that we will be domesticated in Delaware on the effective date of such filings.

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Concurrently with the Domestication, the Corporation anticipates seeking to voluntarily delist its Common Shares and Series B Warrants from the Toronto Stock Exchange (**TSX**). After the Domestication, the Corporation will continue to be a reporting issuer in all provinces and territories of Canada and will remain subject to the securities laws applicable in such jurisdictions. Accordingly, the Corporation will remain subject to the securities laws applicable in such jurisdictions, including continuous disclosure requirements and requirements and timelines with respect to communications with beneficial owners of common stock.

The Domestication will not otherwise interrupt our corporate existence, our operations or the trading market of our Common Shares. Each outstanding Common Share, Preferred Share or Series B Warrant at the time of the Domestication will remain issued and outstanding as a Common Share, Preferred Share or Series B Warrant, as applicable, after our corporate existence is continued from Ontario under the OBCA and domesticated in Delaware under the DGCL. Following the completion of the Domestication, our Common Shares will continue to be listed on the NYSE, under the symbol **KFS**. The Corporation will continue to be subject to the rules and regulations of the NYSE and the obligations imposed by each securities regulatory authority in the United States, including the SEC. The Corporation will continue to file periodic reports with the SEC pursuant to the Exchange Act.

Effects of Change of Jurisdiction (see page 29)

The Domestication will not interrupt our corporate existence or operations. Each outstanding Common Share, Preferred Share or Series B Warrant at the time of the Domestication will remain issued and outstanding as Common Share, Preferred Share or Series B warrant, as applicable, after our corporate existence is continued from Ontario under the OBCA and domesticated in Delaware under the DGCL.

While the rights and privileges of shareholders of a Delaware corporation are, in many instances, comparable to those of shareholders of an OBCA corporation, there are certain differences. Attached as Exhibit F to this Circular is a summary of the most significant differences in shareholder rights. This summary is not intended to be complete and is qualified in its entirety by reference to the DGCL, the OBCA and the governing corporate instruments of the Corporation. Shareholders should consult their legal advisors regarding all of the implications of the transactions contemplated in the Resolution.

Principal Reasons for the Domestication (see page 28)

The Corporation believes that our Domestication will enable us to eliminate a number of potentially material income tax inefficiencies we believe we would inevitably encounter, particularly once we close our previously announced sale of our property-casualty insurance companies including the related distribution to Kingsway America Inc., a subsidiary of Kingsway Financial Services Inc., of the passive investments currently owned by our property-casualty insurance companies. We believe our Domestication will also reduce operating expenses and transactional inefficiencies that currently result from being subject to Canadian corporate laws despite having no operations in Canada. The Corporation chose the State of Delaware to be our domicile because the more favourable corporate environment afforded by Delaware will help us compete effectively in raising the capital necessary for us to continue to implement our strategic plan, particularly our announced focus on growing our extended warranty segment with accretive acquisitions. For many years, Delaware has followed a policy of encouraging public companies to incorporate in the state by adopting comprehensive corporate laws that are revised regularly in response to developments in modern corporate law and changes in business circumstances. The Delaware courts are known for their considerable expertise in dealing with complex corporate issues and providing predictability through a substantial body of case law construing Delaware's corporate law. Coupled with an active bar known for continually assessing and recommending improvements to the DGCL, these factors add greater certainty in complying with fiduciary responsibilities and assessing risks associated with conducting business.

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In considering its recommendation in favour of the Domestication, our Board weighed our estimated tax liability, which we do not consider to be material, arising from this transaction against our potential tax liability, which we believe could be material, that might arise were we to not undertake the Domestication. See U.S. Federal and Canadian Income Tax Considerations.

For the reasons set forth above, our Board believes that the estimated benefits of Domestication outweigh any potential tax liability, which we do not consider to be material, resulting from the Domestication.

Tax Consequences of the Domestication (see page 33)

See U.S. Federal and Canadian Income Tax Considerations for important information regarding tax consequences relating to the Domestication.

Shareholders should consult their own tax advisors for advice with respect to the tax consequences to them of the Domestication in their particular circumstances, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.

Accounting Treatment of the Domestication (see page 32)

There will be no accounting effect or change in the carrying amount of the assets and liabilities of the Corporation as a result of the Domestication. The business, capitalization, assets, liabilities and financial statements of the Corporation immediately following the Domestication will be the same as those immediately prior to the Domestication. There will also not be any accounting impact regarding the change in par value in the shares of the Corporation as a result of the Domestication.

Shareholder Approval of Domestication (see page 30)

Shareholders will be asked at the Meeting to pass a special resolution (the Resolution) authorizing the Corporation to effect the Domestication as described herein.

Shareholders are entitled to dissent from the Resolution. See *Dissenting Rights of Shareholders* for a discussion of such rights.

The Board may, in its sole discretion, decide not to act on this Resolution even if the Resolution is passed by shareholders. The Board's determination in this regard may specifically include considering whether shareholders exercise dissent rights, and, if so, the number of shareholders that exercise such dissent rights, and the corresponding costs to the Corporation of effecting the Domestication with respect to the exercise of such dissent rights.

The persons named in the enclosed form of proxy intend to vote at the meeting in favour of the Resolution. The complete text of the Resolution is attached as Exhibit A.

Dissent Rights of Shareholders (see page 30)

Registered shareholders have the right to dissent to the Resolution pursuant to Section 185 of the OBCA. It is recommended that any shareholder wishing to avail itself of its dissent rights seek legal advice, as failure to comply strictly with the provisions of Section 185 of the OBCA may prejudice any such rights. This summary is expressly subject to Section 185 of the OBCA, the text of which is reproduced in its entirety in Exhibit E hereto. See *Dissenting Rights of Shareholders*.

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RISK FACTORS

You should carefully consider the risks and uncertainties described below, together with all of the other information and risks included in this Circular, including our consolidated financial statements and the related notes thereto before making a decision whether to vote for the proposal described in this Circular.

DOMESTICATION

The rights of our shareholders under Ontario law will differ from their rights under Delaware law, which will, in some cases, provide less protection to shareholders following the Domestication.

Upon consummation of the Domestication, our shareholders will become stockholders of a Delaware corporation. There are material differences between the OBCA and the DGCL and our current articles and proposed charter and by-laws. For example, under Ontario law, many significant corporate actions such as amending a corporation's articles of incorporation, certain amalgamations (other than with a direct or indirect wholly-owned subsidiary), continuances, and sales, leases or exchanges of all or substantially all the property of a corporation other than in the ordinary course of business, and other corporate actions such as liquidations, dissolutions and (if ordered by a court) arrangements and consummating a merger require the approval of at least two-thirds of the votes cast by shareholders, whereas under Delaware law, all that is required is a simple majority of the total voting power of all of those entitled to vote on the matter. Furthermore, shareholders under Ontario law are entitled to dissent with respect to a number of extraordinary corporate actions, including an amalgamation with another unrelated corporation, certain amendments to a corporation's articles of incorporation or the sale of all or substantially all of a corporation's assets, whereas under Delaware law, stockholders are only entitled to appraisal rights for certain mergers or consolidations. As shown by the examples above, if the Domestication is approved, our shareholders, in certain circumstances, may be afforded less protection under the DGCL than they had under the OBCA.

The proposed Domestication will result in additional direct and indirect costs whether or not completed.

The Domestication will result in additional direct costs. We will incur attorneys' fees, accountants' fees, filing fees, mailing expenses, franchise taxes and financial printing expenses in connection with the Domestication. The Domestication may also result in certain indirect costs by diverting the attention of our management and employees from the day-to-day management of the business, which may result in increased administrative costs and expenses.

The Domestication may result in adverse U.S. federal income tax consequences for shareholders.

U.S. Holders (as defined in "U.S. Federal Income Tax Considerations" below) of Common Shares may be subject to U.S. federal income tax as a result of the Domestication.

A U.S. Holder who on the day of the Domestication beneficially owns (actually or constructively) Common Shares with a fair market value of \$50,000 USD or more, but less than 10% of the total combined voting power of all classes of Common Shares entitled to vote, generally will recognize gain (but not loss) in respect of the Domestication as if such holder exchanged its Common Shares for Kingsway Delaware Common Shares in a taxable transaction, unless such U.S. Holder elects in accordance with applicable Treasury Regulations to include in income, as a dividend, the "all earnings and profits amount" (as defined in the Treasury Regulations) attributable to the Common Shares held directly by such holder.

A U.S. Holder who on the day of the Domestication beneficially owns (actually or constructively) 10% or more of the total combined voting power of all classes of Common Shares entitled to vote, will generally be required to include in

income, as a dividend, the all earnings and profits amount attributable to the Common Shares held directly by such holder.

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The Corporation has calculated its earnings and profits for the tax years 2008 through 2017. Based on these calculations, the Corporation generated negative earnings and profits in the years 2011, 2013, 2014, 2016 and 2017 and positive earnings and profits in 2008, 2009, 2010, 2012 and 2015. However, there can be no assurance the IRS would agree with our earnings and profits calculations. If the IRS does not agree with our earnings and profits calculations, a shareholder may owe additional U.S. federal income taxes as a result of the Domestication.

The Corporation intends to provide on its website (kingsway-financial.com) information regarding the Corporation's earnings and profits for the years 2008 through 2017, which will be updated to include 2018 (through the date of the Domestication) once the information is available. Currently, the Corporation does not anticipate that it will generate a positive earnings and profits in 2018 through the date of the Domestication. However, there can be no assurance that once all of the Corporation's activities through the date of the Domestication are considered, the Corporation's 2018 earnings and profits will remain negative.

Additionally, proposed Treasury Regulations with a retroactive effective date have been promulgated under Section 1291(f) of the Code which generally require that, a U.S. person who disposes of stock of a passive foreign investment company (PFIC) must recognize gain equal to the excess of the fair market value of such PFIC stock over its adjusted tax basis, notwithstanding any other provision of the Code. The Corporation believes that it was not a PFIC before 2018 and it does not anticipate that it will be a PFIC in 2018, but there can be no assurance that the Corporation will not become a PFIC in 2019. Accordingly, the Domestication will likely not be a taxable event for any U.S. Holder under the PFIC rules if the Domestication occurs during 2018. The determination of whether a foreign corporation is a PFIC is primarily factual and there is little administrative or judicial authority on which to rely to make a determination. Therefore, the IRS might not agree that the Corporation is not and has never been a PFIC. If the Corporation is considered a PFIC for U.S. federal income tax purposes, the proposed Treasury Regulations, if finalized in their current form, would generally require U.S. Holders of Common Shares to recognize gain on the deemed exchange of Common Shares for Kingsway Delaware Common Shares pursuant to the Domestication unless such U.S. Holder has made certain tax elections with respect to such holder's Common Shares. The tax on any such gain would be imposed at the rate applicable to ordinary income and an interest charge would apply based on complex rules designed to offset the tax deferral to such holders on the undistributed earnings, if any, of the Corporation. It is not possible to determine at this time whether, in what form, and with what effective date, final Treasury Regulations under Section 1291(f) will be adopted.

Additionally, non-U.S. Holders (as defined in U.S. Federal Income Tax Considerations below) of the Corporation's Common Shares may become subject to withholding tax on any dividends paid on our stock subsequent to the Domestication.

All holders are strongly urged to consult a tax advisor for the tax consequences of the Domestication to their particular situation. For a more detailed description of the U.S. federal income tax consequences associated with the Domestication, see U.S. Federal Income Tax Considerations beginning on page 33 of this Circular.

FINANCIAL RISK

We have substantial outstanding recourse debt, which could adversely affect our ability to obtain financing in the future, react to changes in our business and satisfy our obligations.

As of September 30, 2018, we had \$90.5 million principal value of outstanding recourse subordinated debt, in the form of trust preferred debt instruments, with redemption dates beginning in December, 2032. Because of our substantial outstanding recourse debt:

our ability to engage in acquisitions without raising additional equity or obtaining additional debt financing could be limited;

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our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes and our ability to satisfy our obligations with respect to our debt may be impaired in the future;

a large portion of our cash flow must be dedicated to the payment of interest on our debt, thereby reducing the funds available to us for other purposes;

we are exposed to the risk of increased interest rates because our outstanding subordinated debt, representing \$90.5 million of principal value, bears interest directly related to the London interbank offered interest rate for three-month U.S. dollar deposits (LIBOR);

it may be more difficult for us to satisfy our obligations to our creditors, resulting in possible defaults on, and acceleration of, such debt;

we may be more vulnerable to general adverse economic and industry conditions;

we may be at a competitive disadvantage compared to our competitors with proportionately less debt or with comparable debt on more favorable terms and, as a result, they may be better positioned to withstand economic downturns;

our ability to refinance debt may be limited or the associated costs may increase;

our flexibility to adjust to changing market conditions and ability to withstand competitive pressures could be limited; and

we may be prevented from carrying out capital spending that is, among other things, necessary or important to our growth strategy and efforts to improve the operating results of our businesses.

Increases in interest rates would increase the cost of servicing our subordinated debt and could adversely affect our results of operation.

Our outstanding recourse debt of \$90.5 million principal value bears interest directly related to LIBOR. As a result, increases in LIBOR would increase the cost of servicing our debt and could adversely affect our results of operations. As of September 30, 2018, each one hundred basis point increase in LIBOR would result in an approximately \$0.9 million increase in our annual interest expense.

Our operations are restricted by the terms of our debt indentures, which could limit our ability to plan for or react to market conditions or meet our capital needs.

Our debt indentures contain numerous covenants that may limit our ability, among other things, to make particular types of restricted payments and pay dividends or redeem capital stock. The covenants under our debt agreements

could limit our ability to plan for or react to market conditions or to meet our capital needs. No assurances can be given that we will be able to maintain compliance with these covenants.

If we are not able to comply with the covenants and other requirements contained in the debt indentures, an event of default under the relevant debt instrument could occur. If an event of default does occur, it could trigger a default under our other debt instruments, and the holders of the defaulted debt instrument could declare amounts outstanding with respect to such debt to become immediately due and payable. Upon such an event, our assets and cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments. In addition, such a repayment under an event of default could adversely affect our liquidity and force us to sell assets to repay borrowings.

The Investment Committee of the Board of Directors closely monitors the debt and capital position and, from time to time, recommends capital initiatives based upon the circumstances of the Corporation.

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The Real Property (as defined herein) is leased pursuant to a long-term triple net lease and the failure of the tenant to satisfy its obligations under the lease may adversely affect the condition of the Real Property or the results of the Leased Real Estate segment.

Because the Real Property is leased pursuant to a long-term triple net lease, we depend on the tenant to pay all insurance, taxes, utilities, common area maintenance charges, maintenance and repair expenses and to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with its business, including any environmental liabilities. There can be no assurance that the tenant will have sufficient assets, income and access to financing to enable it to satisfy its payment obligations to us under the lease. The inability or unwillingness of the tenant to meet its rent obligations to CMC Industries, Inc. (CMC) or to satisfy its other obligations, including indemnification obligations, could materially adversely affect the business, financial position or results of operations of our Leased Real Estate segment. Furthermore, the inability or unwillingness of the tenant to satisfy its other obligations under the lease, such as the payment of insurance, taxes and utilities, could materially and adversely affect the condition of the Real Property.

Our triple net lease agreement requires that the tenant maintain comprehensive liability and hazard insurance. However, there are certain types of losses (including losses arising from environmental conditions or of a catastrophic nature, such as earthquakes, hurricanes and floods) that may be uninsurable or not economically insurable. Insurance coverage may not be sufficient to pay the full current market value or current replacement cost of a loss. Inflation, changes in building codes and ordinances, environmental considerations, and other factors also might make it infeasible to use insurance proceeds to replace the property after such property has been damaged or destroyed. In addition, if we experience a loss that is uninsured or that exceeds policy coverage limits, we could lose the capital invested in the property as well as the anticipated future cash flows from the property.

We may not be able to realize our investment objectives, which could significantly reduce our earnings and liquidity.

We depend on our investments for a substantial portion of our liquidity. Our investments include fixed maturities, at fair value. General economic conditions can adversely affect the markets for interest rate-sensitive instruments, including the extent and timing of investor participation in such markets, the level and volatility of interest rates and, consequently, the fair value of fixed maturities. In addition, changing economic conditions can result in increased defaults by the issuers of investments that we own. Interest rates are highly sensitive to many factors, including monetary policies, domestic and international economic and political conditions and other factors beyond our control. Given the low interest rate environment that exists for fixed maturities, a significant increase in investment yields or an impairment of investments that we own could have a material adverse effect on our business, results of operations and financial condition by reducing the fair value of the investments we own, particularly if we were forced to liquidate investments at a loss. The low interest rate environment for fixed maturities that has existed for years also exposes us to reinvestment risk as these investments mature because the funds may be reinvested at rates lower than those of the maturing investments.

Our investments also include limited liability investments and a limited liability investment, at fair value. These investments are less liquid than fixed maturities. We generally make these investments with long-term time horizons in mind. General economic conditions, stock market conditions and many other factors can adversely affect the fair value of the investments we own. If circumstances necessitated us disposing of our limited liability investments prematurely in order to generate liquidity for operating purposes, we would be exposed to realizing less than their carrying value.

Our ability to achieve our investment objectives is affected by general economic conditions that are beyond our control and our own liquidity needs for operating purposes. We may not be able to realize our investment objectives, which could adversely affect our results of operations, financial condition and available cash resources.

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A difficult economy generally may materially adversely affect our business, results of operations and financial condition.

An adverse change in market conditions leading to instability in the global credit markets presents additional risks and uncertainties for our business. Depending on market conditions going forward, we could incur substantial realized and unrealized losses in future periods, which could have an adverse impact on our results of operations and financial condition. Certain trust accounts and letters of credit for the benefit of related companies and third-parties have been established with collateral on deposit under the terms and conditions of the relevant trust and/or letter of credit agreements. The value of collateral could fall below the levels required under these agreements putting the subsidiary or subsidiaries in breach of the agreements.

Market volatility may also make it more difficult to value certain of our investments if trading becomes less frequent. Disruptions, uncertainty and volatility in the global credit markets may also impact our ability to obtain financing for future acquisitions. If financing is available, it may only be available at an unattractive cost of capital, which would decrease our profitability. There can be no assurance that market conditions will not deteriorate in the near future.

Financial disruption or a prolonged economic downturn may materially and adversely affect our business.

Worldwide financial markets have recently experienced periods of extraordinary disruption and volatility, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. Moreover, many companies have experienced reduced liquidity and uncertainty as to their ability to raise capital during such periods of market disruption and volatility. In the event that these conditions recur or result in a prolonged economic downturn, our results of operations, financial position and/or liquidity could be materially and adversely affected. These market conditions may affect the Corporation's ability to access debt and equity capital markets. In addition, as a result of recent financial events, we may face increased regulation. Many of the other risk factors discussed in this Risk Factors section identify risks that result from, or are exacerbated by, financial economic downturn. These include risks related to our investments portfolio, the competitive environment and regulatory developments.

We provided indemnity and hold harmless agreements to a third party, which could materially adversely affect our business, results of operations and financial condition.

We provided indemnity and hold harmless agreements to a third party for certain customs bonds reinsured by Lincoln General Insurance Company (Lincoln General) during a period of the time Lincoln General was a subsidiary of ours. These agreements may require us to compensate the third-party if Lincoln General is unable to fulfill its obligations relating to the customs bonds. Our potential exposure under these agreements is not determinable, and no liability has been recorded in our consolidated financial statements. No assurances can be given, however, that we will not be required to perform under these agreements in a manner that has a material adverse effect on our business, results of operations and financial condition.

We provided certain indemnifications to the buyer of our non-standard automobile businesses, which could materially adversely affect our business, results of operations and financial condition.

On July 16, 2018, we announced we had entered into a definitive agreement to sell our non-standard automobile insurance companies Mendota Insurance Company, Mendakota Insurance Company and Mendakota Casualty Company (collectively Mendota). On October 18, 2018, we completed the previously announced sale of Mendota. The final aggregate purchase price of \$28.6 million was redeployed primarily to acquire equity investments, limited liability investments, limited liability investment, at fair value and other investments, which were owned by Mendota at the time of the closing, and to fund \$5.0 million into an escrow account to be used to satisfy potential indemnity

obligations under the definitive stock purchase agreement. As part of the transaction, we will indemnify the buyer for any loss and loss adjustment expenses with respect to open claims and certain

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specified claims in excess of Mendota's carried unpaid loss and loss adjustment expenses at June 30, 2018. The maximum obligation to the Corporation with respect to the open claims is \$2.5 million. There is no maximum obligation to the Corporation with respect to the specified claims. Our potential exposure under these indemnity obligations is not determinable, and no assurances can be given that we will not be required to perform under these indemnity obligations in a manner that has a material adverse effect on our business, results of operations and financial condition.

We have generated net operating loss carryforwards for U.S. income tax purposes, but our ability to use these net operating losses may be limited by our inability to generate future taxable income.

Our U.S. businesses have generated consolidated net operating loss carryforwards (U.S. NOLs) for U.S. federal income tax purposes in excess of \$800 million as of September 30, 2018. These U.S. NOLs can be available to reduce income taxes that might otherwise be incurred on future U.S. taxable income. The utilization of these U.S. NOLs would have a positive effect on our cash flow. Our operations, however, remain challenged, and there can be no assurance that we will generate the taxable income in the future necessary to utilize these U.S. NOLs and realize the positive cash flow benefit. Also, our U.S. NOLs have expiration dates. There can be no assurance that, if and when we generate taxable income in the future from operations or the sale of assets or businesses, we will generate such taxable income before our U.S. NOLs expire.

We have generated U.S. NOLs, but our ability to preserve and use these U.S. NOLs may be limited or impaired by future ownership changes.

Our ability to utilize the U.S. NOLs after an ownership change is subject to the rules of Section 382 of the U.S. Internal Revenue Code of 1986, as amended (Section 382). An ownership change occurs if, among other things, the shareholders (or specified groups of shareholders) who own or have owned, directly or indirectly, five (5%) percent or more of the value of our shares or are otherwise treated as five (5%) percent shareholders under Section 382 and the regulations promulgated thereunder increase their aggregate percentage ownership of the value of our shares by more than 50 percentage points over the lowest percentage of the value of the shares owned by these shareholders over a three-year rolling period. An ownership change could also be triggered by other activities, including the sale of our shares that are owned by our five (5%) shareholders. In the event of an ownership change, Section 382 would impose an annual limitation on the amount of taxable income we may offset with U.S. NOLs. This annual limitation is generally equal to the product of the value of our shares on the date of the ownership change multiplied by the long-term tax-exempt rate in effect on the date of the ownership change. The long-term tax-exempt rate is published monthly by the Internal Revenue Service. Any unused Section 382 annual limitation may be carried over to later years until the applicable expiration date for the respective U.S. NOLs. In the event an ownership change as defined under Section 382 were to occur, our ability to utilize our U.S. NOLs would become substantially limited. The consequence of this limitation would be the potential loss of a significant future cash flow benefit because we would no longer be able to substantially offset future taxable income with U.S. NOLs. There can be no assurance that such ownership change will not occur in the future.

Expiration of our tax benefit preservation plan may increase the probability that we will experience an ownership change as defined under Section 382.

In order to reduce the likelihood that we would experience an ownership change without the approval of our Board of Directors, our shareholders ratified and approved the tax benefit preservation plan agreement (the Plan), dated as of September 28, 2010, between the Corporation and Computershare Investor Services Inc., as rights agent, for the sole purpose of protecting the U.S. NOLs. The Plan expired on September 28, 2013. There can be no assurance that our Board of Directors will recommend to our shareholders that a similar tax benefit preservation plan be approved to

replace the expired Plan; furthermore, there can be no assurance that our shareholders would approve any new tax benefit preservation plan were our Board of Directors to present one for shareholder approval. The expiration of the Plan, without a new tax benefit preservation plan, exposes us to

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certain changes in share ownership that we would not be able to prevent as we would have been able to prevent under the Plan. Such changes in share ownership could trigger an ownership change as defined under Section 382 resulting in restrictions on the use of NOLs in future periods, as discussed above.

We will only be able to utilize our U.S. NOLs against the future taxable income generated by companies we acquire if we are able to include the acquired companies in our U.S. consolidated tax return group.

We have in the past acquired companies and expect to do so in the future. Our ability to include acquired companies in our U.S. consolidated tax return group is subject to the rules of Section 1504 of the U.S. Internal Revenue Code of 1986, as amended. If it were ever determined that an acquired company did not qualify to be included in our U.S. consolidated tax return group, such acquired company would be required to file a U.S. tax return separate and apart from our U.S. consolidated tax return group. In that instance, the acquired company would be required to pay U.S. income tax on its taxable income despite the existence of our U.S. NOLs, which would be a use of cash at the acquired company; furthermore, were the income tax obligation of the acquired company in such instance to be greater than its available cash, we could be obligated to contribute cash to our subsidiary to meet its income tax obligation. There can be no assurance that an acquired company will generate taxable income and, if an acquired company does generate taxable income, there can be no assurance that the acquired company will be allowed to be included in our U.S. consolidated tax return group.

Our being registered as a Canadian domestic company subjects us to being taxed in Canada on foreign accrual property income that cannot be offset by our U.S. NOLs.

Canadian domestic companies are subject to taxation on certain non-Canadian sourced income called foreign accrual property income (FAPI). FAPI is traditionally comprised of passive income (i.e. interest, dividends, rents, capital gains and income generated from triple net leases). As a result, our investment portfolio, triple net lease and merchant banking activities are generally deemed to be sources of FAPI. Active trades or businesses are generally not considered sources of FAPI; however, pursuant to current Canadian tax law, our U.S. property-casualty insurance companies may be considered sources of FAPI. Our FAPI is subject to taxation in Canada regardless of whether we separately utilize our U.S. NOLs to offset that same income for U.S. income tax purposes. As a result, we could be required to pay Canadian income tax on FAPI despite the existence of our U.S. NOLs. We are currently in a position to offset some amount of FAPI using available Canadian NOLs and foreign accrual property losses (FAPLs) that have been generated based upon our prior year loss activity. In the event that we do not have sufficient Canadian NOLs and FAPLs to offset future FAPI, however, we would be required to pay Canadian income tax, which would have a negative effect on our cash flow. There can be no assurance that our available Canadian NOLs and FAPLs will offset our future FAPI. In order for us to avoid paying Canadian income tax on future FAPI, we would have to redomesticate to a non-Canadian jurisdiction.

COMPLIANCE RISK

If we fail to comply with applicable insurance and securities laws or regulatory requirements, our business, results of operations and financial condition could be adversely affected.

As a publicly traded holding company currently listed on the Toronto and New York Stock Exchange, we are subject to numerous laws and regulations. These laws and regulations delegate regulatory, supervisory and administrative powers to federal, provincial or state regulators.

In light of financial performance and a number of material transactions executed over the years, the Corporation has been asked to respond to questions from and provide information to regulatory bodies overseeing insurance and/or

securities laws in Canada and the United States. The Corporation has cooperated in all respects with these reviews and has responded to information requests on a timely basis.

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Any failure to comply with applicable laws or regulations could result in the imposition of fines or significant restrictions on our ability to do business, which could adversely affect our results of operations or financial condition. In addition, any changes in laws or regulations could materially adversely affect our business, results of operations and financial condition. It is not possible to predict the future impact of changing federal, state and provincial regulation on our operations, and there can be no assurance that laws and regulations enacted in the future will not be more restrictive than existing laws and regulations.

Our business is subject to risks related to litigation and regulatory actions.

In connection with our operations in the ordinary course of business, we are named as defendants in various actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the loss, or range of loss, if any, that would be incurred in connection with any of the various proceedings at this time, it is possible an individual action would result in a loss having a material adverse effect on our business, results of operations or financial condition.

Material weaknesses in our internal control over financial reporting could result in material misstatements in our consolidated financial statements.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm has in the past reported on its evaluation of our internal control over financial reporting. As disclosed in Item 9A of our 2016 Annual Report, we previously identified a material weakness as of December 31, 2016 in our internal control over financial reporting related to income tax accounting for non-routine transactions.

Although we successfully remediated this material weakness during 2017, we can provide no assurance that additional material weaknesses in our internal control over financial reporting will not be identified in the future and that such material weaknesses, if identified, will not result in material misstatements in our consolidated financial statements.

STRATEGIC RISK

The achievement of our strategic objectives is highly dependent on effective change management.

We have restructured our operating insurance subsidiaries, including exiting states and lines of business, placing subsidiaries into voluntary run-off, terminating managing general agent relationships, hiring a new management team and ultimately selling Mendota on October 18, 2018, with the objective of focusing on our Extended Warranty segment, creating a more effective and efficient operating structure and focusing on profitability. These actions resulted in changes to our structure and business processes. While these changes are expected to bring us benefits in the form of a more agile and focused business, success is dependent on management effectively realizing the intended benefits. Change management may result in disruptions to the operations of the business or may cause employees to act in a manner that is inconsistent with our objectives. Any of these events could negatively impact our performance. We may not always achieve the expected cost savings and other benefits of our initiatives.

We may experience difficulty continuing to reduce our holding company expenses while at the same time retaining staff given the significant reduction in size and scale of our businesses.

We have divested a number of subsidiaries. At the same time, we have been downsizing our holding company expense base in an attempt to compensate for the reduction in scale. There can be no assurance that our remaining businesses will produce enough cash flow to adequately compensate and retain staff and to service our other holding

company obligations, particularly the interest expense burden of our remaining outstanding debt.

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The highly competitive environment in which we operate could have an adverse effect on our business, results of operations and financial condition.

The vehicle service agreement market in which we compete is comprised of a few large companies, which market service agreements to credit unions on a national basis and have significantly more financial, marketing and management resources than we do, as well as several other companies that are somewhat similar in size to IWS that market service agreements to credit unions either on a regional basis or a less robust national basis. The homebuilder warranty market in which we operate is comprised of several competitors. There may also be other companies of which we are not aware that may be planning to enter the vehicle service agreement industry.

Competitors in our market generally compete on coverages offered, claims handling, customer service, financial stability and, to a lesser extent, price. Larger competitors of ours benefit from added advantages such as industry endorsements and preferred vendor status. We do not believe that it is in our best interest to compete solely on price. Instead, we focus our marketing on the total value experience to the credit union and its member, with an emphasis on customer service. While we historically have been able to adjust our product offering to remain competitive when competitors have focused on price, our business could be adversely impacted by the loss of business to competitors offering vehicle service agreements at lower prices.

Engaging in acquisitions involves risks, and, if we are unable to effectively manage these risks, our business may be materially harmed.

From time to time we engage in discussions concerning acquisition opportunities and, as a result of such discussions, may enter into acquisition transactions.

Acquisitions entail numerous risks, including the following:

difficulties in the integration of the acquired business;

assumption of unknown material liabilities, including deficient provisions for unpaid loss and loss adjustment expenses;

diversion of management's attention from other business concerns;

failure to achieve financial or operating objectives; and

potential loss of policyholders or key employees of acquired companies.

We may not be able to integrate or operate successfully any business, operations, personnel, services or products that we may acquire in the future.

Engaging in new business start-ups involves risks, and, if we are unable to effectively manage these risks, our business may be materially harmed.

From time to time we engage in discussions concerning the formation of a new business venture and, as a result of such discussions, may form and capitalize a new business.

New business start-ups entail numerous risks, including the following:

identification of appropriate management to run the new business;

understanding the strategic, competitive and marketplace dynamics of the new business and, perhaps, industry;

establishment of proper financial and operational controls;

diversion of management's attention from other business concerns; and

failure to achieve financial or operating objectives.

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We may not be able to operate successfully any business, operations, personnel, services or products that we may organize as a new business start-up in the future.

Our company has executive officers who also serve as directors and executive officers for 1347 Property Insurance Holdings, Inc., Atlas Financial Holdings, Inc., Limbach Holdings, Inc., Itasca Capital Ltd. and 1347 Energy Holdings LLC, entities in which we hold investments, which may lead to conflicting interests.

As a result of our having previously spun off 1347 Property Insurance Holdings, Inc. (PIH) and Atlas Financial Holdings, Inc. (Atlas); formed 1347 Capital Corp., which later entered into a business combination with Limbach Holdings, Inc. (Limbach); and invested in Itasca Capital Ltd. (ICL) and 1347 Energy Holdings LLC (1347 Energy) entities in which we hold investments, we have executive officers who also serve as directors for PIH, Atlas, Limbach, ICL and 1347 Energy and who serve as executive officers, pursuant to a management services agreement, for ICL. Our executive officers and members of our Corporation's board of directors have fiduciary duties to our stockholders; likewise, persons who serve in similar capacities at PIH, Atlas, Limbach, ICL and 1347 Energy have fiduciary duties to those companies' stockholders. We may find, though, the potential for a conflict of interest if our Corporation and one or more of these other companies pursue acquisitions, investments and other business opportunities that may be suitable for each of us. Our executive officers who find themselves in these multiple roles may, as a result, have conflicts of interest or the appearance of conflicts of interest with respect to matters involving or affecting more than one of the companies to which they owe fiduciary duties. Furthermore, our executive officers who find themselves in these multiple roles own stock options, shares of common stock and other securities in some of these entities. These ownership interests could create, or appear to create, potential conflicts of interest when the applicable individuals are faced with decisions that could have different implications for our Company and these other entities. Our Audit Committee reviews potential conflicts that may arise on a case-by-case basis, keeping in mind the applicable fiduciary duties owed by the executive officers and directors of each entity. From time to time, we may enter into transactions with or participate jointly in investments with PIH, Atlas, Limbach, ICL or 1347 Energy. There can be no assurance that we will not create new situations where our directors or executive officers serve as directors or executive officers in future investment holdings of our Corporation.

OPERATIONAL RISK

Our provisions for unpaid loss and loss adjustment expenses may be inadequate, which would result in a reduction in our net income and might adversely affect our financial condition.

Our provisions for unpaid loss and loss adjustment expenses at Kingsway Amigo Insurance Company (Amigo) do not represent an exact calculation of our actual liability but are estimates involving actuarial and statistical projections at a given point in time of what we expect to be the cost of the ultimate settlement and administration of reported and IBNR claims. The process for establishing the provision for unpaid loss and loss adjustment expenses reflects the uncertainties and significant judgmental factors inherent in estimating future results of both reported and IBNR claims and, as such, the process is inherently complex and imprecise. These estimates are based upon various factors, including:

- actuarial projections of the cost of settlement and administration of claims reflecting facts and circumstances then known;

- estimates of future trends in claims severity and frequency;

legal theories of liability;

variability in claims-handling procedures;

economic factors such as inflation;

judicial and legislative trends, actions such as class action lawsuits, and judicial interpretation of coverages or policy exclusions; and

the level of insurance fraud.

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Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact our ability to accurately assess the risks of the policies that we write. In addition, there may be significant reporting lags between the occurrence of insured events and the time they are actually reported to us and additional lags between the time of reporting and final settlement of claims.

As time passes and more information about the claims becomes known, the estimates are appropriately adjusted upward or downward to reflect this additional information. Because of the elements of uncertainty encompassed in this estimation process, and the extended time it can take to settle many of the more substantial claims, several years of experience may be required before a meaningful comparison can be made between actual losses and the original provision for unpaid loss and loss adjustment expenses.

We cannot assure that we will not have unfavorable development in the future and that such unfavorable development will not have a material adverse effect on our business, results of operations and financial condition.

Our Extended Warranty subsidiaries' deferred service fees may be inadequate, which would result in a reduction in our net income and might adversely affect our financial condition.

Our Extended Warranty subsidiaries' deferred service fees do not represent an exact calculation but are estimates involving actuarial and statistical projections at a given point in time of what we expect to be the remaining future revenue to be recognized in relation to our remaining future obligations to provide policy administration and claim-handling services. The process for establishing deferred service fees reflects the uncertainties and significant judgmental factors inherent in estimating the length of time and the amount of work related to our future service obligations. If we amortize the deferred service fees too quickly, we could overstate current revenues, which may adversely affect future reported operating results.

As time passes and more information about the remaining service obligations becomes known, the estimates are appropriately adjusted upward or downward to reflect this additional information. We cannot assure that we will not have unfavorable re-estimations in the future of our deferred service fees. In addition, we have in the past, and may in the future, acquire companies that record deferred service fees. We cannot assure that the deferred service fees of the companies that we acquire are or will be adequate.

Our reliance on credit unions and automobile sales can impact our ability to maintain business.

We market and distribute our vehicle service agreements through a network of credit unions in the United States. As a result, we rely heavily on these credit unions to attract new business. While these distribution arrangements tend to be exclusive between us and each credit union, we have competitors that offer similar products exclusively through credit unions. Loss of all or a substantial portion of our existing credit union relationships; a significant decline in membership in our existing credit union relationships; or a significant decline in new and used automobile sales could have a material adverse effect on our business, results of operations and financial condition.

Our reliance on homebuilders and new home sales can impact our ability to maintain business.

We market and distribute our core home warranty products through home builders throughout the United States. As a result, we rely heavily on these home builders to generate new business. Loss of all or a substantial portion of our existing home builder relationships or a significant decline in new home sales could have a material adverse effect on our business, results of operations and financial condition.

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Our reliance on a limited number of warranty and maintenance support clients and customers can impact our ability to maintain business.

We market and distribute our warranty products and equipment breakdown and maintenance support services through a limited number of customers and clients across the United States. Loss of all or a substantial portion of our existing customers and clients could have a material adverse effect on our business, results of operations and financial condition.

Disruptions or security failures in our information technology systems could create liability for us and/or limit our ability to effectively monitor, operate and control our operations and adversely impact our reputation, business, financial condition, results of operation and cash flows.

Our information technology systems facilitate our ability to monitor, operate and control our operations. Changes or modifications to our information technology systems could cause disruption to our operations or cause challenges with respect to our compliance with laws, regulations or other applicable standards. For example, delays, higher than expected costs or unsuccessful implementation of new information technology systems could adversely impact our operations. In addition, any disruption in or failure of our information technology systems to operate as expected could, depending on the magnitude of the problem, adversely impact our business, financial condition, results of operation and cash flows, including by limiting our capacity to monitor, operate and control our operations effectively. Failures of our information technology systems could also lead to violations of privacy laws, regulations, trade guidelines or practices related to our customers and employees. If our disaster recovery plans do not work as anticipated, or if the third-party vendors to which we have outsourced certain information technology or other services fail to fulfill their obligations to us, our operations may be adversely impacted. Any of these circumstances could adversely impact our reputation, business, financial condition, results of operation and cash flows.

Our success depends on our ability to price accurately the risks we underwrite.

Our results of operation and financial condition depend on our ability to price accurately for a wide variety of risks. Adequate rates are necessary to generate revenues sufficient to pay expenses and to earn a profit. To price our products accurately, we must collect and properly analyze a substantial amount of data; develop, test and apply appropriate pricing techniques; closely monitor and timely recognize changes in trends; and project both severity and frequency of losses with reasonable accuracy. Our ability to undertake these efforts successfully, and as a result price our products accurately, is subject to a number of risks and uncertainties, some of which are outside our control, including:

the availability of reliable data and our ability to properly analyze available data;

the uncertainties that inherently characterize estimates and assumptions;

our selection and application of appropriate pricing techniques; and

changes in applicable legal liability standards and in the civil litigation system generally.

Consequently, we could underprice risks, which would adversely affect our results, or we could overprice risks, which would reduce our sales volume and competitiveness. In either case, our results of operation could be materially and adversely affected.

Our results of operation and financial condition could be adversely affected by the results of our voluntary run-off of our insurance subsidiary.

The Corporation currently has Amigo operating in voluntary run-off. Our success at managing this run-off is highly dependent upon proper claim-handling and the availability of the necessary liquidity to pay claims when due. As a result, we are dependent in part on our ability to retain the services of appropriately trained and

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supervised claim-handling personnel. The loss of the services of any of our key claim-handling personnel working in our run-offs, or the inability to identify, hire and retain other highly qualified claim-handling personnel in the future, could adversely affect our results of operations. We are also dependent on the continuing availability of the necessary liquidity, from the sale of investments, collection of reinsurance recoverables and, potentially, capital contributions, to properly settle claims. Our inability to sell investments when needed or to collect outstanding reinsurance recoverables when due could have an adverse effect on our results of operation or financial condition.

HUMAN RESOURCES RISK

Our business depends upon key employees, and if we are unable to retain the services of these key employees or to attract and retain additional qualified personnel, our business may be adversely affected.

Our success at improving our performance will be dependent in part on our ability to retain the services of our existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key employees, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect our results of operations.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

The statements contained in this Circular include certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements contained in this Circular that are not historical facts are considered forward-looking statements for the purpose of the safe harbor provided by Section 21E of the Securities and Exchange Act of 1934, as amended (the Exchange Act), and Section 27A of the Securities Act of 1933, as amended (the Securities Act).

Forward-looking statements relate to future events or future performance and reflect our management's current beliefs, based on information currently available. The words anticipate, expect, believe, may, should, estimate, outlook, forecast and variations or similar words and expressions are used to identify such forward looking information, but these words are not the exclusive means of identifying forward-looking statements. Specifically, the Corporation may make forward-looking statements about, among other things:

its results of operations and financial condition (including, among other things, net and operating income, investment income and performance, return on equity, and expected current returns and combined ratios);

changes in facts and circumstances affecting assumptions used in determining the provision for unpaid loss and loss adjustment expenses;

changes in industry trends and significant industry developments;

the impact of certain guarantees and indemnifications made by the Corporation;

the ability to complete current or future acquisitions successfully;

the ability to successfully implement our restructuring activities; and

strategic initiatives.

Many factors could cause our actual results, performance or achievements to be materially different from any results, performance or achievements that may be expressed or implied by such forward-looking statements, including those which are discussed under the heading *Risk Factors* in this Circular. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described in this Circular as intended, planned, anticipated, believed, estimated or expected. We do not intend, and do not assume, any obligation to update these forward-looking statements.

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THE MEETING

Solicitation of Proxies

This Circular is to be used at the Meeting to be held on December 14, 2018 at 1:00 pm (Toronto time) at the offices of Norton Rose Fulbright Canada LLP, Suite 3800, Royal Bank Plaza, South Tower, Toronto, Ontario, M5J 2Z4, or any adjournment or postponement thereof, for the purposes set out in the accompanying notice of meeting (the Notice of Meeting). The form of proxy and this Circular are being sent to shareholders on or about November 23, 2018.

The solicitations will be made primarily by mail, but proxies may also be solicited personally or by telephone by directors, officers and regular employees of the Corporation, none of whom will receive additional compensation for assisting with the solicitation, and the estimated cost of which will be nominal. Banks, brokers, custodians, nominees and fiduciaries will be requested to forward the proxy soliciting materials to beneficial owners, and the Corporation will reimburse such persons for such reasonable out-of-pocket expenses incurred by them. The expenses of soliciting proxies, including the cost of preparing, assembling and mailing this Circular and proxy material to shareholders, will be borne by the Corporation.

The Record Date for the determination of shareholders entitled to receive notice of the Meeting is November 14, 2018.

No person is authorized to give any information or to make any representations other than those contained in this Circular and, if given or made, such information or representations should not be relied upon as having been authorized by us. The delivery of this Circular shall not, under any circumstances, create an implication that there has not been any change in the information set forth herein. Except as otherwise stated, the information contained in this Circular is given as of November 23, 2018.

Appointment and Revocation of Proxies

Terence M. Kavanagh, Chairman of the Board, or failing him, John T. Fitzgerald, President and Chief Executive Officer of the Corporation shall serve as the proxy for the shareholders at the Meeting.

Shareholders have the right to appoint a person or company other than those named in the form of proxy accompanying this Circular (and in neither case required to be a shareholder) to represent them at the Meeting. To exercise this right, the shareholder may insert the name of the desired person in the blank space provided in the form of proxy accompanying this Circular or may submit another form of proxy.

Proxies must be deposited with our transfer agent, Computershare, at its address Computershare Investor Services Inc., Proxy Department, 100 University Avenue, 8th Floor, Toronto, Ontario, M5J 2Y1, no later than 48 hours prior to the commencement of the Meeting (excluding Saturdays, Sundays and holidays) in order for the proxies to be used at the Meeting. If you do not deposit your proxy with the transfer agent at least 48 hours prior to the commencement of the Meeting, your proxy will not be used.

Common Shares represented by properly executed proxies will be voted on any ballot that may be called for, unless the shareholder has directed otherwise, in favour of the special resolution authorizing the Domestication.

Each form of proxy confers discretionary authority with respect to amendments or variations to matters identified in the Notice of Meeting to which the proxy relates and other matters which may properly come before the Meeting. Management knows of no matters to come before the Meeting other than the consideration of the Domestication.

However, if matters which are not known to management should properly come before the Meeting, the proxies will be voted on such matters in accordance with the best judgment of the person or persons voting the proxies.

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A shareholder who has given a proxy has the power to revoke it prior to the commencement of the meeting by: (i) sending a written notice that is executed by the shareholder or their attorney as authorized in writing or, if the shareholder is a corporation, signed under its corporate seal or by a duly authorized officer or attorney of the corporation, that is received by the deadline specified stating that you revoke your proxy to the Corporation's registered office; (ii) completing new form of proxy bearing a later date if the shareholder had sent a proxy via mail, and properly submitting it so that it is received before the deadline; (iii) logging onto the Internet website specified on the form of proxy in the same manner or calling the toll-free number specified on the form of proxy prior to the Meeting, and following the instructions on the form of proxy; or (iv) appearing in person at the Meeting, declaring his, her or its prior proxy to be revoked and then voting in person at the Meeting. Any revocation of a proxy must be delivered either to the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting or any adjournment or postponement of the Meeting, or to the Chairman of the Board on the day of the Meeting or any adjournment or postponement of the Meeting, prior to the time of the Meeting.

Abstentions and broker non-votes will have no effect with respect to the matters to be acted upon at the Meeting.

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PROPOSAL NO. 1 THE DOMESTICATION

General

The Board is proposing to change our jurisdiction of incorporation from the province of Ontario to the State of Delaware pursuant to a continuance effected in accordance with Section 181 of the OBCA, also referred to as a domestication under Section 388 of the DGCL. We will become subject to the DGCL on the date of the Domestication, but will be deemed for the purposes of the DGCL to have commenced its existence in Delaware on the date we originally commenced its existence in Ontario. Under the DGCL, a corporation becomes domesticated in Delaware by filing a certificate of corporate domestication and a certificate of incorporation for the corporation being domesticated. The Board has unanimously approved our Domestication and the related certificate of incorporation of Kingsway Delaware, believes it to be in our best interests and in the best interests of its shareholders, and unanimously recommends approval of the domestication and the approval of the certificate of incorporation of Kingsway Delaware to our shareholders.

The Domestication will be effective on the date set forth in the certificate of corporate domestication and the certificate of incorporation, as filed with the office of the Secretary of State of the State of Delaware. Thereafter, we will be subject to the certificate of incorporation filed in Delaware, a copy of which is attached to this Circular as Exhibit C.

The Domestication will not interrupt our corporate existence or operations, or the trading market of the Common Shares. Each outstanding Common Share, Preferred Share or Series B Warrant at the time of the Domestication will remain issued and outstanding as a Common Share, Preferred Share or Series B Warrant, as applicable, after our corporate existence is continued from Ontario under the OBCA and domesticated in Delaware under the DGCL.

Principal Reasons for the Domestication

The Corporation believes that our Domestication will enable us to eliminate a number of potentially material income tax inefficiencies we believe we would inevitably encounter, particularly once we close our previously announced sale of our property-casualty insurance companies including the related distribution to Kingsway America Inc., a subsidiary of Kingsway Financial Services Inc., of the passive investments currently owned by our property-casualty insurance companies. We believe our Domestication will also reduce operating expenses and transactional inefficiencies that currently result from being subject to Canadian corporate laws despite having no operations in Canada. The Corporation chose the State of Delaware to be our domicile because the more favourable corporate environment afforded by Delaware will help us compete effectively in raising the capital necessary for us to continue to implement our strategic plan, particularly our announced focus on growing our extended warranty segment with accretive acquisitions. For many years, Delaware has followed a policy of encouraging public companies to incorporate in the state by adopting comprehensive corporate laws that are revised regularly in response to developments in modern corporate law and changes in business circumstances. The Delaware courts are known for their considerable expertise in dealing with complex corporate issues and providing predictability through a substantial body of case law construing Delaware's corporate law. Coupled with an active bar known for continually assessing and recommending improvements to the DGCL, these factors add greater certainty in complying with fiduciary responsibilities and assessing risks associated with conducting business.

Currently, our being registered as a Canadian domestic company subjects us to being taxed in Canada on certain non-Canadian sourced income called foreign accrual property income (FAPI) that cannot be offset by our U.S. net operating losses (NOLs). FAPI is traditionally comprised of passive income (i.e. interest, dividends, rents, capital gains and income generated from triple net leases). As a result, our non-operating company investment portfolio and

triple net lease activities are generally deemed to be sources of FAPI even though such income is not earned directly by the Corporation. Active trades or businesses are generally not considered sources of FAPI. Our FAPI is subject to taxation in Canada regardless of whether we separately utilize our

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U.S. NOLs to offset that same income for U.S. income tax purposes. As a result, we could be required to pay Canadian income tax on FAPI despite the existence of our U.S. NOLs. We are currently in a position to offset some amount of FAPI using available Canadian NOLs and foreign accrual property losses (FAPLs) that have been generated based upon our prior year loss activity. In the event that we do not have sufficient Canadian NOLs and FAPLs to offset future FAPI, however, we would be required to pay Canadian income tax, which would have a negative effect on our cash flow, despite the existence of our U.S. NOLs. There can be no assurance that our available Canadian NOLs and FAPLs will offset our future FAPI. Following the Domestication, we will cease to be subject to the FAPI rules because we will no longer be a Canadian domestic company.

Currently, as a non-U.S. corporation, we would become subject to the passive foreign investment company (PFIC) provisions of the Code if we were to become a PFIC. PFIC status is a factual determination made for each taxable year on the basis of a company s composition of its active versus passive income and its active versus passive a for such year. If we were to become classified as a PFIC, which is possible in the future, U.S. investors in our shares may incur a significantly increased U.S. income tax liability on gains recognized on the sale or other disposition of our shares and on the receipt of distributions on our shares. Following the Domestication, we will cease to be subject to the PFIC rules because we will no longer be a non-U.S. corporation.

For the reasons set forth above, our Board believes that the estimated benefits of Domestication outweigh any potential detriments, which we do not consider to be material, resulting from the Domestication.

Effects of Change of Jurisdiction

The Domestication will not interrupt our corporate existence or operations. Each outstanding Common Share, Preferred Share or Series B Warrant at the time of the Domestication will remain issued and outstanding as a Common Share, Preferred Share or Series B warrant, as applicable, after our corporate existence is continued from Ontario under the OBCA and domesticated in Delaware under the DGCL.

While the rights and privileges of shareholders of a Delaware corporation are, in many instances, comparable to those of shareholders of an OBCA corporation, there are certain differences. Attached as Exhibit F to this Circular is a summary of the most significant differences in shareholder rights. This summary is not intended to be complete and is qualified in its entirety by reference to the DGCL, the OBCA and the governing corporate instruments of the Corporation. Shareholders should consult their legal advisors regarding all of the implications of the transactions contemplated in the Resolution.

Shareholders should consult their own tax advisors for advice with respect to the tax consequences to them of the Domestication in their particular circumstances, including the application and effect of the income and other tax laws of any country, province, state or local tax authority.

Regulatory Approvals; Canadian and US Securities Laws and Stock Exchange Implications

Concurrently with the Domestication, the Corporation anticipates seeking to voluntarily delist its Common Shares and Series B Warrants from the TSX. After the Domestication, the Corporation will continue to be a reporting issuer in all provinces and territories of Canada and will remain subject to the securities laws applicable in such jurisdictions. Accordingly, the Corporation will remain subject to the securities laws applicable in such jurisdictions, including continuous disclosure requirements and requirements and timelines with respect to communications with beneficial owners of common stock.

The Domestication will not otherwise interrupt our corporate existence, our operations or the trading market of our Common Shares. Each outstanding Common Share, Preferred Share or Series B Warrant at the time of the Domestication will remain issued and outstanding as a Common Share, Preferred Share or Series B Warrant, as applicable, after our corporate existence is continued from Ontario under the OBCA and domesticated in Delaware under the DGCL. Following the completion of the Domestication, our Common Shares will continue to

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be listed on the NYSE, under the symbol KFS. The Corporation will continue to be subject to the rules and regulations of the NYSE and the obligations imposed by each securities regulatory authority in the United States, including the SEC. The Corporation will continue to file periodic reports with the SEC pursuant to the Exchange Act.

Executive Officers and Directors

Our Board of Directors currently consists of six members, John T. Fitzgerald, Gregory P. Hannon, Terence M. Kavanagh, Doug Levine, Joseph D. Stilwell, and Larry G. Swets, Jr. The Board of Directors will consist of the same six individuals after the Domestication. Immediately following the Domestication, our officers will also be unchanged. Our Executive Officers are John T. Fitzgerald (President and Chief Executive Officer), William A. Hickey, Jr. (Executive Vice President and Chief Financial Officer), and Hassan R. Baqar (Vice President).

Treatment of the Outstanding Capital Stock, Options and Warrants

We will only issue new certificates to you representing shares of capital stock of the Corporation upon a transfer of either your Common Shares or Preferred Shares or at your request. Holders of our outstanding options and warrants will continue to hold the same securities, which will remain exercisable for an equivalent number of shares of the same class of Common Shares, for the equivalent exercise price per share, without any action by the holder.

No Change in Business, Locations, Fiscal Year or Employee Plans

The Domestication will effect a change in our jurisdiction of incorporation and the location of our registered office, and other changes of a legal nature, including changes in our organizational documents, which are described in this Circular. Following the Domestication, the executive offices of the Corporation will not move. They will remain in their current location, which is in Itasca, Illinois. The business, assets and liabilities of the Corporation, as well as our fiscal year, will be the same upon the effectiveness of the Domestication as they are prior to the Domestication. Upon effectiveness of the Domestication, all of our obligations will continue as outstanding and enforceable obligations of the Corporation. The Corporation's employee benefit plans and agreements will be continued by the Corporation.

Shareholder Approval

The Domestication is subject to approval of the special resolution authorizing the Corporation to apply to the Director appointed under the OBCA for a continuance in the State of Delaware, and to file with the Secretary of State of the State of Delaware the certificate of corporate domestication and a certificate of incorporation pursuant to, and in accordance with, the DGCL by holders of the Common Shares.

The Board may, in its sole discretion, decide not to act on this Resolution even if the Resolution is passed by shareholders. The Board's determination in this regard may specifically include considering whether shareholders exercise dissent rights, and, if so, the number of shareholders that exercise such dissent rights, and the corresponding costs to the Corporation of effecting the Domestication with respect to the exercise of such dissent rights.

Under the OBCA, the change of jurisdiction requires affirmative votes, whether in person or by proxy, from at least two-thirds of the votes cast by the holders of our Common Shares at the Meeting.

Dissent Rights of Shareholders

Registered Shareholders (as defined below) have the right to dissent in respect of the Resolution pursuant to Section 185 of the OBCA. This summary is expressly subject to Section 185 of the OBCA, the text of which is

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reproduced in its entirety in Exhibit E hereto. The Corporation is not required to notify, and will not notify, shareholders of the time periods within which action must be taken in order for a shareholder to perfect its dissent rights. It is recommended that any shareholder wishing to avail itself of its dissent rights seek legal advice, as failure to comply strictly with the provisions of Section 185 of the OBCA may prejudice any such rights. A Registered Shareholder is a shareholder whose shares are registered in his or her name on the Corporation's shareholder register. If a Shareholder holds his or her Common Shares through an investment dealer, broker or market intermediary, such Shareholder will not be a Registered Shareholder as such Common Shares will be registered in the name of such investment dealer, broker or market intermediary. Any shareholder who wishes to invoke his or her dissent rights should register his or her shares in his or her name or arrange for the Registered Shareholder to dissent. Any shareholder who wishes to invoke his or her dissent rights is urged to consult with his or her legal or investment advisor to determine whether they are Registered Shareholders and to be advised of the strict provisions of Section 185 of the OBCA. Any shareholder who wishes to register his or her shares in his or her own name is urged to consult with his or her legal or investment advisor or the registrar and transfer agent of the Corporation at the following address:

Computershare Investor Services

100 University Avenue, 8th Floor

Toronto, Ontario

M5J 2Y1

In the event that the Resolution is adopted and becomes effective, any holder who dissents in respect of the Resolution in compliance with Section 185 of the OBCA (a Dissenting Shareholder) will be entitled to be paid by the Corporation a sum representing the fair value of his or her Common Shares. No right of dissent or appraisal is available to a shareholder with respect to any other matter to be considered at the Meeting other than the Domestication.

A Dissenting Shareholder must send to the Corporation, at or before the Meeting, a written objection to the Resolution (a dissent notice). The execution or exercise of a proxy vote against the resolution does not constitute a written objection for the purposes of subsection 185 (6) of the OBCA. The OBCA does not provide for partial dissent and, accordingly, a shareholder may only dissent with respect to all of the Common Shares held by him or on behalf of any one beneficial owner whose shares are registered in his or her name. An application by the Corporation, or by a shareholder if he has sent a dissent notice as described above, may be made to the Ontario Superior Court of Justice (the Ontario Court) by originating notice, after the adoption of the Resolution to fix the fair value of the shares held by the Dissenting Shareholder. The fair value is to be determined as of the close of business on the last business day before the date on which the Resolution was adopted. If an application is made to the Ontario Court, the Corporation shall, unless the Ontario Court otherwise orders, send to each Dissenting Shareholder, at least 10 days before the date on which the application is returnable if the Corporation is the applicant or within 10 days after the Corporation is served with a copy of the originating notice if the Dissenting Shareholder is the applicant, a written offer to pay an amount considered by the Board of the Corporation to be the fair value of the Corporation Common Shares. Every such offer is to be made on the same terms and is to contain or be accompanied by a statement showing how the fair value was determined.

Upon the occurrence of the earliest of: (a) the effective date of the matter which is the subject of the Resolution, (b) the making of an agreement between the Corporation and the Dissenting Shareholder as to the payment to be made by the Corporation for the dissenting Common Shares, or (c) a pronouncement of the Ontario Court fixing the fair value of the Common Shares, a Dissenting Shareholder ceases to have any rights as a shareholder of the Corporation

other than the right to be paid the fair value of his or her shares in the amount agreed to between the Corporation and the Dissenting Shareholder or in the amount fixed by the Ontario Court, as the case may be. Until one of these events occurs, the Dissenting Shareholder may withdraw his or her dissent notice or the Corporation may rescind the Resolution and, in either event, the dissent and appraisal proceedings in respect of such Dissenting Shareholder will be discontinued.

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Dissenting Shareholders will not have any right other than those granted under the OBCA to have their Common Shares appraised or to receive the fair value thereof, other than in connection with the Domestication.

THIS IS ONLY A SUMMARY OF THE DISSENTING SHAREHOLDER PROVISIONS OF THE OBCA. THEY ARE TECHNICAL AND COMPLEX. IT IS SUGGESTED THAT IF YOU WANT TO AVAIL YOURSELF OF YOUR RIGHTS THAT YOU SEEK YOUR OWN LEGAL ADVICE. FAILURE TO COMPLY STRICTLY WITH THE PROVISIONS OF THE OBCA MAY PREJUDICE YOUR RIGHT OF DISSENT. SECTION 185 OF THE OBCA IS ATTACHED HEREIN AS EXHIBIT E AND IS INCORPORATED HEREIN BY REFERENCE.

Accounting Treatment of the Domestication

Our Domestication as a Delaware corporation represents a transaction between entities under common control. Assets and liabilities transferred between entities under common control are accounted for at carrying value. Accordingly, the assets and liabilities of the Corporation will be reflected at their carrying value to us. Any of our shares that we acquire from Dissenting Shareholders will be treated as an acquisition of treasury stock at the amount paid for the shares.

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U.S. FEDERAL AND CANADIAN INCOME TAX CONSIDERATIONS

U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary is a discussion of the material U.S. federal income tax considerations of the Domestication generally applicable to holders of Common Shares. This section applies only to holders that hold their Common Shares as capital assets for U.S. federal income tax purposes (generally, property held for investment). It does not apply to holders of options, warrants, or promissory notes.

This section is general in nature and does not discuss all aspects of U.S. federal income taxation that might be relevant to a particular holder in light of such holder's circumstances or status, nor does it address tax considerations applicable to a holder subject to special rules, including:

a dealer in securities;

a trader in securities that elects to use a mark-to-market method of accounting;

a tax-exempt organization;

a life insurance company, real estate investment trust or regulated investment company;

a person that actually or constructively owns 10% or more of the Corporation's voting stock;

a person that holds Common Shares as part of a straddle or a hedging or conversion transaction;

a U.S. Holder whose functional currency is not the U.S. dollar;

a person that received Common Shares as compensation for services;

a U.S. expatriate;

a controlled foreign corporation; or

a passive foreign investment company.

This discussion is based on the Code, proposed, temporary and final Treasury Regulations promulgated under the Code, and judicial and administrative interpretations thereof, all as of the date hereof. All of the foregoing is subject to

change, which change could apply retroactively and could affect the tax considerations described herein. This discussion does not address U.S. federal taxes other than those pertaining to U.S. federal income taxation (such as estate or gift taxes, the alternative minimum tax or the Medicare tax on investment income), nor does it address any aspects of U.S. state or local or non-U.S. taxation.

We have not and do not intend to seek any rulings from the U.S. Internal Revenue Service (the IRS) regarding the Domestication. There can be no assurance that the IRS will not take positions concerning the tax consequences of the Domestication that are inconsistent with the considerations discussed below or that any such positions would not be sustained by a court.

If a partnership (or any entity so characterized for U.S. federal income tax purposes) holds Common Shares, the tax treatment of such partnership and a person treated as a partner of such partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships holding any Common Shares and persons that are treated as partners of such partnerships should consult their tax advisors as to the particular U.S. federal income tax consequences of the Domestication.

THE FOLLOWING IS FOR INFORMATIONAL PURPOSES ONLY. ALL HOLDERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING THE TAX CONSEQUENCES OF THE DOMESTICATION, INCLUDING THE EFFECTS OF U.S. FEDERAL, STATE AND LOCAL AND NON-U.S. TAX LAWS.

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U.S. HOLDERS

For purposes of this discussion, a U.S. Holder means a beneficial owner of Common Shares who or that is, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States,

a corporation (or other entity that is treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the U.S. or any state thereof (including the District of Columbia),

an estate whose income is subject to U.S. federal income tax regardless of its source, or

a trust if (i) a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust; or (ii) the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

Effects of the Domestication on U.S. Holders of Common Shares

The U.S. federal income tax consequences of the Domestication will depend primarily upon whether the Domestication qualifies as a reorganization within the meaning of Section 368 of the Code.

Under Section 368(a)(1)(F) of the Code, a reorganization (an **F Reorganization**) is a mere change in identity, form, or place of organization of one corporation, however effected. Pursuant to the Domestication, the Corporation will change its jurisdiction of incorporation from Ontario, Canada to Delaware.

It is intended that the Domestication qualify as an F Reorganization. Assuming the Domestication so qualifies, U.S. Holders of Common Shares generally should not recognize taxable gain or loss on the Domestication for U.S. federal income tax purposes, except as provided below under the caption headings *Effects of Section 367 to U.S. Holders of the Common Shares* and *PFIC Considerations*, and the Domestication should be treated for U.S. federal income tax purposes as if the Corporation (i) transferred all of its assets and liabilities to Kingsway Delaware in exchange for all of the outstanding stock of Kingsway Delaware; and (ii) then distributed the stock of Kingsway Delaware to the shareholders of the Corporation in liquidation of the Corporation. The taxable year of the Corporation will be deemed to end on the date of the Domestication.

Basis and Holding Period Considerations

Assuming the Domestication qualifies as an F Reorganization: (i) the tax basis of a Kingsway Delaware Common Share received by a U.S. Holder in the Domestication will equal the U.S. Holder's tax basis in a Common Share deemed surrendered in exchange therefor, increased by any amount included in the income of such U.S. Holder as a result of Section 367 of the Code (as discussed below) and (ii) the holding period for a Kingsway Delaware Common Share received by a U.S. Holder will include such holder's holding period for the Common Share deemed surrendered in exchange therefor.

Effects of Section 367 to U.S. Holders of the Common Shares

Section 367 of the Code applies to certain non-recognition transactions involving foreign corporations, including a Domestication of a foreign corporation in an F Reorganization. Section 367 of the Code imposes income tax on certain U.S. persons in connection with transactions that would otherwise be tax-free. Section 367(b) of the Code will generally apply to U.S. Holders of Common Shares on the date of the Domestication.

A. U.S. Shareholders of the Corporation

A U.S. Holder who, on the date of the Domestication, beneficially owns (directly, indirectly or constructively) 10% or more of the total combined voting power of all classes of Common Shares entitled to vote

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(a U.S. Shareholder) must include in income, as a dividend, the all earnings and profits amount attributable to the Common Shares it directly owns, within the meaning of Treasury Regulations under Section 367. Complex attribution rules apply in determining whether a U.S. Holder owns 10% or more of the total combined voting power of all classes of Common Shares entitled to vote. All U.S. Holders are urged to consult their tax advisors with respect to these attribution rules.

A U.S. Shareholder s all earnings and profits amount with respect to its Common Shares is the net positive earnings and profits of the Corporation (as determined under Treasury Regulations under Section 367) attributable to the shares (as determined under Treasury Regulations under Section 367) but without regard to any gain that would be realized on a sale or exchange of such shares. Treasury Regulations under Section 367 provide that the all earnings and profits amount attributable to a U.S. Shareholder s stock is determined according to the principles of Section 1248 of the Code. In general, Section 1248 of the Code and the Treasury Regulations thereunder provide that the amount of earnings and profits attributable to a block of stock in a foreign corporation is the ratably allocated portion of the foreign corporation s earnings and profits generated during the period the U.S. Shareholder held the block of stock.

The Corporation has calculated its earnings and profits for the tax years 2008 through 2017. Based on these calculations, the Corporation generated negative earnings and profits in the years 2011, 2013, 2014, 2016 and 2017 and positive earnings and profits in 2008, 2009, 2010, 2012 and 2015. However, there can be no assurance the IRS would agree with our earnings and profits calculations. If the IRS does not agree with our earnings and profits calculations, a shareholder may owe additional U.S. federal income taxes as a result of the Domestication. The Corporation intends to provide on its website (kingsway-financial.com) information regarding the Corporation s earnings and profits for the years 2008 through 2017, which will be updated to include 2018 (through the date of the Domestication) once the information is available. Currently, the Corporation does not anticipate that it will generate a positive earnings and profits in 2018 through the date of the Domestication. However, there can be no assurance that once all of the Corporation s activities through the date of the Domestication are considered, the Corporation s 2018 earnings and profits will remain negative.

B. U.S. Holders That Own Less Than 10 Percent of the Corporation

A U.S. Holder who, on the date of the Domestication, beneficially owns (directly, indirectly or constructively) Common Shares with a fair market value of \$50,000 USD or more but less than 10% of the total combined voting power of all classes of Common Shares entitled to vote will recognize gain (but not loss) with respect to the Domestication or, in the alternative, may elect to recognize the all earnings and profits amount attributable to such holder as described below.

Unless a U.S. Holder makes the all earnings and profits election as described below, such holder generally must recognize gain (but not loss) with respect to Kingsway Delaware Common Shares received in the Domestication in an amount equal to the excess of the fair market value of the Kingsway Delaware Common Shares received over the U.S. Holder s adjusted tax basis in the Common Shares deemed surrendered in exchange therefor. If a U.S. Holder acquired different blocks of Common Shares at different times or at different prices, any gain will be determined separately with respect to each block of Common Shares.

In lieu of recognizing any gain as described in the preceding paragraph, a U.S. Holder may elect to include in income, as a dividend, the all earnings and profits amount attributable to its Common Shares under Section 367(b). There are, however, strict conditions for making this election. This election must comply with applicable Treasury Regulations and generally must include, among other things:

- (i) a statement that the Domestication is a Section 367(b) exchange;
- (ii) a complete description of the Domestication;
- (iii) a description of any stock, securities, or other consideration transferred or received in the Domestication;

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- (iv) a statement describing the amounts required to be taken into account for U.S. federal income tax purposes;
- (v) a statement that the U.S. Holder is making the election that includes (A) a copy of the information that the U.S. Holder received from the Corporation establishing and substantiating the U.S. Holder's all earnings and profits amount with respect to the U.S. Holder's Common Shares, and (B) a representation that the U.S. Holder has notified the Corporation that the U.S. Holder is making the election; and
- (vi) certain other information required to be furnished with the U.S. Holder's tax return or otherwise furnished pursuant to the Code or the Treasury Regulations.

In addition, the election must be attached by an electing U.S. Holder to such holder's timely filed U.S. federal income tax return for the year of the Domestication, and the U.S. Holder must send notice of making the election to the Corporation no later than the date such tax return is filed. In connection with this election, the Corporation intends to provide on its website (kingsway-financial.com) information regarding the Corporation's earnings and profits. See the discussion above under "U.S. Shareholders of the Corporation" for a more detailed discussion of the earnings and profits information that will be provided.

U.S. HOLDERS ARE STRONGLY URGED TO CONSULT A TAX ADVISOR REGARDING THE CONSEQUENCES OF MAKING AN ELECTION AND THE APPROPRIATE FILING REQUIREMENTS WITH RESPECT TO AN ELECTION.

C. U.S. Holders That Own Common Shares with a Fair Market Value of Less Than \$50,000 USD

A U.S. Holder who, on the date of the Domestication, owns (or is considered to own) Common Shares with a fair market value less than \$50,000 USD should not be required to recognize any gain or loss under Section 367 of the Code in connection with the Domestication, and generally should not be required to include any part of the all earnings and profits amount in income.

All U.S. Holders of Common Shares are urged to consult their tax advisors with respect to the effect of Section 367 of the Code to their particular circumstances.

PFIC Considerations

In addition to the discussion under the heading "Effects of Section 367 to U.S. Holders of the Common Shares," above, the Domestication could be a taxable event to U.S. Holders under the passive foreign investment company ("PFIC") provisions of the Code if the Corporation is or ever was a PFIC.

A. Definition of a PFIC

In general, the Corporation will be a PFIC with respect to a U.S. Holder if, for any taxable year in which such holder held Common Shares, (a) at least 75% or more of the Corporation's gross income for the taxable year was passive income or (b) at least 50% or more of the value, determined on the basis of a quarterly average, of the Corporation's assets is attributable to assets that produce or are held to produce passive income. Passive income generally includes dividends, interest, rents and royalties (other than certain rents and royalties that are derived in the active conduct of a trade or business) and gains from the disposition of passive assets.

B. PFIC Status of the Corporation

The Corporation believes that it was not a PFIC before 2018 and it does not anticipate that it will be a PFIC in 2018, but there can be no assurance that the Corporation will not become a PFIC in 2019. Accordingly, the Domestication will likely not be a taxable event for any U.S. Holder under the PFIC rules if the Domestication

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occurs during 2018. The determination of whether a foreign corporation is a PFIC is primarily factual and there is little administrative or judicial authority on which to rely to make a determination. Therefore, the IRS might not agree that the Corporation is not and has never been a PFIC.

C. Effects of PFIC Rules on the Domestication

Section 1291(f) of the Code requires that, to the extent provided in Treasury Regulations, a U.S. person who disposes of stock of a PFIC recognizes gain notwithstanding any other provision of the Code. No final Treasury Regulations are currently in effect under Section 1291(f). However, proposed Treasury Regulations under Section 1291(f) have been promulgated with a retroactive effective date. If finalized in their current form, those regulations may require taxable gain recognition to U.S. Holders of Common Shares upon the Domestication if the Corporation were classified as a PFIC at any time during such U.S. Holder's holding period in such shares and the U.S. Holder had not made (i) a qualified electing fund election under Section 1295 of the Code for the first taxable year in which the U.S. Holder owned Common Shares or in which the Corporation was a PFIC, whichever is later, or (ii) a mark-to-market election under Section 1296 of the Code with respect to such holder's shares. The tax on any such recognized gain would be imposed at the rate applicable to ordinary income and an interest charge would apply based on a complex set of computational rules designed to offset the tax deferral with respect to the undistributed earnings of the Corporation. Under these rules:

the U.S. Holder's gain would be allocated ratably over the U.S. Holder's holding period for such holder's Common Shares;

the amount of gain allocated to the U.S. Holder's taxable year in which the U.S. Holder recognized the gain, or to the period in the U.S. Holder's holding period before the first day of the first taxable year in which the Corporation was a PFIC, would be taxed as ordinary income;

the amount of gain allocated to other taxable years (or portions thereof) of the U.S. Holder and included in such holder's holding period would be taxed at the highest tax rate in effect for that year applicable to the U.S. Holder; and

the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such other taxable year of the U.S. Holder.

Any all earnings and profits amount included in income by a U.S. Holder as a result of the Domestication (discussed under the heading *Effects of Section 367 to U.S. Holders of the Common Shares* above) generally would be treated as gain subject to these rules.

It is difficult to predict whether, in what form and with what effective date, final Treasury Regulations under Section 1291(f) will be adopted.

NON-U.S. HOLDERS*Effects of the Domestication on non-U.S. Holders of Common Shares*

The following describes the material U.S. federal income tax considerations relating to the ownership and disposition of Common Shares by a non-U.S. Holder after the Domestication. For purposes of this discussion, a non-U.S. Holder means a beneficial owner of Common Shares who or that is, for U.S. federal income tax purposes, not a U.S. Holder (as defined above) or an entity or arrangement classified as a partnership for U.S. federal income tax purposes.

Distributions

In general, any distributions made to a non-U.S. Holder on Common Shares, to the extent paid out of the Corporation's current or accumulated earnings and profits (as determined under U.S. federal income tax

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principles), will constitute dividends for U.S. federal income tax purposes and, provided such dividends are not effectively connected with the non-U.S. Holder's conduct of a trade or business within the United States, will be subject to withholding tax from the gross amount of the dividend at a rate of 30%, unless such non-U.S. Holder is eligible for a reduced rate of withholding tax under an applicable income tax treaty and provides proper certification of its eligibility for such reduced rate (usually on an IRS Form W-8BEN or W-8BEN-E, as applicable). Any distribution not constituting a dividend will be treated first as reducing (but not below zero) the non-U.S. Holder's adjusted tax basis in its stock of the Corporation and then, to the extent such distribution exceeds the non-U.S. Holder's adjusted tax basis, as gain realized from the sale or other disposition of the Common Shares, which will be treated as described under *Non-U.S. Holders' Gain on Sale, Taxable Exchange or Other Taxable Disposition of Common Shares* below.

Dividends paid by the Corporation to a non-U.S. Holder that are effectively connected with such non-U.S. Holder's conduct of a trade or business within the United States (or if a tax treaty applies are attributable to a U.S. permanent establishment or fixed base maintained by the non-U.S. Holder) will generally not be subject to U.S. withholding tax, provided such non-U.S. Holder complies with certain certification and disclosure requirements (usually by providing an IRS Form W-8ECI). Instead, such dividends will generally be subject to U.S. federal income tax, net of certain deductions, at the same graduated individual or corporate rates applicable to U.S. Holders. If the non-U.S. Holder is a corporation, dividends that are effectively connected income may also be subject to a branch profits tax.

Gain on Sale, Taxable Exchange or Other Taxable Disposition of Common Shares

A non-U.S. Holder will generally not be subject to U.S. federal income tax on gain realized on a sale or other disposition of Common Shares unless:

- (i) such non-U.S. Holder is an individual who was present in the United States for 183 days or more in the taxable year of the disposition and certain other requirements are met, in which case any gain realized would generally be subject to a flat 30% U.S. federal income tax,
- (ii) the gain is effectively connected with a trade or business of the non-U.S. Holder in the United States, (and, if an applicable treaty so requires, is attributable to the conduct of trade or business through a permanent establishment or fixed base in the United States), in which case the gain would be subject to U.S. federal income tax on a net income basis at the regular graduated rates and in the manner applicable to U.S. Holders and, if the non-U.S. Holder is a corporation, an additional branch profits tax may also apply, or
- (iii) the Corporation is or has been a U.S. real property holding corporation at any time within the five-year period preceding the disposition or the non-U.S. Holder's holding period, whichever period is shorter, and either (A) the Common Shares have ceased to be regularly traded on an established securities market or (B) the non-U.S. Holder has owned or is deemed to have owned, at any time within the five-year period preceding the disposition or the non-U.S. Holder's holding period, whichever period is shorter, more than 5% of Common Shares.

If the third bullet point above applies to a non-U.S. Holder, gain recognized by such holder on the sale, exchange or other disposition of Common Shares will be subject to tax at generally applicable U.S. federal income tax rates. In addition, a buyer of such stock from a non-U.S. Holder may be required to withhold U.S. income tax at a rate of 15% of the amount realized upon such disposition. The Corporation would be classified as a U.S. real property holding corporation if the fair market value of its United States real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business, as determined for U.S. federal income tax purposes. We do not expect Kingsway to be classified as a U.S. real property holding corporation following the Domestication. However, such determination is factual in nature and

subject to change and no assurance can be provided as to whether Kingsway will be a U.S. real property holding corporation with respect to a non-U.S. holder following the Domestication or at any future time.

Table of Contents***Information Reporting Requirements and Backup Withholding***

Information returns will be filed with the IRS in connection with payments of dividends on and the proceeds from a sale or other disposition of Common Shares. A non-U.S. Holder may have to comply with certification procedures to establish that it is not a U.S. person for U.S. federal income tax purposes or otherwise establish an exemption in order to avoid information reporting and backup withholding requirements or to claim a reduced rate of withholding under an applicable income tax treaty. The amount of any backup withholding from a payment to a non-U.S. Holder will be allowed as a credit against such non-U.S. Holder's U.S. federal income tax liability and may entitle such non-U.S. Holder to a refund, provided that the required information is furnished by such non-U.S. Holder to the IRS in a timely manner.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the Code and the Treasury Regulations and administrative guidance promulgated thereunder (commonly referred as the Foreign Account Tax Compliance Act or FATCA) generally impose withholding at a rate of 30% in certain circumstances on dividends in respect of, and, after December 31, 2018, gross proceeds from the sale or other disposition of, securities (including Common Shares) which are held by or through certain foreign financial institutions (including investment funds), unless any such institution (i) enters into, and complies with, an agreement with the IRS to report, on an annual basis, information with respect to interests in, and accounts maintained by, the institution that are owned by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments, or (ii) if required under an intergovernmental agreement between the United States and an applicable foreign country, reports such information to its local tax authority, which will exchange such information with the U.S. authorities. An intergovernmental agreement between the United States and an applicable foreign country may modify these requirements. Accordingly, the entity through which Common Shares are held will affect the determination of whether such withholding is required. Similarly, dividends in respect of, and, after December 31, 2018, gross proceeds from the sale or other disposition of, Common Shares held by an investor that is a non-financial non-U.S. entity that does not qualify under certain exceptions will generally be subject to withholding at a rate of 30%, unless such entity either (i) certifies to the applicable withholding agent that such entity does not have any substantial United States owners or (ii) provides certain information regarding the entity's substantial United States owners, which will in turn be provided to the U.S. Department of Treasury. All holders should consult their tax advisors regarding the possible implications of FATCA on their investment in the Common Shares.

CANADIAN INCOME TAX CONSIDERATIONS

The following is a summary of the material Canadian federal income tax considerations under the *Income Tax Act* (Canada) (the Tax Act) generally applicable to the Corporation and to holders of Common Shares who, for the purposes of the Tax Act and at all relevant times, (i) deal at arm's length and are not affiliated with the Corporation and (ii) hold their Common Shares as capital property. The Common Shares will generally be capital property of a holder unless they are held in the course of carrying on a business of trading or dealing in securities or have been acquired in a transaction or transactions considered to be an adventure or concern in the nature of trade.

This summary assumes that the Corporation will cease to be resident in Canada for purposes of the Tax Act at the time of the Domestication and that from the time of the Domestication and at all relevant times thereafter, the Corporation will be a resident of the United States for purposes of the Canada-U.S. Tax Convention (1980), as amended (the Treaty) and will be entitled to the benefits of the Treaty.

This summary does not apply to a shareholder (i) an interest in which would be a tax shelter investment (as defined in the Tax Act), (ii) that is a financial institution (as defined in the Tax Act) for purposes of the

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mark-to-market rules, (iii) that is a specified financial institution or restricted financial institution (each as defined in the Tax Act), (iv) that has elected to determine its Canadian tax results in a foreign currency pursuant to the functional currency reporting rules in the Tax Act, (v) in respect of whom the Corporation will be a foreign affiliate for purposes of the Tax Act at any time after the Domestication, (vi) that is a corporation resident in Canada that is, or becomes, controlled by a non-resident corporation for the purposes of the foreign affiliate dumping rules in the Tax Act, or (vii) that has or will enter into a derivative forward agreement (as defined in the Tax Act) with respect to the Common Shares.

This summary does not describe the tax considerations with respect to holding or disposing of options or warrants of the Corporation. Holders of such options or warrants should consult their own tax advisors.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the Regulations) in force as of the date hereof, all specific proposal (the Proposed Amendments) to amend the Tax Act or the Regulations that have been publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof and counsel's understanding of the current published administrative and assessing practices of the Canada Revenue Agency (CRA). No assurance can be given that any Proposed Amendments will be enacted in their current proposed form, or at all. This summary does not take into account or anticipate any other changes to the law, whether by legislative, governmental or judicial decision or action, nor does it take into account provincial, territorial or foreign income tax legislation or considerations, which may differ from the Canadian federal income tax considerations.

For the purposes of the Tax Act, all amounts must be determined in Canadian dollars based on an appropriate exchange rate as determined in accordance with the provisions of the Tax Act.

This summary is of a general nature only, is not exhaustive of all possible Canadian federal income tax considerations and is not intended to be, nor should it be construed to be, legal or tax advice to any particular holder. Therefore, holders should consult their own tax advisors with respect to their particular circumstances.

The Domestication

Upon the Domestication, the Corporation will cease to be a resident of Canada for purposes of the Tax Act and will thereafter no longer be subject to Canadian income tax on its worldwide income (but will be subject to U.S. federal and state tax). However, if the Corporation carries on business in Canada or has other Canadian sources of income, it will be subject to Canadian income tax in respect of such Canadian source income, subject to relief under the Treaty. Management of the Corporation does not expect that the Corporation will carry on business in Canada following the Domestication.

For purposes of the Tax Act, the Corporation's taxation year will be deemed to have ended immediately before it ceases to be a resident of Canada and a new taxation year will be deemed to have begun at that time. Immediately before its deemed year end, the Corporation will be deemed to have disposed of each of its properties for proceeds of disposition equal to the fair market value of such properties and to have reacquired such properties immediately thereafter at a cost amount equal to fair market value. The Corporation will be subject to income tax under Part I of the Tax Act on any income and net taxable capital gains realized as a result of the deemed dispositions of its properties.

The Corporation will also be subject to an additional emigration tax under Part XIV of the Tax Act on the amount by which the fair market value, immediately before its deemed year end resulting from the Domestication, of all of the property owned by the Corporation exceeds the total of certain of its liabilities and the paid-up capital of all the issued and outstanding shares of the Corporation immediately before the deemed year end. This additional tax is generally

payable at the rate of 25 percent, but will be reduced to 5 percent under the Treaty unless it can reasonably be concluded that one of the main reasons for the Corporation becoming

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resident in the United States was to reduce the amount of emigration tax or Canadian withholding tax under Part XIII of the Tax Act.

Management of the Corporation has advised that, in its view and as of the date hereof, the fair market value of each property of the Corporation does not exceed the adjusted cost base of such property and that the aggregate of the paid-up capital of the shares and the liabilities of the Corporation is not less than the current fair market value of all of the property of the Corporation. Accordingly, management of the Corporation expects that the deemed disposition of the Corporation's properties that will occur on the Domestication will not result in any taxable income to the Corporation under Part I of the Tax Act and that the Domestication will not result in any liability for emigration tax under Part XIV of the Tax Act.

Shareholders are cautioned that the CRA may not agree with the Corporation's determination of the fair market value of its properties at the relevant time. It is also possible that the fair market value of the Corporation's properties may change between the date hereof and the time of the Domestication. Should unforeseen events lead to a potential for greater tax liability than currently expected, the Board has the right to not proceed with the Domestication.

Canadian Resident Holders

The following portion of this summary is applicable to shareholders who are resident in Canada for purposes of the Tax Act (Canadian Resident Holders).

Canadian Resident Holders will not be considered to have disposed of their Common Shares as a result of the Domestication. If a Canadian Resident Holder sells or otherwise disposes of Common Shares following the Domestication, such Canadian Resident Holder will realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition for the Common Shares exceed (or are exceeded by) the aggregate of the adjusted cost base of such Common Shares and any reasonable costs of disposition. One-half of any capital gain will be included in income as a taxable capital gain and one-half of any capital loss will be deducted as an allowable capital loss against taxable capital gains realized in the year of disposition. Any unused allowable capital losses may be applied to reduce net taxable capital gains realized in the three preceding taxation years or any subsequent taxation year, subject to the detailed provisions of the Tax Act in that regard.

Dividends received or deemed to be received by a Canadian Resident Holder on the Common Shares will be included in computing the Canadian Resident Holder's income for tax purposes. In the case of a Canadian Resident Holder that is an individual, such dividends will not be subject to the gross-up and dividend tax credit rules normally applicable in respect of taxable dividends received from taxable Canadian corporations. In the case of a Canadian Resident Holder that is a corporation, such Canadian Resident Holder will not be able to deduct the amount of dividends in computing its taxable income. A Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax of 10 2/3% on its aggregate investment income which is defined to include amounts in respect of taxable capital gains and certain dividends. To the extent that U.S. withholding taxes are imposed on dividends paid by the Corporation following the Domestication, the amount of such tax will generally be eligible for a Canadian foreign tax credit or tax deduction, subject to the detailed rules and limitations under the Tax Act. Canadian Resident Holders are advised to consult their own tax advisors with respect to the availability of a Canadian foreign tax credit or deduction having regard to their particular circumstances.

Dissenting Canadian Resident Holders

A Canadian Resident Holder that validly exercises Dissent Rights (a Resident Dissenter) and consequently is entitled to receive the fair value of the Common Shares in respect of which they dissent, will be deemed to have transferred

their Common Shares to the Corporation in consideration for a debt claim against the Corporation to be paid the fair value of such Common Shares.

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Although the matter is not free from doubt, the Resident Dissenter will generally be deemed to have received a dividend on the Common Shares equal to the amount, if any, by which the fair value of the Common Shares exceeds the paid-up capital of such Common Shares for purposes of the Tax Act. The amount of this deemed dividend could, in some circumstances, be treated as proceeds of disposition in the case of Resident Dissenters that are corporations. The difference between the fair value of the Common Shares and the amount of any deemed dividend would be treated as proceeds of disposition of the Common Shares for the purposes of computing any capital gain or capital loss realized on the disposition of the Common Shares.

Any interest awarded to a Resident Dissenter by a court will be included in the Resident Dissenter's income for Canadian income tax purposes.

Canadian Resident Holders who are considering exercising Dissent Rights in connection with the Domestication are urged to consult with their tax advisors with respect to the tax consequences to them of dissenting.

Foreign Property Information Reporting

A Canadian Resident Holder that is a specified Canadian entity for a taxation year or a fiscal period and whose total cost amount of specified foreign property (as such terms are defined in the Tax Act) at any time in the year or fiscal period exceeds \$100,000 will be required to file an information return for the year or period disclosing prescribed information. Common Shares will be specified foreign property for these purposes and Canadian Resident Holders should consult their own tax advisors to determine whether these rules are applicable in their particular case.

Offshore Investment Fund Property Rules

Pursuant to the offshore investment fund property rules in section 94.1 of the Tax Act (the OIFP Rules), if in a particular year a Canadian Resident Holder holds or has an interest in Common Shares, and the Common Shares may reasonably be considered to derive their value, directly or indirectly, primarily from portfolio investments in (i) shares of the capital stock of one or more corporations, (ii) indebtedness or annuities, (iii) interests in one or more corporations, trusts, partnerships, organizations, funds or entities, (iv) commodities, (v) real estate, (vi) Canadian or foreign resource properties, (vii) currency of a country other than Canada, (viii) rights or options to acquire or dispose of any of the foregoing, or (ix) any combination of the foregoing, and one of the main reasons for holding an interest in the Common Shares is to reduce or defer the Canadian tax liability that would have applied to the income, profits and gains generated by the portfolio investments if such income, profits and gains had been earned directly by the holder, the Canadian Resident Holder will generally be required to include in computing income for the year an amount equal to the amount, if any, by which (i) an imputed return for the taxation year computed on a monthly basis and calculated as the product obtained when the Canadian Resident Holder's designated cost (within the meaning of the Tax Act) of the Common Shares at the end of the month, is multiplied by one-twelfth of the total of (A) the applicable prescribed rate for the period that includes such month, and (B) two percent, exceeds (ii) the Canadian Resident Holder's income for the year (other than a capital gain) in respect of the Common Shares determined without reference to these rules.

The OIFP Rules are complex and their application depends, to a large extent, on the reasons for a Canadian Resident Holder acquiring or holding the Common Shares. Canadian Resident Holders are urged to consult their own tax advisors regarding the application and consequences of the OIFP Rules in their own particular circumstances.

U.S. Resident Holders

The following portion of this summary is applicable to holders of Common Shares who are resident in the United States for purposes of the Tax Act and the Treaty and are entitled to the benefits of the Treaty, and who do not use or hold their Common Shares and will not use their Common Shares in the course of carrying on a business

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in Canada (U.S. Resident Holders). Special rules, which are not discussed in this summary, may apply to a holder of Common Shares that is a non-resident insurer that carries on an insurance business in Canada and elsewhere. Such holders should consult their own tax advisors.

U.S. Resident Holders will not be considered to have disposed of their Common Shares as a result of the Domestication. After the Domestication, U.S. Resident Holders will not be subject to Canadian withholding tax on dividends received from the Corporation.

A U.S. Resident Holder will not be subject to tax under the Tax Act on any capital gain realized on the disposition of Common Shares after the Domestication unless such Common Shares are taxable Canadian property for purposes of the Tax Act. Provided that the Common Shares are listed on a designated stock exchange (which includes the NYSE) at a particular time, the Common Shares will generally not be taxable Canadian property of a U.S. Resident Holder at that time unless at any time during the 60-month period that ends at that time (i) 25% or more of the issued shares of any class of the capital stock of the Corporation were owned by or belonged to one or any combination of the U.S. Resident Holder, persons with whom the U.S. Resident Holder did not deal at arm's length, and partnerships in which the U.S. Resident Holder or a person who did not deal at arm's length with the U.S. Resident Holder holds a membership interest directly or indirectly through one or more partnerships, and (ii) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of real or immovable properties situated in Canada, Canadian resource properties, timber resource properties and options in respect of, or interests in, or for civil law rights in, any such properties whether or not such properties exist. However, in certain circumstances, the Common Shares may be deemed to be taxable Canadian property of a U.S. Resident Holder.

Dissenting U.S. Resident Holders

A U.S. Resident Holder that validly exercises Dissent Rights (a U.S. Resident Dissenter) and consequently is entitled to receive the fair value of the Common Shares in respect of which they dissent, will be deemed to have transferred their Common Shares in consideration for a debt claim against the Corporation to be paid the fair value of such Common Shares.

Although the matter is not free from doubt, a U.S. Resident Dissenter will generally be deemed to have received a dividend on the on Common Shares equal to the amount, if any, by which the fair value of the Common Shares exceeds the paid-up capital of such Common Shares for purposes of the Tax Act. Any such deemed dividend will be subject to Canadian withholding tax at a rate of 25% of the gross amount of the dividend, but will be reduced to the rate of 15% under the provisions of the Treaty, other than for U.S. Resident Dissenters that are U.S. corporations owning at least 10% of the voting stock of the Corporation, in which case the rate of withholding on dividends under the Treaty would be 5%. A U.S. Resident Dissenter will also be considered to have disposed of the Common Shares for proceeds of disposition equal to the amount paid to such U.S. Resident Dissenter. A U.S. Resident Dissenter will not be subject to tax under the Tax Act on any capital gain realized on the disposition of Common Shares unless the Common Shares are taxable Canadian property for purposes of the Tax Act, as discussed above.

Any interest awarded to a U.S. Resident Dissenter by a court will not be subject to withholding tax under the Tax Act, provided such interest is not participating debt interest for purposes of the Tax Act.

U.S. Resident Holders who are considering exercising Dissent Rights in connection with the Domestication are urged to consult with their tax advisors with respect to the tax consequences of such action.

Eligibility for Investment

Following the Domestication, the Corporation will cease to be a public corporation for purposes of the Tax Act. However, management of the Corporation has advised that it intends that the Common Shares continue to be listed on the NYSE.

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Provided that the Common Shares are listed on a designated stock exchange such as the NYSE, at the time of the Domestication and thereafter, the Common Shares will continue to be qualified investments for trusts governed by a registered retirement savings plan (RRSP), registered retirement income fund (RRIF), deferred profit sharing plans, registered disability savings plan (RDSP), registered education savings plan (RESP) and tax-free savings accounts (TFSA) (collectively, Registered Plans).

Notwithstanding that Common Shares may be qualified investments for a trust governed by a RRSP, RRIF, RESP, RDSP or TFSA, the annuitant of a RRSP or RRIF, the subscriber of a RESP or the holder of a RDSP or TFSA, as the case may be, will be subject to a penalty tax if such Common Shares are a prohibited investment (as defined in the Tax Act). The Common Shares will generally not be a prohibited investment for a trust governed by a RRSP, RRIF, RESP, RDSP or TFSA provided that (i) the annuitant of the RRSP or the RRIF, the subscriber of the RESP or the holder of the RDSP or TFSA, as the case may be, deals at arm's length with the Corporation for purposes of the Tax Act and does not have a significant interest (as defined in the Tax Act) in the Corporation or (ii) the Common Shares are excluded property (as defined in subsection 207.01(1) of the Tax Act) for the RRSP, RRIF, RESP, RDSP or TFSA. An annuitant of a RRSP or RRIF, a subscriber of a RESP or a holder of a RDSP or TFSA should consult their own tax advisors as to whether Common Shares would be a prohibited investment in their particular circumstances.

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DESCRIPTION OF CAPITAL STOCK

Unless the context provides otherwise, the following description of our capital stock assumes the consummation of the Domestication has already occurred. The following description of our capital stock is not complete and is subject to and qualified in its entirety by the proposed certificate of incorporation and by-laws of the Corporation, which are attached as Exhibits C and D, respectively, to this Circular, and by the provisions of Delaware law.

Authorized Capital

The authorized capital of Kingsway consists of 50 million Common Shares, par value \$0.01 per share and of 1 million shares of preferred stock, par value \$0.01 per share.

Each Common Share is entitled to one (1) vote; however, the shares of Kingsway Delaware that represent Restricted Common Shares are restricted from voting pursuant to the 2013 Equity Incentive Plan. The Common Shares will continue to be listed on the NYSE under the symbol KFS following the Domestication.

Preferred Shares

Our Certificate of Incorporation authorizes 1 million shares of preferred stock of which 222,876 have been designated as Class A Preferred Shares, par value \$0.01 per share. Kingsway Delaware's Board of Directors will have the ability to fix the designation, rights, privileges, restrictions and conditions attaching to the shares of each series of Preferred Shares. The Preferred Shares will have priority over Kingsway Delaware Common Shares.

Each Kingsway Delaware Preferred Share is convertible into 6.25 Kingsway Delaware Common Shares. The holders of the Kingsway Delaware Preferred Shares are entitled to receive fixed, cumulative, preferential cash dividends at a rate of \$1.25 per Kingsway Delaware Preferred Share per year. Kingsway Delaware may, any time after the date that is two years from the date of their initial issuance by Kingsway Delaware, upon giving notice, redeem at any time or from time-to-time all or any part of the then outstanding Kingsway Delaware Preferred Shares, on payment for each Kingsway Delaware Preferred Share of US\$28.75 together with the amount equal to all dividends. The holders of Kingsway Delaware Preferred Shares shall not be entitled as such (except as specifically provided in the Certificate of Incorporation or as otherwise may be required by the DGCL) to receive notice of or to attend any meeting of shareholders of Kingsway Delaware and shall not be entitled to vote at any such meeting.

Kingsway Delaware's Board of Directors is authorized to fix from time to time by resolution or resolutions the number of shares of any other class or series of preferred stock, and to determine the voting powers (if any), designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations and restrictions thereof, of any such class or series. Further, within the limits and restrictions stated in any resolution or resolutions of the Board originally fixing the number of shares constituting any such class or series, the Board is authorized to increase or decrease (but not below the number of shares of such class or series then outstanding) the number of shares of any such class or series subsequent to the issue of shares of that class or series.

Potential Anti-takeover Effect of Delaware Law, Our Certificate of Incorporation and Bylaws

Kingsway Delaware will be subject to the business combinations provisions of the DGCL. In general, such provisions prohibit a publicly held Delaware corporation from engaging in various business combination transactions with any interested shareholder for a period of three years after the time of the transaction on which the person became an interested shareholder, unless:

the corporation's board of directors approved the transaction before the interested shareholder obtained such status;

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upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding those shares owned (i) by persons who are directors and are also officers and (ii) employee stock plans in which the participants do not have the right to determine confidentially whether shares held subject to the plans will be tendered in the tender or exchange offer; or

on or subsequent to such time, the business combination or merger is approved by the corporation's board of directors and authorized at an annual or special meeting of shareholders, and not by written consent, by two-thirds of the holders of the outstanding common stock not owned by the interested shareholder.

A business combination is defined to include certain mergers, asset sales and other transactions resulting in financial benefit to a shareholder. In general, an interested shareholder is a person who, together with affiliates and associates, owns 15% or more of a corporation's voting stock or within three years owned 15% or more of a corporation's voting stock. The statute could prohibit or delay mergers or other takeover or change in control attempts.

Provisions of the proposed certificate of incorporation and by-laws of Kingsway Delaware providing that only a majority of the Board of Directors, the Chairman of the Board of Directors, the Chief Executive Officer or the President may call special meetings of shareholders, or providing that shareholders are prohibited from taking action by written consent, may have the effect of making it more difficult for a third party to acquire control of Kingsway Delaware, or of discouraging a third party from attempting to acquire control of Kingsway.

In addition, the certificate of incorporation of Kingsway Delaware allows the Board of Directors to issue up to 1 million shares of preferred stock that could have, when issued, voting rights or preferences that could impede the success of any hostile takeover, or delay a change in control or change in Kingsway Delaware's management.

Listing

Our Common Shares are currently traded on the NYSE and the TSX under the symbol KFS, and our Series B Warrants are traded on the TSX. Following the completion of our Domestication, our Common Shares will continue to be listed on the NYSE under the symbol KFS. Our Common Shares and Series B Warrants will be delisted from the TSX upon the completion of the Domestication.

Securities Act Restrictions on Resale of Kingsway Delaware Common Shares

The outstanding Common Shares of Kingsway Delaware will have been registered under the Securities Act, and holders of Common Shares who are not affiliates of Kingsway Delaware may freely resell their stock under the Securities Act. Holders of such shares of such stock who are affiliates of Kingsway Delaware, however, will not be permitted to resell their shares unless the resale of such shares is registered under the Securities Act or an exemption from registration, such as Rule 144 thereunder, is available. In general, Rule 144 will permit an affiliate of Kingsway Delaware to resell shares of stock received in connection with the Domestication only if certain requirements are met. Among other things, the affiliate of Kingsway Delaware may not sell shares of any class (including any shares of that class otherwise acquired) in an amount that, during any three-month period, exceeds 1% of the outstanding shares of that class (or, solely in the case of the Kingsway Delaware Common Shares, the average weekly trading volume of the stock on the NYSE during the four calendar weeks preceding the filing of the notice referenced below, if greater). In addition, all such resales must be made in unsolicited brokers' transactions, Kingsway Delaware must have filed all periodic reports it was required to file under the Exchange Act within the year preceding the resale and (depending on the amount being resold) the affiliate of Kingsway Delaware must have filed a notice of sale on Form 144 with the

SEC. For this purpose, an affiliate of Kingsway Delaware is any person who controls, is controlled by or is under common control with Kingsway Delaware.

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BUSINESS

The Corporation was incorporated under the Business Corporations Act (Ontario) on September 19, 1989.

The Corporation's registered office is located at 45 St. Clair Avenue West, Suite 400, Toronto, Ontario, Canada M4V 1K9. The common shares of Kingsway are currently listed on the TSX and the NYSE under the trading symbol KFS. After Domestication, the common shares will be delisted from the TSX and will only be listed on the NYSE.

The Corporation is a Canadian holding company with operating subsidiaries located in the United States. The Corporation owns or controls subsidiaries primarily in the 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. Kingsway conducts its business through the following two reportable segments: Extended Warranty (formerly Insurance Services) and Leased Real Estate.

Prior to the second quarter of 2018, the Corporation conducted its business through a third reportable segment, Insurance Underwriting. Insurance Underwriting included the following subsidiaries of the Corporation: Mendota Insurance Company (Mendota), Mendakota Insurance Company (Mendakota), Mendakota Casualty Company (MCC), Kingsway Amigo Insurance Company (Amigo) and Kingsway Reinsurance Corporation (Kingsway Re). On July 16, 2018, the Corporation announced that it had entered into a definitive agreement to sell Mendota, Mendakota and MCC. On October 18, 2018, the Corporation announced that the sale was completed. As a result, Mendota, Mendakota and MCC have been classified as discontinued operations and the results of their operations are reported separately for all periods presented. As a consequence of classifying Mendota, Mendakota and MCC as discontinued operations, the remaining composition of the Insurance Underwriting segment no longer meets the criteria of a reportable segment. As such, all segmented information has been restated to exclude the Insurance Underwriting segment for all periods presented. The operating results of Amigo and Kingsway Re previously included in the Insurance Underwriting segment are now included in Other income and expenses not allocated to segments, net.

Financial information about Kingsway's reportable business segments for the years ended December 31, 2017 and 2016 is contained in the following sections of this Circular: (i) Note 25, Segmented Information, to the audited consolidated financial statements and the notes thereto for the years ended December 31, 2017 and 2016, beginning on page F-1 (Audited Consolidated Financial Statements), (ii) Note 19, Segmented Information, to the unaudited consolidated financial statements and the notes thereto, for the nine month period ended September 30, 2018, beginning on page X-1 (Quarterly Consolidated Financial Statements); and (iii) Results of Continuing Operations section of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

REPORTING CURRENCY

The Consolidated Financial Statements have been presented in U.S. dollars because the Corporation's principal investments and cash flows are denominated in U.S. dollars. The Corporation's functional currency is the U.S. dollar since the substantial majority of its operations is conducted in the United States. Assets and liabilities of subsidiaries with non-U.S. dollar functional currencies are translated to U.S. dollars at period-end exchange rates, while revenue and expenses are translated at average monthly rates and shareholders' equity is translated at the rates in effect at dates of capital transactions. Foreign currency translation adjustments are included in shareholders' equity under the caption accumulated other comprehensive loss. Foreign currency gains and losses resulting from transactions which are denominated in currencies other than the entity's functional currency are reflected in foreign exchange losses, net in the consolidated statements of operations.

All of the dollar amounts in this Circular are expressed in U.S. dollars, except where otherwise indicated. References to dollars or \$ are to U.S. dollars, and any references to C\$ are to Canadian dollars.

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GENERAL DEVELOPMENT OF BUSINESS

Acquisition of Professional Warranty Service Corporation:

On October 12, 2017, the Corporation acquired 100% of the outstanding shares of Professional Warranty Service Corporation (PWSC) for cash consideration of \$10.0 million. PWSC is included in the Extended Warranty segment. PWSC is a leading provider of new home warranty products and administration services to the largest tier of domestic residential construction firms in the United States. Further information is contained in Note 5, Acquisition, Disposal and Discontinued Operations, to the Quarterly Consolidated Financial Statements.

EXTENDED WARRANTY SEGMENT

Extended Warranty includes the following subsidiaries of the Corporation: IWS Acquisition Corporation (IWS), Trinity Warranty Solutions LLC (Trinity) and PWSC, (collectively, Extended Warranty).

IWS is a licensed motor vehicle service agreement company and is a provider of after-market vehicle protection services distributed by credit unions in 23 states and the District of Columbia to their members.

Trinity sells heating, ventilation, air conditioning (HVAC), standby generator, commercial LED lighting and refrigeration warranty products and provides equipment breakdown and maintenance support services to companies across the United States. As a seller of warranty products, Trinity markets and administers product warranty contracts for certain new and used products in the HVAC, standby generator, commercial LED lighting and refrigeration industries throughout the United States. Trinity acts as an agent on behalf of the third-party insurance companies that underwrite and guaranty these warranty contracts. Trinity does not guaranty the performance underlying the warranty contracts it sells. As a provider of equipment breakdown and maintenance support services, Trinity acts as a single point of contact to its clients for both certain equipment breakdowns and scheduled maintenance of equipment. Trinity will provide such repair and breakdown services by contracting with certain HVAC providers.

PWSC sells new home warranty products and provides administration services to home builders and homeowners across the United States. PWSC distributes its products and services through an in-house sales team and through insurance brokers and insurance carriers throughout all states except Alaska and Louisiana.

Effective April 1, 2015, the Corporation closed on the sale of its wholly owned subsidiary, Assigned Risk Solutions Ltd. (ARS). As a result, ARS has been classified as discontinued operations and the results of their operations are reported separately for all periods presented. Prior to the transaction, ARS was included in the Extended Warranty (formerly Insurance Services) segment. As a result of classifying ARS as a discontinued operation, all segmented information has been restated to exclude ARS from the Extended Warranty segment. Further information is contained in Note 5, Acquisition, Disposal and Discontinued Operations, to the Quarterly Consolidated Financial Statements.

Extended Warranty Products

IWS markets and administers vehicle service agreements and related products for new and used automobiles throughout the United States. A vehicle service agreement is an agreement between IWS and the vehicle purchaser under which IWS agrees to replace or repair, for a specific term, designated vehicle parts in the event of a mechanical breakdown. IWS serves as the administrator on all contracts it originates. Vehicle service agreements supplement, or are in lieu of, manufacturers warranties and provide a variety of extended coverage options. Vehicle service agreements typically range from three months to seven years and/or 3,000 miles to 100,000 miles. The cost of the vehicle service agreement is a function of the contract term, coverage limits and type of vehicle.

In addition to marketing vehicle service agreements, IWS also brokers a guaranteed asset protection product (GAP) through its distribution channel. GAP generally covers a consumer s out-of-pocket amount, related to

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an automobile loan or lease, if the vehicle is stolen or damaged beyond repair. IWS earns a commission when a consumer purchases a GAP certificate but does not take on any insurance risk.

Trinity sells HVAC, standby generator, commercial LED lighting and refrigeration warranty products and provides equipment breakdown and maintenance support services to companies across the United States. As a seller of warranty products, Trinity markets and administers product warranty contracts for certain new and used products in the HVAC, standby generator, commercial LED lighting and refrigeration industries throughout the United States. A warranty contract is an agreement between Trinity and the purchaser of such HVAC, standby generator, commercial LED lighting and refrigeration equipment to replace or repair, for a specific term, designated parts in the event of a mechanical breakdown. As a provider of equipment breakdown and maintenance support services, Trinity acts as a single point of contact to its clients for both certain equipment breakdowns and scheduled maintenance of equipment. Trinity will provide such repair and breakdown services by contracting with certain HVAC providers.

PWSC administers insured warranty programs of liability coverage for home builders issued to buyers of their new homes. The liability coverage is provided to builder entities nationwide by a single, A+ rated insurance carrier. The warranty document is an agreement between the home builder and the purchaser of the home and includes specific tolerances related to covered defects and precise definitions of damages. Each damage category includes materials defect coverage for the first year, major systems coverage for the second year, and workmanship and structural coverage for years three through ten. The warranty enables certain damages to be resolved by the home builder without admitting fault or negligence, and offers an efficient method to resolve complaints by buyers through mediation and mandatory binding arbitration, when allowed, to avoid costly litigation and resolve issues amicably.

PWSC also administers uninsured home builder backed warranty programs for home builders issued to buyers of their new homes. The warranty document, an agreement between the home builder and the purchaser of the home, includes performance standards established by the home builder and warrants conditions in the home that in the builder's opinion may constitute a construction defect throughout the warranty period. Claims are covered for the statute of repose in a specific state or per agreement with the general liability insurance carrier. Constituents' interests are aligned to handle their claims relative to construction defects promptly and without attorney intervention. The warranty enables construction defects to be resolved by the home builder without admitting fault or negligence, and offers an efficient method to resolve complaints by buyers through mediation and mandatory binding arbitration to avoid costly litigation and resolve issues amicably.

Marketing and Distribution

IWS markets its products primarily through credit unions. IWS enters into an exclusive agreement with each credit union whereby the credit union receives a stipulated access fee for each vehicle service agreement issued to its members. The credit unions are served by IWS employee representatives located throughout the United States in close geographical proximity to the credit unions they serve. IWS distributes and markets its products in 23 states and the District of Columbia.

Trinity directly markets and distributes its warranty products to manufacturers, distributors and installers of HVAC, standby generator, commercial LED lighting and refrigeration equipment. As a provider of equipment breakdown and maintenance support, Trinity directly markets and distributes its product through its clients, which are primarily companies that directly own and operate numerous locations across the United States.

PWSC markets its insured warranty products through a sales force directly to the home builder and its uninsured builder backed warranty products through a network of construction general liability insurance carriers and domestic insurance brokers. Home builder prospects are developed through membership in local homebuilder associations,

attendance at homebuilder conventions, distribution of promotional products and direct mail efforts. For its uninsured home builder backed product, PWSC dedicates senior personnel to working with the

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construction general liability insurers and domestic insurance brokers to identify and assist in developing new opportunities and devotes marketing resources to sell its product.

No customer or group of affiliated customers accounts for 10% or more of Extended Warranty's revenues, and no loss of a customer or group of affiliated customers would have a material adverse effect on the Corporation.

Competition

IWS focuses exclusively on the automotive finance market with its core vehicle service agreement and related product offerings, while much of its competition in the credit union channel has a less targeted product approach. IWS's typical competitor takes a generalist approach to market by providing credit unions with a variety of different product offerings. They are thus unable to deliver specialty expertise on par with IWS and do not give vehicle service agreement products the attention they require for healthy profitability and strong risk management.

Trinity operates in an environment with few market competitors. Trinity competes on two important facets: its belief that it provides superior customer service relative to its competitors and its ability, through the support of its insurance company partners, to provide warranty solutions to a wider range of HVAC, standby generator, commercial LED lighting and refrigeration equipment than that of its competitors.

For its insured warranty product, PWSC operates in an environment with several competitors. PWSC differentiates itself through its relationship with and backing by an A+ rated global insurance carrier; its over 20 years' experience in the field of new home warranty administration; its dispute resolution services; and best in class customer service. For its uninsured builder backed product, PWSC operates in an environment with very few competitors. The most significant features differentiating the builder backed product from its competition are an express warranty for all construction defects, the only warranty that is fully integrated with the general liability policy in its definition and coverage of construction defects, and mutual agreement between the home builder and the home buyer that all claims be resolved through mediation or, if necessary, binding arbitration.

Claims Management

Claims management is the process by which Extended Warranty determines the validity and amount of a claim. We believe that claims management is fundamental to our operating results. The individual operating subsidiaries in Extended Warranty primarily employ their own claims adjusters who are responsible for investigating and settling claims. Our goal is to settle claims fairly for the benefit of our insureds and the insureds of our insurance company partners in a manner that is consistent with the insurance policy language and our regulatory and legal obligations.

IWS effectively and efficiently manages claims by utilizing in-house expertise and information systems. IWS employs an experienced claims staff comprised of Automotive Service Excellence certified mechanics, knowledgeable in all aspects of vehicle repairs and potential claims. Additionally, IWS owns its own proprietary database of historical claims data dating back over twenty years. Management analyzes this database to drive real-time pricing adjustments and strategic decision-making.

Trinity claims on warranty products are managed by the insurance companies with which Trinity partners. Trinity may, at times, act as a third-party administrator of such claims; however, at no time does Trinity bear the loss of claims on warranty products.

Under PWSC's warranty products, disputes typically arise when there is a difference between what the homeowner expects of the builder and what the builder believes are its legitimate warranty service responsibilities. PWSC

employs an experienced claims staff who responds to all inquiries from homeowners and from requests by builders. Any inquiries or complaints received are submitted or communicated to the builder.

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PWSC will not make any determination as to the validity or resolution of any complaint; however, PWSC can and will discuss alternatives or resolutions to disputes with all parties and can mediate or negotiate a fair solution to a dispute. This process ensures that home builders can effectively manage new home construction risk and reduce the potential for substantial legal costs associated with litigation. PWSC may, at times, act as a third-party administrator for claims under the insured warranty product; however, at no time does PWSC bear the loss of claims on warranty products.

LEASED REAL ESTATE SEGMENT

Leased Real Estate includes the Corporation's subsidiary, CMC. CMC owns, through an indirect wholly owned subsidiary (the Property Owner), a parcel of real property consisting of approximately 192 acres located in the State of Texas (the Real Property), which is subject to a long-term triple net lease agreement. The Real Property is also subject to a mortgage, which is recorded as note payable in the consolidated balance sheets (the Mortgage).

PRICING AND PRODUCT MANAGEMENT

Responsibility for pricing and product management rests with the Corporation's individual operating subsidiaries in Extended Warranty. Typically, teams comprised of pricing actuaries, product managers and business development managers work together by territory to develop policy forms and language, rating structures, regulatory filings and new product ideas. Data solutions and claims groups track loss performance on a monthly basis so as to alert the operating subsidiaries to the potential need to adjust forms or rates.

UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES

The Corporation records a provision for its unpaid losses that have occurred as of a given evaluation date as well as for its estimated liability for loss adjustment expenses. For a detailed description of the Corporation's process for establishing its provision for unpaid loss and loss adjustment expenses, see Critical Accounting Estimates and Assumptions section of MD&A.

For a rollforward of the provision for property and casualty unpaid loss and loss adjustment expenses, net of amounts recoverable from reinsurers, see Note 10, Unpaid Loss and Loss Adjustment Expenses, to the Quarterly Consolidated Financial Statements.

INVESTMENTS

We manage our investments to support the liabilities of our insurance operations, preserve capital, maintain adequate liquidity and maximize after-tax investment returns within acceptable risks. The fixed maturities portfolios are managed by a third party firm and are comprised predominantly of high-quality fixed maturities with relatively short durations. Equity, limited liability and other investments are managed by a team of employees and advisors dedicated to the identification of investment opportunities that offer asymmetric risk/reward potential with a margin of safety supported by private market values. The Investment Committee of the Board of Directors is responsible for monitoring the performance of our investments and compliance with the Corporation's investment policies and guidelines, which it reviews annually. We are also subject to the applicable state regulations that prescribe the type, quality and concentration of investments that individual insurance companies can make.

For further descriptions of the Corporation's investments, see our disclosures under the heading Investments in the MD&A and Note 6, Investments, and Note 20, Fair Value of Financial Instruments, to the Quarterly Consolidated Financial Statements.

REINSURANCE

Reinsurance ceded does not relieve us of our ultimate liability to our insureds in the event that any reinsurer is unable to meet its obligations under its reinsurance contracts. We therefore have entered into reinsurance

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contracts with only those reinsurers which we believe have sufficient financial resources to meet their obligations to us. Reinsurance treaties generally have terms of one year and, as a result, are subject to renegotiation annually.

Because our reinsurance recoverable is generally unsecured, we regularly evaluate the financial condition of our reinsurers and monitor the concentrations of credit risk to minimize our exposure to significant losses as a result of the insolvency of a reinsurer. We believe that the amounts we have recorded as reinsurance recoverable are appropriately established. Estimating our reinsurance recoverable, however, is subject to various uncertainties and the amounts ultimately recoverable may vary from amounts currently recorded. Estimating amounts of reinsurance recoverable is also impacted by the uncertainties involved in the establishment of provisions for unpaid loss and loss adjustment expenses. As our underlying provision develops, the amounts ultimately recoverable may vary from amounts currently recorded.

As of September 30, 2018, we had \$0.1 million recoverable from third-party reinsurers, 100.0% of which was recoverable from third-party reinsurers rated A- or higher by the A.M. Best rating service. We regularly evaluate our reinsurers and their respective amounts recoverable, and an allowance for uncollectible reinsurance is provided, if needed.

REGULATORY ENVIRONMENT

U.S. insurance companies are subject to the insurance holding company laws in the jurisdictions in which they conduct business. These regulations require that each U.S. insurance company in the holding company system register with the insurance department of its state of domicile and furnish information concerning the operations of companies in the holding company system which may materially affect the operations, management or financial condition of the insurers in the holding company domiciled in that state. We have one U.S. insurance subsidiary, Amigo, which is organized and domiciled under the insurance statutes of Florida. The insurance laws in Florida provide that all transactions among members of a holding company system be done at arm's length and be shown to be fair and reasonable to the regulated insurer. Transactions between insurance company subsidiaries and their parents and affiliates typically must be disclosed to the state regulators, and any material or extraordinary transaction requires prior approval of the applicable state insurance regulator. A change of control of a domestic insurer or of any controlling person requires the prior approval of the state insurance regulator. In general, any person who acquires 10% or more of the outstanding voting securities of the insurer or its parent company is presumed to have acquired control of the domestic insurer. To the best of our knowledge, we are in compliance with the regulations discussed above.

Insurance companies are required to report their financial condition and results of operation in accordance with statutory accounting principles prescribed or permitted by state insurance regulators in conjunction with the National Association of Insurance Commissioners (NAIC). State insurance regulators also prescribe the form and content of statutory financial statements, perform periodic financial examinations of insurers, set minimum reserve and loss ratio requirements, establish standards for the types and amounts of investments and require minimum capital and surplus levels. Such statutory capital and surplus requirements reflect risk-based capital (RBC) standards promulgated by the NAIC. These RBC standards are intended to assess the level of risk inherent in an insurance company's business and consider items such as asset risk, credit risk, underwriting risk and other business risks relevant to its operations. In accordance with RBC formulas, an insurance company's RBC requirements are calculated and compared to its total adjusted capital, as defined by the NAIC, to determine whether regulatory intervention is warranted. In general, insurers reporting surplus as regards policyholders below 200% of the authorized control level, as defined by the NAIC, at December 31 are subject to varying levels of regulatory action, including discontinuation of operations. As of December 31, 2017, surplus as regards policyholders reported by Amigo exceeded the 200% threshold.

U.S. insurance companies are required under the guaranty fund laws of most states in which they transact business to pay assessments up to prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies. U.S. insurance companies also are required to participate in various involuntary pools or

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assigned risk pools. In most states, the involuntary pool participation is in proportion to the voluntary writings of related lines of business in such states.

We are subject to state laws and regulations that require diversification of our investment portfolios and that limit the amount of investments in certain categories. Failure to comply with these laws and regulations would cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture.

The state insurance department that has jurisdiction over Amigo may conduct on-site visits and examinations, especially as to financial condition, ability to fulfill obligations to policyholders, market conduct, claims practices and compliance with other laws and applicable regulations. Typically, these examinations are conducted every three to five years. In addition, if circumstances dictate, regulators are authorized to conduct special or target examinations of insurance companies to address particular concerns or issues. The results of these examinations can give rise to regulatory orders requiring remedial, injunctive or other corrective action on the part of the Corporation that is the subject of the examination or the assessment of fines or other penalties against that company.

The Gramm-Leach-Bliley Act protects consumers from the unauthorized dissemination of certain personal information. The majority of states have implemented additional regulations to address privacy issues. These laws and regulations apply to all financial institutions, including insurance companies, and require us to maintain appropriate procedures for managing and protecting certain personal information of our customers and to fully disclose our privacy practices to our customers. We may also be exposed to future privacy laws and regulations, which could impose additional costs and impact our results of operations or financial condition.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the DFA) was enacted into law. Among other things, the DFA forms within the Treasury Department a Federal Insurance Office (FIO) that is charged with monitoring all aspects of the insurance industry, gathering data, and conducting a study on methods to modernize and improve the insurance regulatory system in the United States. FIO's report, which was delivered to Congress in 2013, concluded that a hybrid approach to regulation, involving a combination of state and federal government action, could improve the U.S. insurance system by attaining uniformity, efficiency and consistency, particularly with respect to solvency and market conduct regulation. A hybrid approach was also recommended to address the perceived need for uniform supervision of insurance companies with national and global activities. FIO established the Federal Advisory Committee on Insurance (FACI) whose mission is to provide recommendations to FIO on issues it monitors for Congress. While the NAIC continues to promote the strengths of the U.S. state-based insurance regulatory system, both FIO/FACI and international standard setting authorities such as the International Association of Insurance Supervisors are actively seeking a role in shaping the future of the U.S. insurance regulatory framework.

Title V of the DFA instructs the FIO Director to submit an update to the report that FIO submitted to Congress in 2013 describing the impact of Part II of the DFA's Nonadmitted and Reinsurance Reform Act of 2010 (NRRRA) on the ability of state regulators to access reinsurance information for regulated entities in their jurisdictions. The update, submitted by FIO in May 2015, concludes that Part II of NRRRA has not had an adverse impact on the ability of state regulators to access reinsurance information from regulated companies. It is not yet known whether or how these organizations' recommendations might result in changes to the current state-based system of insurance industry regulation or ultimately impact Kingsway's operations.

Vehicle service agreements are regulated in all states in the United States, and IWS is subject to these regulations. Most states utilize the approach of the Uniform Service Contract Act which was adopted by the NAIC in the early 1990's. Under that scheme, states regulate vehicle service contract companies by requiring them annually to file documentation, together with a copy of the contract of insurance covering their liability under the service contracts,

which complies with the particular state's regulatory requirements. IWS is in compliance with the regulations of each state in which it sells vehicle service agreements.

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Certain, but not all, states regulate the sale of HVAC and equipment warranty contracts. Trinity is licensed as a service contract provider in those states where it is required.

The insurance carrier providing the contractual liability coverage for the insured warranty product offered by PWSC is designated as a surplus lines carrier in all states. The offering of surplus lines insurance is regulated in all states. The insurance carrier has designated an agent within PWSC who is a licensed property and casualty broker and a surplus lines broker in all states where such a license is required. PWSC is in compliance with the regulations of each state in which it offers its insured warranty products. In addition, New Jersey, Maryland and the U.S. Department of Housing & Urban Development (HUD) require PWSC to file its warranty plan documents and other company information for periodic review and approval to demonstrate compliance with new home warranty plan regulations promulgated by those jurisdictions. HUD and New Jersey require such a filing every two years. Maryland requires a filing every year. PWSC is in compliance with the filing requirements of each state and HUD.

EMPLOYEES

At September 30, 2018, we employed 126 personnel supporting our continuing operations, of which 125 were full-time employees.

PROPERTIES

Leased Properties

Extended Warranty leases facilities with an aggregate square footage of approximately 26,534 at three locations in three states. The latest expiration date of the existing leases is in October 2024.

The Corporation leases facilities for its corporate offices with an aggregate square footage of approximately 8,086 at two locations in one state. The latest expiration date of the existing leases is in November 2020.

The properties described above are in good condition. We consider our office facilities suitable and adequate for our current levels of operations.

Owned Properties

Leased Real Estate owns the Real Property, which is subject to a long-term triple net lease agreement. The Real Property includes rail car tracks which provide rail car storage spaces and has 72 miles of double-ended rail track. The Real Property also contains a 5,760 square foot office building with an attached observation tower comprised of 1,150 square feet.

The Corporation also owns two buildings located in Illinois consisting of approximately 4,636 square feet. The buildings are used for rental purposes and corporate offices.

LEGAL PROCEEDINGS

In connection with its operations in the ordinary course of business, the Corporation and its subsidiaries are named as defendants in various actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the loss, or range of loss, if any, that would be incurred in connection with any of the various proceedings at this time, it is possible an individual action would result in a loss having a material adverse effect on the Corporation's

business, results of operations or financial condition.

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Our common shares are currently listed on the TSX and the NYSE under the trading symbol KFS, however upon Domestication, our common shares will only be delisted from the TSX and only listed on the NYSE.

The following table sets forth, for the calendar quarters indicated, the high and low sales price for our common shares as reported on the TSX and NYSE.

	TSX		NYSE	
	High - C\$	Low - C\$	High - US\$	Low - US\$
2018				
Quarter 3	C\$ 4.32	C\$ 3.15	\$ 3.30	\$ 2.40
Quarter 2	5.90	3.59	4.65	2.75
Quarter 1	7.20	4.85	5.85	3.65
2017				
Quarter 4	C\$ 7.57	C\$ 6.25	\$ 6.05	\$ 4.95
Quarter 3	7.95	6.66	6.20	5.45
Quarter 2	8.56	7.29	6.30	5.35
Quarter 1	8.56	7.38	6.50	5.40
2016				
Quarter 4	8.36	7.42	6.25	5.45
Quarter 3	7.63	6.65	5.79	5.23
Quarter 2	6.90	5.59	5.37	4.48
Quarter 1	6.34	5.33	4.79	3.72

Shareholders of Record

As of September 30, 2018, the closing sales price of our common shares as reported by the TSX was C\$3.67 per share and as reported by the NYSE was \$2.80 per share.

As of September 30, 2018, we had 21,708,190 common shares issued and outstanding, held by approximately 3,400 shareholders of record.

Dividends

The Corporation has not declared a dividend since the first quarter of 2009. The declaration and payment of dividends is subject to the discretion of our Board of Directors after taking into account many factors, including financial condition, results of operations, anticipated cash needs and other factors deemed relevant by our Board of Directors. For a discussion of our cash resources and needs, see the Liquidity and Capital Resources section of MD&A.

Recent Sales of Unregistered Securities

During the year ended December 31, 2017 and the nine months ended September 30, 2018, we did not have any unregistered sales of our equity securities.

Issuer Purchases of Equity Securities

During the year ended December 31, 2017 and the nine months ended September 30, 2018, we did not have any unregistered sales of our equity securities.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Kingsway Financial Services Inc. (Kingsway or the Corporation) is a Canadian holding company with operating subsidiaries located in the United States. The Corporation owns or controls subsidiaries primarily in the extended warranty, asset management and real estate industries. Kingsway conducts its business through the following two reportable segments: Extended Warranty and Leased Real Estate.

The Corporation previously conducted its business through a third reportable segment, Insurance Underwriting. Insurance Underwriting included the following subsidiaries of the Corporation: Mendota Insurance Company (Mendota), Mendakota Insurance Company (Mendakota), Mendakota Casualty Company (MCC), Kingsway Amigo Insurance Company (Amigo) and Kingsway Reinsurance Corporation (Kingsway Re). On July 16, 2018, the Corporation announced that it had entered into a definitive agreement to sell Mendota, Mendakota and MCC. On October 18, 2018, the Corporation announced that the sale was completed. As a result, Mendota, Mendakota and MCC have been classified as discontinued operations and the results of their operations are reported separately for all periods presented. As a consequence of classifying Mendota, Mendakota and MCC as discontinued operations, the remaining composition of the Insurance Underwriting segment no longer meets the criteria of a reportable segment. As such, all segmented information has been restated to exclude the Insurance Underwriting segment for all periods presented. The operating results of Amigo and Kingsway Re, previously included in the Insurance Underwriting segment, are now included in Other income and expenses not allocated to segments, net.

Extended Warranty includes the following subsidiaries of the Corporation: IWS Acquisition Corporation (IWS), Trinity Warranty Solutions LLC (Trinity) and Professional Warranty Service Corporation (PWSC). Throughout Management's Discussion and Analysis (MD&A), the term Extended Warranty is used to refer to this segment. Prior to the second quarter of 2017, Extended Warranty was referred to as Insurance Services.

IWS is a licensed motor vehicle service agreement company and is a provider of after-market vehicle protection services distributed by credit unions in 23 states and the District of Columbia to their members.

Trinity sells heating, ventilation, air conditioning (HVAC), standby generator, commercial LED lighting and refrigeration warranty products and provides equipment breakdown and maintenance support services to companies across the United States. As a seller of warranty products, Trinity markets and administers product warranty contracts for certain new and used products in the HVAC, standby generator, commercial LED lighting and refrigeration industries throughout the United States. Trinity acts as an agent on behalf of the third-party insurance companies that underwrite and guaranty these warranty contracts. Trinity does not guaranty the performance underlying the warranty contracts it sells. As a provider of equipment breakdown and maintenance support services, Trinity acts as a single point of contact to its clients for both certain equipment breakdowns and scheduled maintenance of equipment. Trinity will provide such repair and breakdown services by contracting with certain HVAC providers.

PWSC sells new home warranty products and provides administration services to home builders and homeowners across the United States. PWSC distributes its products and services through an in-house sales team and through insurance brokers and insurance carriers throughout all states except Alaska and Louisiana.

Leased Real Estate includes the Corporation's subsidiary, CMC Industries, Inc. (CMC). CMC owns, through an indirect wholly owned subsidiary (the Property Owner), a parcel of real property consisting of approximately 192 acres located in the State of Texas (the Real Property), which is subject to a long-term triple net lease agreement. The

Real Property is also subject to a mortgage, which is recorded as note payable in the consolidated balance sheets (the Mortgage). Throughout this MD&A, the term Leased Real Estate is used to refer to this segment.

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NON U.S.-GAAP FINANCIAL MEASURES

We present our operations in the way we believe will be most meaningful, useful and transparent to anyone using this financial information to evaluate our performance. In addition to the U.S. GAAP presentation of net (loss) income, we present segment operating income as a non-U.S. GAAP financial measure, which we believe is valuable in managing our business and drawing comparisons to our peers. Below is a definition of our non-U.S. GAAP measure and its relationship to U.S. GAAP.

Segment Operating Income

Segment operating income represents one measure of the pretax profitability of our segments and is derived by subtracting direct segment expenses from direct segment revenues. Revenues and expenses are presented in the unaudited consolidated statements of operations, but are not subtotaled by segment; however, this information is available in total and by segment in Note 19, Segmented Information, to the Quarterly Consolidated Financial Statements, regarding reportable segment information. The nearest comparable U.S. GAAP measure is loss from continuing operations before income tax (benefit) expense that, in addition to segment operating income, includes net investment (loss) income, net realized losses, gain on change in fair value of equity investments, interest expense not allocated to segments, other income and expenses not allocated to segments, net, amortization of intangible assets, contingent consideration benefit, loss on change in fair value of debt, gain on disposal of subsidiary and equity in net (loss) income of investee. A reconciliation of segment operating income to loss from continuing operations before income tax (benefit) expense for the nine months ended September 30, 2018 and 2017 is presented in Table 2 of the Results of Continuing Operations section of Management's Discussion and Analysis.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and classification of assets and liabilities, revenues and expenses, and the related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Estimates and their underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recorded in the accounting period in which they are determined. The critical accounting estimates and assumptions in the accompanying consolidated financial statements include the provision for unpaid loss and loss adjustment expenses; valuation of fixed maturities and equity investments; impairment assessment of investments; valuation of limited liability investment, at fair value; valuation of deferred income taxes; valuation and impairment assessment of intangible assets; goodwill recoverability; deferred acquisition costs; and fair value assumptions for subordinated debt obligations.

Provision for Unpaid Loss and Loss Adjustment Expenses

Overview

The Corporation records a provision for unpaid losses that have occurred as of a given evaluation date as well as for its estimated liability for loss adjustment expenses. The provision for unpaid losses includes a provision, commonly referred to as case reserves, for losses related to reported claims as well as a provision for losses related to claims incurred but not reported (IBNR). The provision for loss adjustment expenses represents the cost to investigate and settle claims.

The provision for unpaid loss and loss adjustment expenses does not represent an exact calculation of the liability but instead represents management's best estimate at a given accounting date, utilizing actuarial and statistical procedures,

of the undiscounted estimates of the ultimate net cost of all unpaid loss and loss adjustment expenses. Management continually reviews its estimates and adjusts its provision as new information becomes available. In establishing the provision for unpaid loss and loss adjustment expenses, the Corporation also takes into account estimated recoveries, reinsurance, salvage and subrogation.

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Any adjustments to the provision for unpaid loss and loss adjustment expenses are reflected in the consolidated statements of operations in the periods in which they become known, and the adjustments are accounted for as changes in estimates. Even after such adjustments, ultimate liability or recovery may exceed or be less than the revised provisions. An adjustment that increases the provision for unpaid loss and loss adjustment expenses is known as unfavorable development or a deficiency and will reduce net income while an adjustment that decreases the provision is known as favorable development or a redundancy and will increase net income.

Process for Establishing the Provision for Unpaid Loss and Loss Adjustment Expenses

The process for establishing the provision for unpaid loss and loss adjustment expenses reflects the uncertainties and significant judgmental factors inherent in predicting future results of both reported and IBNR claims. As such, the process is inherently complex and imprecise and estimates are constantly refined. The process of establishing the provision for unpaid loss and loss adjustment expenses relies on the judgment and opinions of a large number of individuals, including the opinions of the Corporation's external reserving actuaries.

Factors affecting the provision for unpaid loss and loss adjustment expenses include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Corporation's claims department personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claim-handling and settlement practices, the effect of inflationary trends on future loss settlement costs, court decisions, economic conditions and public attitudes.

The process for establishing the provision for loss and loss adjustment expenses begins with the collection and analysis of claim data. Data on individual reported claims, both current and historical, including paid amounts and individual claim adjuster estimates, are grouped by common characteristics and evaluated by the Corporation's external reserving actuaries in their analyses to estimate ultimate claim liabilities. Such data is occasionally supplemented with external data as available and when appropriate.

Our Corporation's external reserving actuaries use the following generally accepted actuarial loss and loss adjustment expenses reserving methods in our analysis, for each coverage or segment that we analyze:

Paid Loss Development - we use historical loss and loss adjustment expense payments over discrete periods of time to estimate future loss and loss adjustment expense payments. Paid development methods assume that the patterns of paid loss and loss adjustment expenses that occurred in past periods will be similar to loss and loss adjustment expense payment patterns that will occur in future periods.

Incurred Loss Development - we use historical case incurred loss and loss adjustment expenses (the sum of cumulative loss and loss adjustment expense payments plus outstanding unpaid case losses) over discrete periods of time to estimate future loss and loss adjustment expenses. Incurred development methods assume that the case loss and loss adjustment expenses reserving practices are consistently applied over time.

Frequency and Severity - we use historical claim count development over discrete periods of time to estimate future claim counts. We divide projected ultimate claim counts by an exposure base (earned premiums or exposures), select expected claim frequencies from the results, and adjust them for trends based on internal

and external information. Concurrently, we divide projected ultimate losses by the projected ultimate claim counts to select expected loss severities. We use internal and external information to trend the severities and combine them with the trended, projected frequencies to develop ultimate loss projections.

The methods above all calculate an estimate of total ultimate losses. Our provision for loss and loss adjustment expenses is calculated by subtracting total paid losses from our estimate of total ultimate losses. Our estimate for IBNR is calculated by subtracting case reserves from our provision for loss and loss adjustment expenses.

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Each estimation method has its own set of assumption variables and its own advantages and disadvantages, with no single estimation method being better than the others in all situations and no one set of assumptions being meaningful for all coverages or segments. For example, Paid Loss Development does not make use of case reserves, and can be more stable when there are changes to the case reserving process. Frequency and Severity, by estimating the frequency separately from severity, can assist in understanding the underlying dynamics when either frequency or severity is changing substantially.

The relative strengths and weaknesses of the particular estimation methods when applied to a particular group of claims can also change over time; therefore, the actual choice of estimation method can change with each evaluation. The estimation methods chosen are those that are believed to produce the most reliable indication at a particular evaluation date.

We monitor the actual emergence of loss and loss adjustment expenses data and compare it to the expected emergence implied by our booked estimates. Differences in these are part of our considerations for whether it is appropriate to modify our assumptions for developing the estimated provision for unpaid loss and loss adjustment expenses.

We review the adequacy of the provision for unpaid loss and loss adjustment expenses quarterly. For our year-end analysis, we re-estimate the ultimate losses for each coverage and state, by accident year. This involves performing a complete update of the historical development factors used in our analysis, incorporating the experience of the most recent calendar year. On a quarterly basis, we perform a more limited review, which can entail, for example, a comparison of the expected losses to be paid during the quarter versus actual payments, or other similar comparisons to determine the extent to which a given segment is performing as expected. In some cases, a re-estimation (similar to the year-end analysis) may be determined to be useful as part of a quarterly analysis, and we may make adjustments to ultimate losses in response to the results of this analysis. We adjust carried unpaid loss and loss adjustment expenses as we learn additional information, and reflect these adjustments in the accounting periods in which they are determined.

A basic premise in most actuarial analyses is that past patterns demonstrated in the data will repeat themselves in the future, absent a material change in the associated risk factors. Significant structural changes to the available data, product mix or organization can materially impact the provision for loss and loss adjustment expenses. Our 2016 actuarial analysis included certain assumptions regarding improved claim-handling practices that we expected to result from new claim-handling initiatives being implemented by the new claim management team hired in the fall of 2016. These assumptions led us to anticipate a significant reduction in the required provision for loss and loss adjustment expenses at December 31, 2016. These improvements did not materialize as quickly as originally anticipated, in large part due to the disruptions to claim staffing during this period. As a result, the year-end 2017 actuarial analysis removed the explicit adjustments that were made in the 2016 actuarial analysis; otherwise, the 2017 analysis was substantially reliant on historical experience. The anticipated improvements in claim-handling practices are now emerging and are expected to be recognized in future actuarial analyses once sufficient empirical evidence exists to validate the data.

Informed judgment is applied throughout the process. This includes the application of various individual experiences and expertise to multiple sets of data and analyses. In addition to actuaries, experts involved with the reserving process also include underwriting and claims personnel and lawyers, as well as other company management. As a result, management may have to consider varying individual viewpoints when establishing the provision for unpaid loss and loss adjustment expenses.

Our estimate of the provision for unpaid loss and loss adjustment expenses is proposed each quarter by our external reserving actuaries and approved by an internal management team comprised of our chief executive officer, chief

operating officer and chief financial officer; the management of our non-standard automobile insurance companies, including its president, vice president of claims and treasurer; and other selected executives. We begin the process each quarter by responding to detailed information requests submitted by our

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external reserving actuaries. Upon completion of their estimation analysis of the provision for unpaid loss and loss adjustment expenses, the results are discussed with the internal management team. As part of this discussion, the analyses supporting the actuarial estimates of IBNR by line of business and state for each of our non-standard automobile companies, including separate analyses for our voluntary runoff companies, are reviewed. The external reserving actuaries also present explanations supporting any changes to the underlying assumptions used to calculate the indicated estimates. A review of the resulting variance between the indicated provision for unpaid loss and loss adjustment expenses and the carried provision for unpaid loss and loss adjustment expenses takes place. The internal management team engages in a discussion with the external reserving actuaries and supplies supplemental information in support of assumptions it believes should be challenged. The external reserving actuaries review the supplemental information and return to the internal management team with their recommendation in regards to the provision for unpaid loss and loss adjustment expenses that should be booked to reflect their analytical assessment and view of estimation risk. After discussion of these analyses and all relevant risk factors, the internal management team determines whether the carried provision for unpaid loss and loss adjustment expenses requires adjustment.

Our external reserving actuaries also develop, as part of their annual actuarial report to the Company, an estimated range around the provision for unpaid loss and loss adjustment expenses recorded by the Company. At December 31, 2017, the Company recorded a \$1.3 million provision for unpaid loss and loss adjustment expenses. The report of the Company's external actuaries indicates that a carried provision for unpaid loss and loss adjustment expenses anywhere between \$1.2 million and \$1.7 million at December 31, 2017 would fall within their reasonable range of estimation. This range does not present a forecast of future redundancy or deficiency since actual development of future paid losses related to the current provision for unpaid loss and loss adjustment expenses may be affected by many variables. The provision for unpaid loss and loss adjustment expenses recorded at December 31, 2017 represents our best estimate of the ultimate amounts that will be paid.

To the extent that the ultimate paid losses are higher or lower than the provision for unpaid loss and loss adjustment expenses recorded by the Corporation, the differences would be recorded in the Corporation's consolidated statements of operations in the accounting periods in which they are determined. There can be assurance that such differences would not be material.

Valuation of Fixed Maturities and Equity Investments

Our equity investments, including warrants, are recorded at fair value using quoted market values based on latest bid prices, where active markets exist, or models based on significant market observable inputs, where no active markets exist.

For fixed maturities, we use observable inputs such as quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are inactive; or valuations based on models where the significant inputs are observable or can be corroborated by observable market data. We do not have any fixed maturities and equity investments in our portfolio that require us to use unobservable inputs. The Corporation engages a third-party vendor who utilizes third-party pricing sources and primarily employs a market approach to determine the fair values of our fixed maturities. The market approach includes primarily obtaining prices from independent third-party pricing services as well as, to a lesser extent, quotes from broker-dealers. Our third-party vendor also monitors market indicators, as well as industry and economic events, to ensure pricing is appropriate. All classes of our fixed maturities are valued using this technique. We have obtained an understanding of our third-party vendor's valuation methodologies and inputs. Fair values obtained from our third-party vendor are not adjusted by the Corporation.

Gains and losses realized on the disposition of investments are determined on the first-in first-out basis and credited or charged to the consolidated statements of operations. Premium and discount on investments are amortized and

accredited using the interest method and charged or credited to net investment income.

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Impairment Assessment of Investments

The establishment of an other-than-temporary impairment on an investment requires a number of judgments and estimates. We perform a quarterly analysis of the individual investments to determine if declines in market value are other-than-temporary. The analysis includes some or all of the following procedures, as applicable:

identifying all unrealized loss positions that have existed for at least six months;

identifying other circumstances management believes may impact the recoverability of the unrealized loss positions;

obtaining a valuation analysis from third-party investment managers regarding the intrinsic value of these investments based on their knowledge and experience together with market-based valuation techniques;

reviewing the trading range of certain investments over the preceding calendar period;

assessing if declines in market value are other-than-temporary for debt instruments based on the investment grade credit ratings from third-party rating agencies;

assessing if declines in market value are other-than-temporary for any debt instrument with a non-investment grade credit rating based on the continuity of its debt service record;

determining the necessary provision for declines in market value that are considered other-than-temporary based on the analyses performed; and

assessing the Corporation's ability and intent to hold these investments at least until the investment impairment is recovered.

The risks and uncertainties inherent in the assessment methodology used to determine declines in market value that are other-than-temporary include, but may not be limited to, the following:

the opinions of professional investment managers could be incorrect;

the past trading patterns of individual investments may not reflect future valuation trends;

the credit ratings assigned by independent credit rating agencies may be incorrect due to unforeseen or unknown facts related to a company's financial situation; and

the debt service pattern of non-investment grade instruments may not reflect future debt service capabilities and may not reflect a company's unknown underlying financial problems.

As a result of the analysis performed by the Corporation to determine declines in market value that are other-than-temporary, there were no write downs for other-than-temporary impairments related to investments for the year ended December 31, 2017.

The Corporation recorded a write-down of \$0.0 million for other-than-temporary impairment related to equity investments for the year ended December 31, 2016.

Valuation of Limited Liability Investment, at Fair Value

In connection with the deconsolidation of 1347 Investors LLC (1347 Investors) during the third quarter of 2016, the Corporation retained a minority investment in 1347 Investors. The Corporation has made an irrevocable election to account for this investment at fair value with changes in fair value reported in the consolidated statements of operations. The fair value of this investment is calculated based on a model that distributes the net equity of 1347 Investors to all classes of membership interests. The model uses quoted market prices and significant market observable inputs.

Valuation of Deferred Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in our consolidated financial statements. In determining our provision for income taxes, we interpret tax legislation in a

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variety of jurisdictions and make assumptions about the expected timing of the reversal of deferred income tax assets and liabilities and the valuation of deferred income taxes.

The ultimate realization of the deferred income tax asset balance is dependent upon the generation of future taxable income during the periods in which the Corporation's temporary differences reverse and become deductible. A valuation allowance is established when it is more likely than not that all or a portion of the deferred income tax asset balance will not be realized. In determining whether a valuation allowance is needed, management considers all available positive and negative evidence affecting specific deferred income tax asset balances, including the Corporation's past and anticipated future performance, the reversal of deferred income tax liabilities, and the availability of tax planning strategies.

Objective positive evidence is necessary to support a conclusion that a valuation allowance is not needed for all or a portion of a company's deferred income tax asset balances when significant negative evidence exists. Cumulative losses are the most compelling form of negative evidence considered by management in this determination. To the extent a valuation allowance is established in a period, an expense must be recorded within the income tax provision in the consolidated statements of operations. As of December 31, 2017, the Corporation maintains a valuation allowance of \$177.0 million, \$170.6 million of which relates to its U.S. deferred income taxes. The largest component of the U.S. deferred income tax asset balance relates to tax loss carryforwards that have arisen as a result of losses generated from the Corporation's U.S. operations. Uncertainty over the Corporation's ability to utilize these losses over the short-term has led the Corporation to record a valuation allowance.

Future events may result in the valuation allowance being adjusted, which could materially impact our financial position and results of operations. If sufficient positive evidence were to arise in the future indicating that all or a portion of the deferred income tax assets would meet the more likely than not standard, all or a portion of the valuation allowance would be reversed in the period that such a conclusion was reached.

Valuation and Impairment Assessment of Intangible Assets

Intangible assets are recorded at their estimated fair values at the date of acquisition. Intangible assets with definite useful lives consist of vehicle service agreements in-force, database, customer relationships, contract-based revenues and in-place lease. Intangible assets with definite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. If circumstances require that a definite-lived intangible asset be tested for possible impairment, we first compare the undiscounted cash flows expected to be generated by that definite-lived intangible asset to its carrying amount. If the carrying amount of the definite-lived intangible asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value.

Indefinite-lived intangible assets consist of a tenant relationship and trade name. Intangible assets with an indefinite life are assessed for impairment annually as of December 31, or more frequently if events or circumstances indicate that the carrying value may not be recoverable. The Corporation has the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If facts and circumstances indicate that it is more likely than not that the intangible asset is impaired, a fair value-based impairment test would be required. Management must make estimates and assumptions in determining the fair value of indefinite-lived intangible assets that may affect any resulting impairment write-down. This includes assumptions regarding future cash flows and future revenues from the related intangible assets or their reporting units. Management then compares the fair value of the indefinite-lived intangible assets to their respective carrying amounts. If the carrying amount of an intangible asset exceeds the fair value of that intangible asset, an impairment is recorded. No impairment charges were taken on intangible assets in 2017 or 2016. Additional information regarding our

intangible assets is included in Note 11, Intangible Assets, to the Audited Consolidated Financial Statements and Note 9, Intangible Assets, to the Quarterly Consolidated Financial Statements.

Table of Contents**Goodwill Recoverability**

Goodwill is assessed for impairment annually as of December 31, or more frequently if events or circumstances indicate that the carrying value may not be recoverable. The Corporation has the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If facts and circumstances indicate that it is more likely than not that the goodwill is impaired, a fair value-based impairment test would be required. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of each reporting unit based on valuation techniques, including a discounted cash flow model using revenue and profit forecasts, and comparing those estimated fair values with the carrying values of the assets and liabilities of the reporting unit, which includes the allocated goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment, if any, by determining an implied fair value of goodwill. The determination of the implied fair value of goodwill of a reporting unit requires management to allocate the estimated fair value of the reporting unit to the assets and liabilities of the reporting unit. Any unallocated fair value represents the implied fair value of goodwill, which is compared to its corresponding carrying value. For reporting units with a negative book value, qualitative factors are evaluated to determine whether it is necessary to perform the second step of the goodwill impairment test. Additional information regarding our goodwill is included in Note 10, Goodwill, to the Audited Consolidated Financial Statements.

Deferred Acquisition Costs

Deferred acquisition costs represent the deferral of expenses that we incur related to successful efforts to acquire new business or renew existing business. Acquisition costs, primarily commissions and agency expenses related to issuing vehicle service agreements, are deferred and charged against income ratably over the terms of the related vehicle service agreements. Management regularly reviews the categories of acquisition costs that are deferred and assesses the recoverability of this asset.

Derivative Financial Instruments

Derivative financial instruments include investments in warrants and performance shares issued to the Corporation under various performance share grant agreements. Refer to Note 6, Investments, to the Audited and Quarterly Consolidated Financial Statements, for further details regarding the performance shares. Warrants are classified as equity investments in the consolidated balance sheets.

We measure derivative financial instruments at fair value. Warrants are recorded at fair value using quoted market values based on latest bid prices, where active markets exist, or models based on significant market observable inputs, where no active markets exist. The performance shares, for which no active market exists, are required to be valued at fair value as determined in good faith by the Corporation. Such determination of fair value would require us to develop a model based upon relevant observable market inputs as well as significant unobservable inputs, including developing a sufficiently reliable estimate for an appropriate discount to reflect the illiquidity and unique structure of the security. The Corporation determined that its model for the performance shares was not sufficiently reliable. As a result, we have assigned a fair value of zero to the performance shares.

Fair Value Assumptions for Subordinated Debt Obligations

Our subordinated debt is measured and reported at fair value. The fair value of the subordinated debt is calculated using a model based on significant market observable inputs and inputs developed by a third party. These inputs

include credit spread assumptions developed by a third party and market observable swap rates.

Table of Contents**RESULTS OF CONTINUING OPERATIONS**

A reconciliation of total segment operating income to net (loss) income for the years ended December 31, 2017 and 2016 is presented in Table 1 below:

Table 1 Segment Operating Income for the Years Ended December 31, 2017 and 2016

For the years ended December 31 (in thousands of dollars)

	2017	2016	Change
Segment operating income			
Extended Warranty	3,957	506	3,451
Leased Real Estate	3,099	627	2,472
Total segment operating income	7,056	1,133	5,923
Net investment income	968	2,862	(1,894)
Net realized gains	306	66	240
Other-than-temporary impairment loss		(17)	17
Interest expense not allocated to segments	(4,977)	(4,496)	(481)
Other income and expenses not allocated to segments, net	(10,138)	(6,081)	(4,057)
Amortization of intangible assets	(1,152)	(1,242)	90
Contingent consideration benefit	212	657	(445)
Loss on change in fair value of debt	(8,487)	(3,721)	(4,766)
Gain on deconsolidation of subsidiary		5,643	(5,643)
Equity in net income (loss) of investees	2,115	(1,017)	3,132
Loss from continuing operations before income tax benefit	(14,097)	(6,213)	(7,884)
Income tax benefit	(16,694)	(9,720)	(6,974)
Income from continuing operations	2,597	3,507	(910)
Loss on liquidation of subsidiary, net of taxes	(494)		(494)
Loss from discontinued operations, net of taxes	(14,252)	(4,240)	(10,012)
Gain on disposal of discontinued operations, net of taxes	1,017	1,255	(238)
Net (loss) income	(11,132)	522	(11,654)

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A reconciliation of total segment operating income to net loss for the nine months ended September 30, 2018 and 2017 is presented in Table 2 below:

Table 2 Segment Operating Income

(in thousands of dollars)

	For the nine months ended September 30,		
	2018	2017	Change
Segment operating income:			
Extended Warranty	3,615	2,118	1,497
Leased Real Estate	1,965	2,315	(350)
Total segment operating income	5,580	4,433	1,147
Net investment (loss) income	(697)	126	(823)
Net realized losses	(405)	(1)	(404)
Gain on change in fair value of equity investments	951		951
Interest expense not allocated to segments	(4,476)	(3,636)	(840)
Other income and expenses not allocated to segments, net	(4,428)	(6,871)	2,443
Amortization of intangible assets	(1,899)	(866)	(1,033)
Contingent consideration benefit		212	(212)
Loss on change in fair value of debt	(2,511)	(5,769)	3,258
Gain on disposal of subsidiary	17		17
Equity in net (loss) income of investee	(623)	1,343	(1,966)
Loss from continuing operations before income tax expense	(8,491)	(11,029)	2,538
Income tax expense	291	1,636	(1,345)
Loss from continuing operations	(8,782)	(12,665)	3,883
Income from discontinued operations, net of taxes	2,069	960	1,109
(Loss) gain on disposal of discontinued operations, net of taxes	(7,800)	1,017	(8,817)
Net loss	(14,513)	(10,688)	(3,825)

Income from Continuing Operations, Net (Loss) Income and Diluted (Loss) Earnings per Share

For the year ended December 31, 2017, we incurred income from continuing operations of \$2.6 million (loss of \$0.10 per diluted share) compared to \$3.5 million (\$0.15 per diluted share) for the year ended December 31, 2016. The income from continuing operations for the year ended December 31, 2017 is primarily attributable to operating income in Extended Warranty and Leased Real Estate, net investment income, net realized gains, equity in net income of investees and income tax benefit, partially offset by interest expense not allocated to segments, other income and expenses not allocated to segments, net and loss on change in fair value of debt. The income from continuing operations for the year ended December 31, 2016 is primarily attributable to net investment income, gain on deconsolidation of subsidiary and income tax benefit, partially offset by interest expense not allocated to segments, other income and expenses not allocated to segments, net and loss on change in fair value of debt.

For the year ended December 31, 2017, we reported net loss of 11.1 million (\$0.73 per diluted share) compared to net income of \$0.5 million (\$0.01 per diluted share) for the year ended December 31, 2016.

For the nine months ended September 30, 2018, we reported loss from continuing operations of \$8.8 million compared to \$12.7 million for the nine months ended September 30, 2017. The loss from continuing operations for the nine months ended September 30, 2018 is primarily due to interest expense not allocated to segments, other income and expenses not allocated to segments, net, amortization of intangible assets and loss on change in fair value of debt, partially offset by operating income in Extended Warranty and Leased Real Estate.

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The loss from continuing operations for the nine months ended September 30, 2017 is primarily due to interest expense not allocated to segments, other income and expenses not allocated to segments, net and loss on change in fair value of debt, partially offset by operating income in Extended Warranty and Leased Real Estate.

For the nine months ended September 30, 2018, we reported a net loss of \$14.5 million compared to \$10.7 million for the nine months ended September 30, 2017.

Extended Warranty

The Extended Warranty service fee and commission income increased 31.1% to \$30.8 million for the year ended December 31, 2017 compared with \$23.5 million for the year ended December 31, 2016. The Extended Warranty service fee and commission income increased 39.6% to \$28.9 million for the nine months ended September 30, 2018 compared with \$20.7 million for the nine months ended September 30, 2017. The increase in each period reflects increased service fee and commission income at both IWS and Trinity. IWS experienced increased sales of vehicle service agreements due to higher automobile sales and improved penetration of its credit union distribution channel. Trinity experienced increased sales to existing customers of both its maintenance support and warranty products. The increases are also reflective of the inclusion of PWSC following its acquisition effective October 12, 2017. PWSC service fee and commission income was \$2.4 million from the date of acquisition through December 31, 2017. PWSC service fee and commission income was \$5.4 million for the nine months ended September 30, 2018.

PWSC's service fee and commission income for the nine months ended September 30, 2018 was impacted by the adoption of ASU 2014-09, which was effective January 1, 2018. As further discussed in Note 4, Recently Issued Accounting Standards, to the Quarterly Consolidated Financial Statements, the adoption of ASU 2014-09 will result in the Company recognizing homebuilder warranty service fees more slowly compared to the historic revenue recognition pattern utilized prior to the adoption of ASU 2014-09. As a result of the adoption of ASU 2014-09, service fee and commission income recorded by PWSC during the nine months ended September 30, 2018 was lower by \$1.5 million compared to what would have been recognized prior to the adoption of ASU 2014-09.

The Extended Warranty operating income was \$4.0 million for the year ended December 31, 2017 compared with \$0.5 million for the year ended December 31, 2016. This increase in operating income is due to the inclusion of PWSC in 2017, as noted above, as well as improved revenues, partially offset by related increase in costs of services sold at Trinity and commission expense at IWS, for the year ended December 31, 2017 compared with the same period in 2016.

The Extended Warranty operating income was \$3.6 million for the nine months ended September 30, 2018 compared with \$2.1 million for the nine months ended September 30, 2017. The increase in operating income for the nine months September 30, 2018 is primarily due to the inclusion of PWSC in 2018 following its acquisition effective October 12, 2017. PWSC operating income was \$0.9 million for the nine months ended September 30, 2018. The increase in operating income also reflects the improved revenues at both Trinity and IWS, partially offset by related increases in cost of services sold at Trinity and general and administrative expenses at both Trinity and IWS, for the nine months ended September 30, 2018, compared to the same period in 2017.

Leased Real Estate

Leased Real Estate rental income was \$13.4 million for the year ended December 31, 2017 compared to \$5.4 million for the year ended December 31, 2016. For the nine months ended September 30, 2018, Leased Real Estate rental income was \$10.0 million compared to \$10.0 million for the nine months ended September 30, 2017. The rental income is derived from CMC's long-term triple net lease. The Corporation acquired 81% of CMC on July 14, 2016.

The 2017 rental income is reflective of a lease amendment that was executed effective beginning in the first quarter of 2017 whereby the tenant will pay an aggregate \$25.0 million of additional rental

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income through May 2034, the remaining term of the lease (the Lease Amendment). The Leased Real Estate operating income was \$3.1 million for the year ended December 31, 2017 compared to \$0.6 million for the year ended December 31, 2016. Leased Real Estate operating income includes interest expense of \$6.3 million and \$2.9 million for the years ended December 31, 2017 and 2016, respectively. The Leased Real Estate operating income was \$2.0 million for the nine months ended September 30, 2018 compared with \$2.3 million for the nine months ended September 30, 2017. The decrease in operating income for the nine months ended September 30, 2018 is due to increased legal expenses, compared to the same period in 2017. Leased Real Estate recorded legal expense of \$0.4 million for the nine months ended September 30, 2018 compared with zero for the nine months ended September 30, 2017. Leased Real Estate operating income includes interest expense of \$4.6 million and \$4.7 million for the nine months ended September 30, 2018 and 2017, respectively. Leased Real Estate operating income for the nine months ended September 30, 2017 also reflects a non-recurring charge of \$0.3 million for transaction expenses related to the execution of a lease amendment. See Investments section below for further discussion.

Net Investment Income

Net investment income decreased to \$1.0 million in 2017 compared to \$2.9 million in 2016. The decrease in 2017 is primarily explained by the difference between the \$0.3 million net investment loss recorded during 2017 related to the Corporation's limited liability investment, at fair value compared to the \$1.3 million net investment income recorded during 2016 related to the Corporation's limited liability investment, at fair value.

Net investment losses were \$0.7 million for the nine months ended September 30, 2018 compared to net investment income of \$0.1 million for the nine months ended September 30, 2017. The decrease for the nine months ended September 30, 2018 is primarily due to a \$1.5 million decrease in fair value of the Company's limited liability investment, at fair value recorded for the nine months ended September 30, 2018 compared to a \$0.4 million decrease in fair value of the Company's limited liability investment, at fair value recorded for the nine months ended September 30, 2017.

Net Realized (Losses) Gains

The Corporation incurred net realized gains of \$0.3 million in 2017 compared to \$0.1 million in 2016. The net realized gains in 2017 resulted primarily from the sale of an LLC investment. The net realized gains in 2016 resulted primarily from the liquidation of equity investments.

Net realized losses were \$0.4 million for the nine months ended September 30, 2018 compared to \$0.0 million for the nine months ended September 30, 2017. The net realized losses for the nine months ended September 30, 2018 resulted from the sale of a limited liability investment as one part of a broader set of arrangements with certain former officers of the Company. Refer to Note 21, Related Party Transactions, to the Quarterly Consolidated Financial Statements, for further discussion.

Gain on Change in Fair Value of Equity Investments

Gain on change in fair value of equity investments was \$1.0 million for the nine months ended September 30, 2018 compared to zero for the nine months ended September 30, 2017. As further discussed in Note 4, Recently Issued Accounting Standards, to the Quarterly Consolidated Financial Statements, effective January 1, 2018, the Company adopted ASU 2016-01. As a result, all changes in the fair value of equity investments are now recognized in net income (loss). The gain on change in fair value of equity investments for the nine months ended September 30, 2018 includes realized gains of \$1.5 million on equity investments sold and unrealized losses of \$0.5 million on equity investments held as of September 30, 2018.

Table of Contents**Other-Than-Temporary Impairment Loss**

As a result of the analysis performed by the Corporation to determine declines in market value that are other-than-temporary, there were no write downs for other-than-temporary impairments related to investments for the year ended December 31, 2017. The Corporation recorded a write-down of \$0.0 million for other-than-temporary impairment related to equity investments for the year ended December 31, 2016.

Interest Expense not Allocated to Segments

Interest expense not allocated to segments for 2017 was \$5.0 million compared to \$4.5 million in 2016. The increase in 2017 is attributable to generally higher London interbank offered interest rates for three-month U.S. dollar deposits (LIBOR) during the year ended December 31, 2017 compared to the year ended December 31, 2016. The Corporation's subordinated debt bears interest at the rate of LIBOR, plus spreads ranging from 3.85% to 4.20%.

Interest expense not allocated to segments was \$4.5 million for the nine months ended September 30, 2018 compared to \$3.6 million for the nine months ended September 30, 2017. The increase for the nine months ended September 30, 2018 is primarily attributable to generally higher LIBOR during the nine months ended September 30, 2018 compared to the same period in 2017. The Corporation's subordinated debt bears interest at the rate of LIBOR, plus spreads ranging from 3.85% to 4.20%. The increase is also reflective of the inclusion of interest expense on the Corporation's bank loan incurred as part of its acquisition of PWSC effective October 12, 2017.

Other Income and Expenses not Allocated to Segments, Net

Other income and expenses not allocated to segments was a net expense of \$10.1 million in 2017 compared to \$6.1 million in 2016. The increase in net expense is primarily the result of more general and administrative expense for compensation, employee benefits and professional fees in 2017 as compared to 2016 and an increase in loss and loss adjustment expenses at Amigo in 2017 as compared to 2016, partially offset by a \$0.7 million gain recorded during the third quarter of 2017 related to the termination of a financing lease, as further discussed in Note 16, Finance Lease Obligation Liability, to the Audited Consolidated Financial Statements.

Other income and expenses not allocated to segments, net was a net expense of \$4.4 million for the nine months ended September 30, 2018 compared to net expense of \$6.9 million for the nine months ended September 30, 2017. The following items were recorded as part of Other income and expenses not allocated to segments, net.

Total stock-based compensation, net of forfeitures, was a benefit of \$1.9 million and expense of \$0.9 million for the nine months ended September 30, 2018 and September 30, 2017, respectively. During the third quarter of 2018, the Company modified the terms of grants of restricted common stock awards to certain former officers of the Company. Refer to Note 17, Stock-Based Compensation, to the Quarterly Consolidated Financial Statements, for further discussion of the restricted stock awards. The Company also record \$0.4 million of payroll tax expense and \$0.2 million of other expense during the third quarter of 2018 related to these arrangements with its former officers.

The Company recorded a \$0.7 million gain for the nine months ended September 30, 2017 related to the termination of a financing lease, as further discussed in Note 12, Finance Lease Obligation Liability, to the Quarterly Consolidated Financial Statements.

The Company recorded other income of zero and \$0.9 million related to the write-off of escheat liabilities for the nine months ended September 30, 2018.

Loss and loss adjustment expenses, net of commissions, at Amigo were an expense of \$1.7 million and a benefit of \$0.0 million for the nine months ended September 30, 2018 and September 30, 2017, respectively. Amigo was

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previously included in the Insurance Underwriting segment along with Mendota, Mendakota and MCC. As a consequence of classifying Mendota, Mendakota and MCC as discontinued operations, the remaining composition of the Insurance Underwriting segment no longer meets the criteria of a reportable segment. As such, all segmented information has been restated to exclude the Insurance Underwriting segment for all periods presented. The operating results of Amigo previously included in the Insurance Underwriting segment are now included in Other income and expenses not allocated to segments, net.

Amortization of Intangible Assets

The Corporation's intangible assets with definite useful lives are amortized over their estimated useful lives. Amortization of intangible assets was \$1.2 million in 2017 compared to \$1.2 million in 2016. Amortization of intangible assets was \$1.9 million for the nine months ended September 30, 2018 compared to \$0.9 million for the nine months ended September 30, 2017. The higher amortization expense for the nine months ended September 30, 2018 is related to amortization of intangible assets recorded in conjunction with the Company's acquisition of PWSC on October 12, 2017. During the third quarter of 2018, the Company finalized its fair value analysis of the assets acquired and liabilities assumed in its acquisition of PWSC, which resulted in the Company recording (i) \$0.8 million of amortization expense during the third quarter of 2018 for the period from the date of acquisition through June 30, 2018 and (ii) \$0.3 million of amortization expense during the third quarter of 2018 for the period July 1, 2018 through September 30, 2018 related to the intangible assets identified. See Note 5, Acquisitions, Disposal and Discontinued Operations, to the Quarterly Consolidated Financial Statements for further details.

Contingent Consideration Benefit

Contingent consideration benefit was \$0.2 million in 2017 compared to \$0.7 million in 2016. Contingent consideration benefit was zero for the nine months ended September 30, 2018 compared to \$0.2 million for the nine months ended September 30, 2017. The asset purchase agreements executed by the Corporation in 2012 and 2013 related to the acquisitions of IWS and Trinity, respectively, provided for additional payments to the former owners of IWS and Trinity contingent upon the achievement of certain targets over future reporting periods. Contingent consideration liabilities resulting from the acquisitions of IWS and Trinity were estimated at their respective acquisition dates using valuation models designed to estimate the probability of such contingent payments based on various assumptions. The valuation models assume certain achievement of targets, discount rates related to riskiness of the projections used and the time value of money to calculate the net present value of future consideration payments.

The benefit recorded for the year ended December 31, 2017 and for the nine months ended September 30, 2017 is attributable to the Corporation having executed an agreement with the former owner of Trinity. The parties to the Trinity agreement agreed to a fixed payment in exchange for extinguishing the rights to future contingent payments. The benefit recorded for the year ended December 31, 2016 is attributable to the Corporation having executed an agreement with the former owners of IWS. The parties to the IWS agreement agreed to a fixed payment and other consideration in exchange for extinguishing the rights to future contingent payments. At December 31, 2017 and 2016, the Corporation has total contingent liabilities of \$0.0 million and \$0.3 million, respectively, which is included in accrued expenses and other liabilities on the consolidated balance sheets. See Note 26, Fair Value of Financial Instruments, to the Audited Consolidated Financial Statements, for further details.

Loss on Change in Fair Value of Debt

The loss on change in fair value of debt amounted to \$8.5 million in 2017 compared to \$3.7 million in 2016. Loss on change in fair value of debt amounted to \$2.5 million for the nine months ended September 30, 2018 compared to

\$5.8 million for the nine months ended September 30, 2017. The loss for 2017 and 2016 and for the nine months ended September 30, 2018 and September 30, 2017 is due to an increase in the fair value of the subordinated debt. As further discussed in Note 4, Recently Issued Accounting Standards, to the Quarterly Consolidated Financial Statements, effective January 1, 2018, the Corporation adopted ASU 2016-01. As a

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result, the portion of the change in fair value of subordinated debt related to the instrument-specific credit risk is now recognized in other comprehensive income (loss), whereas for 2017, the total change in fair value of subordinated debt was recorded in net income (loss). See **Debt** section below for further information.

Gain on Disposal of Subsidiary

On June 1, 2018, the Company disposed of its subsidiary, Itasca Real Estate Investors, LLC. As a result of the disposal, the Company recognized a gain of \$0.0 million during the nine months ended September 30, 2018.

Gain on Deconsolidation of Subsidiary

Prior to the third quarter of 2016, the Corporation owned 61.0% of the outstanding units of 1347 Investors. Because the Corporation owned more than 50% of the outstanding units, the Corporation had been consolidating the financial statements of 1347 Investors. During the third quarter of 2016, the Corporation's ownership percentage in 1347 Investors was reduced to 26.7%. As a result of this change in ownership, the Corporation recorded a non-cash gain on deconsolidation of 1347 Investors of \$5.6 million during the third quarter of 2016. This gain results from removing the carrying value of the noncontrolling interest in 1347 Investors and the carrying value of the consolidated net assets of 1347 Investors, which the Corporation reported prior to the closing of the transaction, and recording the fair value of the Corporation's 26.7% retained noncontrolling investment in 1347 Investors as of the transaction date. Refer to the **Investments** section below and Note 5, **Deconsolidation, Discontinued Operations and Liquidation**, to the Audited Consolidated Financial Statements, for further discussion.

Equity in Net Income (Loss) of Investees

Equity in net income of investees was \$2.1 million in 2017 compared to equity in net loss of investees of \$1.0 million in 2016. Equity in net income (loss) of investees between 2017 and 2016 represents the Corporation's investments in Itasca Capital Ltd. and 1347 Capital Corp. Equity in net loss of investee was \$0.6 million for the nine months ended September 30, 2018 compared to equity in net income of investee of \$1.3 million for the nine months ended September 30, 2017. Equity in net (loss) income of investee for the nine months ended September 30, 2018 and September 30, 2017 represents the Corporation's investment in Itasca Capital Ltd. See Note 7, **Investment in Investee**, to the Audited and Quarterly Consolidated Financial Statements, for further discussion.

Income Tax (Benefit) Expense

Income tax benefit for 2017 was \$16.7 million compared to \$9.7 million in 2016. The 2017 income tax benefit is primarily related to a release of deferred income tax liabilities and an adjustment to the deferred income tax valuation allowance resulting from the Tax Cuts and Jobs Act (the **Tax Act**) enacted on December 22, 2017. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, a permanent reduction in the U.S. federal corporate income tax rate to 21%.

The Corporation is subject to the provisions of Accounting Standards Codification 740-10, *Income Taxes*, which requires that the effect on deferred tax income assets and liabilities of a change in tax rates be recognized in the period the tax rate change was enacted. In December of 2017, the SEC staff issued Staff Accounting Bulletin 118 (**SAB 118**), which provides that companies that have not completed their accounting for the effects of the Tax Act but can determine a reasonable estimate of those effects should include a provisional amount based on their reasonable estimate in their financial statements.

Pursuant to SAB 118, the Corporation recorded provisional amounts for the estimated income tax effects of the Tax Act on deferred income taxes. The Corporation recorded a \$18.0 million decrease to income tax expense in the consolidated statements of operations for the year ended December 31, 2017, \$17.9 million of which related to a decrease in the Corporation's net deferred income tax liability as of December 31, 2017 because of the reduction in the corporate income tax rate.

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Although the \$18.0 million tax benefit represents what the Corporation believes is a reasonable estimate of the impact of the income tax effects of the Tax Act on the Corporation's Consolidated Financial Statements as of December 31, 2017, it should be considered provisional. Any adjustments to the Corporation's provisional amounts will be reported as a component of the consolidated statements of operations during the reporting period in which any such adjustments are determined, all of which will be reported no later than the fourth quarter of 2018.

The 2016 income tax benefit is related to the partial release of the Corporation's valuation allowance carried against its deferred income tax assets as a result of its acquisition of CMC.

Income tax expense was \$0.3 million for the nine months ended September 30, 2018 compared to \$1.6 million for the nine months ended September 30, 2017.

See Note 18, *Income Taxes*, to the Audited Consolidated Financial Statements, for additional detail of the income tax benefit recorded for the years ended December 31, 2017 and 2016, respectively. See Note 15, *Income Taxes*, to the Quarterly Consolidated Financial Statements, for additional detail of the income tax (benefit) expense recorded for the nine months ended September 30, 2018 and September 30, 2017.

INVESTMENTS

As a result of classifying Mendota, Mendakota and MCC as discontinued operations, the results of their operations are reported separately for all periods presented and their assets are presented as held for sale in the consolidated balance sheets at December 31, 2017 and December 31, 2016 as well as at September 30, 2018. All investment information in the section below has been restated to exclude Mendota, Mendakota and MCC for all periods presented.

Portfolio Composition

All of our investments in fixed maturities are classified as available-for-sale and are reported at fair value. All of our equity investments are reported at fair value. Prior to the adoption of ASU 2016-01, equity investments were considered available-for-sale. At September 30, 2018, we held cash and cash equivalents and investments with a carrying value of \$48.8 million. Investments held by our insurance subsidiary, Amigo, must comply with domiciliary state regulations that prescribe the type, quality and concentration of investments. Our U.S. operations typically invest in U.S. dollar-denominated instruments to mitigate their exposure to currency rate fluctuations.

Tables 3 and 4 below summarizes the carrying value of investments, including cash and cash equivalents, at the dates indicated.

Table of Contents**TABLE 3 Carrying value of investments, including cash and cash equivalents**

As of December 31 (in thousands of dollars, except for percentages)

Type of investment	2017	% of Total	2016	% of Total
Fixed maturities:				
U.S. government, government agencies and authorities	5,612	10.6%	6,846	10.0%
States, municipalities and political subdivisions	626	1.2%	641	0.9%
Mortgage-backed	2,876	5.4%	3,248	4.7%
Corporate	5,427	10.2%	5,508	8.0%
Total fixed maturities	14,541	27.4%	16,243	23.6%
Equity investments:				
Common stock	3,570	6.7%	7,046	10.2%
Warrants	906	1.7%	1,210	1.8%
Total equity investments	4,476	8.4%	8,256	12.0%
Limited liability investments	4,922	9.3%	1,199	1.7%
Limited liability investment, at fair value	5,771	10.9%	6,112	8.9%
Other investments	2,321	4.4%	4,593	6.7%
Short-term investments	151	0.3%	401	0.6%
Total investments	32,182	60.7%	36,804	53.5%
Cash and cash equivalents	20,774	39.3%	31,951	46.5%
Total	52,956	100.0%	68,755	100.0%

TABLE 4 Carrying value of investments, including cash and cash equivalents

(in thousands of dollars, except for percentages)

Type of investment	September 30, 2018	% of Total
Fixed maturities:		
U.S. government, government agencies and authorities	5,429	11.1%
States, municipalities and political subdivisions	601	1.2%
Mortgage-backed	2,526	5.2%
Corporate	2,520	5.2%
Total fixed maturities	11,076	22.7%
Equity investments:		
Common stock	926	1.9%
Warrants	408	0.8%

Total equity investments	1,334	2.7%
Limited liability investments	6,230	12.8%
Limited liability investment, at fair value	4,529	9.3%
Other investments	1,917	3.9%
Short-term investments	151	0.3%
Total investments	25,237	51.7%
Cash and cash equivalents	23,591	48.3%
Total	48,828	100.0%

Other-Than-Temporary Impairment

The Company performs a quarterly analysis of its investments classified as available-for-sale to determine if declines in market value are other-than-temporary. Prior to the adoption of ASU 2016-01, equity investments

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were considered available-for-sale and were included in the analysis of other-than-temporary impairments. Following the adoption of ASU 2016-01 beginning with the first quarter of 2018, the Company includes only its investments in fixed maturities in its quarterly analysis for other-than-temporary declines in market value. Further information regarding our detailed analysis and factors considered in establishing an other-than-temporary impairment on an investment is discussed within Note 6, Investments, to the Quarterly Consolidated Financial Statements.

As a result of the analysis performed by the Corporation to determine declines in market value that are other-than-temporary, there were no write downs for other-than-temporary impairments related to investments for the year ended December 31, 2017. The Corporation recorded write-downs of \$0.0 million for other-than-temporary impairment related to equity investments for the year ended December 31, 2016. In addition, there were no write-downs for other-than-temporary impairments related to investments recorded for the nine months ended September 30, 2018 and September 30, 2017.

The length of time a fixed maturity investment may be held in an unrealized loss position may vary based on the opinion of the investment manager and their respective analyses related to valuation and to the various credit risks that may prevent us from recapturing the principal investment. In the case of a fixed maturity investment where the investment manager determines that there is little or no risk of default prior to the maturity of a holding, we would elect to hold the investment in an unrealized loss position until the price recovers or the investment matures. In situations where facts emerge that might increase the risk associated with recapture of principal, the Company may elect to sell a fixed maturity investment at a loss. Prior to the adoption of ASU 2016-01, the Company considered the ability and intent to hold an equity investment for a period of time sufficient to allow for anticipated recovery.

At December 31, 2017 and 2016, the gross unrealized losses for fixed maturities and equity investments amounted to \$0.8 million and \$0.2 million, respectively, and there were no unrealized losses attributable to non-investment grade fixed maturities. At September 30, 2018, the gross unrealized losses for fixed maturities amounted to \$0.2 million, and there were no unrealized losses attributable to non-investment grade fixed maturities. At each of September 30, 2018, December 31, 2017 and December 31, 2016, all unrealized losses on individual investments were considered temporary.

Limited Liability Investments

The Corporation owns investments in various limited liability companies (LLCs) and limited partnerships (LPs). The Corporation's investments in these LLCs and LPs are accounted for under the equity method of accounting and reported as limited liability investments in the consolidated balance sheets. The most recently available financial statements of the LLCs and LPs are used in applying the equity method. The difference between the end of the reporting period of the LLCs and LPs and that of the Corporation is no more than three months. Tables 5 and 6 below present additional information pertaining to the limited liability investments at September 30, 2018, December 31, 2017 and 2016.

TABLE 5 Limited liability investments

As of December 31 (in thousands of dollars)

	Carrying Value	
	2017	2016
Triple net lease limited liability investments	1,082	

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Other real estate related limited liability investments	110	269
Non-real estate limited liability investments	3,730	930
Total	4,922	1,199

Table of Contents**TABLE 6 Limited liability investments**

(in thousands of dollars)

	Carrying Value September 30, 2018
Triple net lease limited liability investments	2,793
Other real estate related limited liability investments	
Non-real estate limited liability investments	3,437
Total	6,230

Triple Net Lease Investments

Table 7 below presents total income from triple net lease investments included in the Corporation's income from continuing operations for the years ended December 31, 2017 and 2016, Table 8 below presents total income from triple net lease investments included in the Corporation's loss from continuing operations for the nine months ended September 30, 2018 and September 30, 2017.

TABLE 7 Income from triple net lease investments included in income from continuing operations

(in thousands of dollars)

	2017	2016
Income from triple net lease limited liability investments	82	
Income from CMC operations	2,517	519
Non-recurring income tax benefit related to CMC	17,302	9,915
Total income included in income from continuing operations as a result of triple net lease investments and CMC operations	19,901	10,434

TABLE 8 Income from triple net lease investments included in loss from continuing operations

(in thousands of dollars)

	Nine months ended September 30,	
	2018	2017
Income from triple net lease limited liability investments	139	47
Income from CMC operations	1,697	1,786

Total income included in loss from continuing operations as a result of triple net lease investments and CMC operations	1,836	1,833
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Income from triple net lease limited liability investments in the tables above is recognized based on the Corporation's share of the earnings of the limited liability entities and is included in net investment (loss) income in the Corporation's consolidated statements of operations.

Income from CMC operations in Table 7 above is comprised of Leased Real Estate segment operating income of \$3.1 million and \$0.6 million, respectively, amortization of intangible assets of \$0.1 million and \$0.0 million, respectively and income tax expense of \$0.5 million and \$0.1 million, respectively. Income from CMC operations in Table 8 above is comprised of Leased Real Estate segment operating income of \$2.0 million and \$2.3 million, respectively, year to date and prior year to date, amortization of intangible assets of \$0.0 million and \$0.0 million, respectively, year to date and prior year to date and income tax expense of \$0.2 million and \$0.5 million, respectively, year to date and prior year to date.

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Non-recurring income tax benefit related to CMC in the tables above for the year ended December 31, 2017 relates to the decrease in CMC's net deferred income tax liabilities as a result of the reduction in the corporate income tax rate due to the Tax Act. See Note 18, Income Taxes, to the Audited Consolidated Financial Statements and Note 15, Income Taxes, to the Quarterly Consolidated Financial Statements for further discussion regarding the Tax Act. Non-recurring income tax benefit related to CMC in the tables above for the year ended December 31, 2016 is related to the partial release of the Corporation's valuation allowance carried against its deferred income tax assets as a result of the acquisition of CMC.

With respect to CMC, the Corporation expects to record income each year based upon the rental income recognized under its existing triple net lease agreement on the Real Property less operating expenses, which are comprised principally of interest on the Mortgage and depreciation and amortization of certain of the assets acquired. Over the next three years, the Corporation generally expects to recognize in its consolidated statements of operations income of approximately \$2.8 to \$3.1 million per year, before legal expenses, related to its ownership of CMC. Because of the Lease Amendment, CMC may be in a position to distribute to the Corporation some of the cash received from the additional rental income. Any material cash flow to the Corporation, however, remains likely to occur only upon the occurrence of one of the three events that would trigger payment of service fees. There can be no assurance as to the timing of the occurrence, or the resulting outcome, from one of these events. Refer to the Liquidity and Capital Resources section below for further discussion.

Limited Liability Investment, at Fair Value

The Corporation's investment in 1347 Investors is accounted for at fair value and reported as limited liability investment, at fair value in the consolidated balance sheets. The Corporation owns 15.9% of the outstanding units of 1347 Investors as of September 30, 2018. As of December 31, 2017 and December 31, 2016, the carrying value of the Corporation's limited liability investment, at fair value was \$5.8 million and 6.1 million, respectively. As of September 30, 2018, the carrying value of the Corporation's limited liability investment, at fair value was \$4.5 million. Originally, the Corporation owned 61.0% of the outstanding units of 1347 Investors. Because the Corporation owned more than 50% of the outstanding units, 1347 Investors had been included in the consolidated financial statements of the Corporation. 1347 Investors had an investment in the common stock and private units of 1347 Capital Corp. which was reflected in investment in investee in the consolidated balance sheets. 1347 Capital Corp. was formed for the purpose of entering into a merger, share exchange, asset acquisition or other similar business combination with one or more businesses or entities.

On July 21, 2016, Limbach Holdings LLC announced the closing of its previously announced merger with 1347 Capital Corp. and was renamed Limbach Holdings, Inc. (Limbach). As a result of this transaction, the Corporation's ownership percentage in 1347 Investors was reduced from 61.0% to 26.7%, leading the Corporation to record a \$5.6 million gain during the third quarter of 2016 related to the deconsolidation of 1347 Investors. This gain resulted from removing the carrying value of the noncontrolling interest in 1347 Investors and the carrying value of the consolidated net assets of 1347 Investors, and recording the fair value at the time of the transaction of the Corporation's 26.7% retained investment in 1347 Investors. At the time of the transaction, the noncontrolling interest representing 39.0% of 1347 Investors had been carried by the Corporation at \$1.5 million.

As a result of recording a gain of \$5.6 million in the consolidated statements of operations and a reduction to shareholders' equity of \$1.5 million from the removal of the noncontrolling interest in 1347 Investors, the Corporation reported a net increase in its shareholders' equity of \$4.1 million during the third quarter of 2016 related to the closing of the Limbach merger and the related deconsolidation of 1347 Investors. Following the transaction, the principal asset of 1347 Investors is its holdings of Limbach common shares.

During the fourth quarter of 2016, the Corporation made an irrevocable election to account for its remaining investment in 1347 Investors at fair value, with any changes in fair value to be reported in net investment income

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in the consolidated statements of operations. The fair value of this investment is calculated based on a model that distributes the net equity of 1347 Investors to all classes of membership interests. The model uses quoted market prices and significant market observable inputs. The Corporation recorded net investment loss of \$0.3 million and net investment income of \$1.3 million related to this investment for the years ended December 31, 2017 and 2016, respectively. The Corporation recorded net investment loss of \$1.5 million for the nine months ended September 30, 2018 and \$0.4 million for the nine months ended September 30, 2017.

PROPERTY AND CASUALTY UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES

As a result of classifying Mendota, Mendakota and MCC as discontinued operations, the results of their operations are reported separately for all periods presented and their liabilities are presented as held for sale in the consolidated balance sheets at September 30, 2018, December 31, 2017 and December 31, 2016. All property and casualty unpaid loss and loss adjustment expenses information in the section below has been restated to exclude Mendota, Mendakota and MCC for all periods presented.

Property and casualty unpaid loss and loss adjustment expenses represent the estimated liabilities for reported loss events, IBNR loss events and the related estimated loss adjustment expenses.

Tables 9 through 12 present distributions, by line of business, of the provision for property and casualty unpaid loss and loss adjustment expenses gross and net of external reinsurance, respectively.

TABLE 9 Provision for property and casualty unpaid loss and loss adjustment expenses gross

As of December 31 (in thousands of dollars)

Line of Business	2017	2016
Non-standard automobile	572	1,097
Commercial automobile	580	916
Other	177	189
Total	1,329	2,202

TABLE 10 Provision for property and casualty unpaid loss and loss adjustment expenses - gross

(in thousands of dollars)

Line of Business	September 30, 2018
Non-standard automobile	815
Commercial automobile	854
Other	623
Total	2,292

TABLE 11 Provision for property and casualty unpaid loss and loss adjustment expenses net of reinsurance recoverable

As of December 31 (in thousands of dollars)

Line of Business	2017	2016
Non-standard automobile	508	806
Commercial automobile	572	853
Other	177	189
Total	1,257	1,848

Table of Contents**TABLE 12 Provision for property and casualty unpaid loss and loss adjustment expenses - net of reinsurance recoverable** (in thousands of dollars)

Line of Business	September 30, 2018	December 31, 2017
Non-standard automobile	761	508
Commercial automobile	829	572
Other	623	177
Total	2,213	1,257

Non-Standard Automobile

At December 31, 2017 and December 31, 2016, the gross provisions for property and casualty unpaid loss and loss adjustment expenses for our non-standard automobile business were \$0.6 million and \$1.1 million, respectively. The decrease is due to a decrease in unpaid loss and loss adjustment expenses at Amigo.

At September 30, 2018, the gross provisions for property and casualty unpaid loss and loss adjustment expenses for our non-standard automobile business was \$0.8 million. The increase from December 31, 2017 is due to an increase in unpaid loss adjustment expenses at Amigo.

Commercial Automobile

At December 31, 2017 and December 31, 2016, the gross provisions for property and casualty unpaid loss and loss adjustment expenses for our commercial automobile business were \$0.6 million and \$0.9 million, respectively. The decrease is due to a decrease in unpaid loss and loss adjustment expenses at Amigo.

At September 30, 2018, the gross provisions for property and casualty unpaid loss and loss adjustment expenses for our commercial automobile business was \$0.9 million. The increase from December 31, 2017 is due to an increase in unpaid loss adjustment expenses at Amigo.

Other

At December 31, 2017 and December 31, 2016, the gross provisions for property and casualty unpaid loss and loss adjustment expenses for our other business were \$0.2 million and \$0.2 million, respectively.

At September 30, 2018, the gross provisions for property and casualty unpaid loss and loss adjustment expenses for our other business was \$0.6 million. The increase from December 31, 2017 is due to an increase in unpaid loss adjustment expenses at Amigo.

Information with respect to development of our provision for prior years property and casualty loss and loss adjustment expenses is presented in Tables 13 and 14.

Table of Contents**TABLE 13 Increase (decrease) in prior years provision for property and casualty loss and loss adjustment expenses by line of business and accident year**

For the year ended December 31, 2017 (in thousands of dollars)

Accident Year	Non-standard Automobile	Commercial Automobile	Other	Total
2012 & prior	(65)	288	(11)	212
2013	171	40		211
2014	(1)			(1)
2015	(9)	(13)		(22)
2016	1			1
Total	97	315	(11)	401

For the year ended December 31, 2016 (in thousands of dollars)

Accident Year	Non-standard Automobile	Commercial Automobile	Other	Total
2011 & prior	(691)	282	(3)	(412)
2012	(130)	325		195
2013	(1,202)	(224)		(1,426)
2014				
2015				
Total	(2,023)	383	(3)	(1,643)

TABLE 14 Increase in prior years provision for property and casualty loss and loss adjustment expenses

(in thousands of dollars)

	Nine months ended September 30,	
	2018	2017
Unfavorable change in provision for property and casualty loss and loss adjustment expenses for prior accident years	1,628	266

For the nine months ended September 30, 2018, the Company reported unfavorable development of \$1.6 million compared with unfavorable development of \$0.3 million prior year to date. The unfavorable development reported for the nine months ended September 30, 2018 and September 30, 2017 was related to an increase in property and casualty loss adjustment expenses due to the continuing voluntary run-off of Amigo.

See the Critical Accounting Estimates and Assumptions section of Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information pertaining to the Company's process of

estimating the provision for unpaid loss and loss adjustment expenses.

DEBT

Note Payable

As part of the acquisition of CMC, the Corporation assumed the Mortgage and recorded the Mortgage at its estimated fair value of \$191.7 million, which included the unpaid principal amount of \$180.0 million as of the date of acquisition plus a premium of \$11.7 million. The Mortgage matures on May 15, 2034 and has a fixed interest rate of 4.07%. The Mortgage is carried in the consolidated balance sheets at its amortized cost, which reflects the monthly pay-down of principal as well as the amortization of the premium using the effective interest rate method.

Table of Contents**Bank Loan**

On October 12, 2017, the Corporation borrowed a principal amount of \$5.0 million from a bank to partially finance its acquisition of PWSC. The bank loan matures on October 12, 2022 and has a fixed interest rate of 5.0%. The bank loan is carried in the consolidated balance sheets at its unpaid principal balance.

Subordinated Debt

Between December 4, 2002 and December 16, 2003, six subsidiary trusts of the Corporation issued \$90.5 million of 30-year capital securities to third-parties in separate private transactions. In each instance, a corresponding floating rate junior subordinated deferrable interest debenture was then issued by Kingsway America Inc. to the trust in exchange for the proceeds from the private sale. The floating rate debentures bear interest at the rate of LIBOR, plus spreads ranging from 3.85% to 4.20%. The Corporation has the right to call each of these securities at par value any time after five years from their issuance until their maturity. During the first quarter of 2011, the Corporation gave notice to its Trust Preferred trustees of its intention to exercise its voluntary right to defer interest payments for up to 20 quarters, pursuant to the contractual terms of its outstanding indentures, which permit interest deferral. This action does not constitute a default under the Corporation's Trust Preferred indentures or any of its other debt indentures. On November 6, 2015, the Corporation paid \$22.1 million to its Trust Preferred trustees to be used by the trustees to pay the interest which the Corporation had been deferring since the first quarter of 2011.

During the third quarter of 2018, the Company gave notice to its Trust Preferred trustees of its intention to exercise its voluntary right to defer interest payments for up to 20 quarters, pursuant to the contractual terms of its outstanding Trust Preferred indentures, which permit interest deferral. This action does not constitute a default under the Company's Trust Preferred indentures or any of its other debt indentures.

The Corporation's subordinated debt is measured and reported at fair value. At December 31, 2017, the carrying value of the subordinated debt is \$52.1 million. At September 30, 2018, the carrying value of the subordinated debt is \$53.6 million. The fair value of the subordinated debt is calculated using a model based on significant market observable inputs and inputs developed by a third party. For a description of the market observable inputs and inputs developed by a third party used in determining fair value of debt, see Note 20, Fair Value of Financial Instruments, to the Quarterly Consolidated Financial Statements.

During the year ended December 31, 2017, the market observable swap rates changed, and the Corporation experienced a decrease in the credit spread assumption developed by the third party. During the nine months ended September 30, 2018, the market observable swap rates changed, and the Corporation experienced an increase in the credit spread assumption developed by the third party. Changes in the market observable swap rates affect the fair value model in different ways. An increase in the LIBOR swap rates has the effect of increasing the fair value of the Corporation's subordinated debt while an increase in the risk-free swap rates has the effect of decreasing the fair value. The decrease in the credit spread assumption has the effect of increasing the fair value of the Corporation's subordinated debt while an increase in the credit spread assumption has the effect of decreasing the fair value. The other primary variable affecting the fair value of debt calculation is the passage of time, which will always have the effect of increasing the fair value of debt. The changes to the credit spread and swap rate variables during 2017, along with the passage of time, contributed to the \$8.5 million increase in fair value of the Corporation's subordinated debt between December 31, 2016 and December 31, 2017. This increase in fair value is reported as loss on change in fair value of debt in the Corporation's consolidated statements of operations. The changes to the credit spread and swap rate variables during the nine months ended September 30, 2018, along with the passage of time, contributed to the \$1.5 million increase in fair value of the Corporation's subordinated debt between December 31, 2017 and September 30, 2018.

As further discussed in Note 4, Recently Issued Accounting Standards, to the Quarterly Consolidated Financial Statements, effective January 1, 2018, the Corporation adopted ASU 2016-01. As a result, the portion of the

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change in fair value of subordinated debt related to the instrument-specific credit risk is now recognized in other comprehensive income (loss), whereas for 2017, the total change in fair value of subordinated debt was recorded in net income (loss). Of the \$1.5 million increase in fair value of the Corporation's subordinated debt between December 31, 2017 and September 30, 2018, \$1.0 million is reported as decrease in fair value of debt attributable to instrument-specific credit risk in the Corporation's unaudited consolidated statements of comprehensive loss and \$2.5 million is reported as loss on change in fair value of debt in the Corporation's unaudited consolidated statements of operations.

Also as a result of the adoption of ASU 2016-01, a cumulative \$40.5 million change in fair value of subordinated debt attributable to instrument-specific credit risk was reclassified from accumulated deficit to accumulated other comprehensive income (loss) as of January 1, 2018. As long as the Corporation repays its subordinated debt at maturity, it can be expected that this \$40.5 million reclassification will reverse without being reported in the Corporation's consolidated statements of operations. Though changes in the market observable swap rates will continue to introduce some volatility each quarter to the Corporation's reported gain or loss on change in fair value of debt, changes in the credit spread assumption developed by the third party will no longer introduce volatility to the Corporation's consolidated statements of operations. The fair value of the Corporation's subordinated debt will eventually equal the principal value of the subordinated debt by the time of the stated redemption date of each trust, beginning with the trust maturing on December 4, 2032 and continuing through January 8, 2034, the redemption date of the last of the Corporation's outstanding trusts.

For a description of each of the Corporation's six subsidiary trusts, see Note 11, Debt, to the Quarterly Consolidated Financial Statements.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 4, Recently Issued Accounting Standards, to the Quarterly Consolidated Financial Statements, for discussion of certain accounting standards that may be applicable to the Corporation's current and future consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The purpose of liquidity management is to ensure there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Corporation and its subsidiaries have been met primarily by funds generated from operations, capital raising, disposal of discontinued operations, investment maturities and income and other returns received on investments or from the sale of investments. Cash provided from these sources is used primarily for making investments and for loss and loss adjustment expense payments, debt servicing and other operating expenses. The timing and amount of payments for loss and loss adjustment expenses may differ materially from our provisions for unpaid loss and loss adjustment expenses, which may create increased liquidity requirements.

Cash Flows from Continuing Operations

During 2017, the Corporation reported on the consolidated statements of cash flows \$9.8 million of net cash used in operating activities from continuing operations. The reconciliation between the Corporation's reported net loss of \$11.1 million and the \$9.8 million of net cash used in operating activities from continuing operations can be explained primarily by the \$14.3 million loss from discontinued operations, net of taxes, the loss on change in fair value of debt of \$8.5 million and depreciation and amortization expense of \$5.5 million, partially offset by deferred income tax benefit of 17.3 million, the increase in other receivables of \$3.2 million, the increase in other net assets of \$2.3 million, equity in net income of investees of \$2.1 million and gain on disposal of discontinued operations of

\$1.0 million.

During the nine months ended September 30, 2018, the Company reported on the unaudited consolidated statements of cash flows \$3.9 million of net cash used in operating activities from continuing operations. The

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reconciliation between the Company's reported net loss of \$14.5 million and the \$3.9 million of net cash used in operating activities from continuing operations can be explained primarily by the \$7.8 million loss on disposal of discontinued operations, \$5.1 million of depreciation and amortization expense, the \$2.5 million loss on change in fair value of debt and the increase in deferred service fees of \$4.0 million, offset by \$2.1 million of income from discontinued operations, \$1.9 million of stock-based compensation benefit, the \$2.5 million increase in service fee receivable, the \$1.3 million increase in other receivables and the \$1.0 million gain on change in fair value of equity investments.

During 2017, the net cash used in investing activities from continuing operations as reported on the consolidated statements of cash flows was \$3.6 million. This use of cash was driven primarily by purchases of fixed maturities, equity investments and limited liability investments and net cash used for acquisition of business in excess of proceeds from sales and maturities of fixed maturities, equity investments, other investments and short-term investments, net disposals of property and equipment and the net proceeds from the sale of discontinued operations.

During the nine months ended September 30, 2018, the net cash provided by investing activities from continuing operations as reported on the unaudited consolidated statements of cash flows was \$9.6 million. This source of cash was driven primarily by proceeds from sales and maturities of fixed maturities, equity investments, other investments and investee in excess of purchases of fixed maturities, equity investments and limited liability investments; proceeds from disposal of subsidiary; and the net proceeds from sale of discontinued operations.

During 2017, the net cash provided by financing activities from continuing operations as reported on the consolidated statements of cash flows was \$2.2 million. During the nine months ended September 30, 2018, the net cash used in financing activities from continuing operations as reported on the unaudited consolidated statements of cash flows was \$3.0 million. This use of cash is attributed to principal repayments of \$2.2 million on the Mortgage and \$0.8 million on the bank loan.

In summary, as reported on the consolidated statements of cash flows, the Corporation's net decrease in cash and cash equivalents from continuing operations during 2017 was \$11.2 million and the Corporation's net increase in cash and cash equivalents from continuing operations during the nine months ended September 30, 2018 was \$2.8 million. The absence of cash flows from discontinued operations, whether positive or negative, is not expected to adversely affect the Corporation's future liquidity and capital resources given that the discontinued operations are comprised of insurance subsidiaries formerly reported as part of the Corporation's Insurance Underwriting segment. Receipt of dividends from the Corporation's insurance subsidiaries has not generally been considered a source of liquidity for the holding company. The insurance subsidiaries require regulatory approval for the return of capital and, in certain circumstances, prior to the payment of dividends. At September 30, 2018 and December 31, 2017, the U.S. insurance subsidiaries of the Corporation were restricted from making any dividend payments to the holding company without regulatory approval pursuant to the domiciliary state insurance regulations.

The Corporation's Extended Warranty subsidiaries fund their obligations primarily through service fee and commission income. The Corporation's Leased Real Estate subsidiary funds its obligations through rental income. The Corporation's insurance subsidiaries fund their obligations primarily through investment income and maturities in the investments portfolios.

The liquidity of the holding company is managed separately from its subsidiaries. Actions available to the holding company to raise liquidity in order to meet its obligations include the sale of passive investments; sale of subsidiaries; issuance of debt or equity securities and certain excess cash flow from the Company's Extended Warranty subsidiaries. During the third quarter of 2018, the Company gave notice to its Trust Preferred trustees of its intention to exercise its voluntary right to defer interest payments for up to 20 quarters, pursuant to the contractual terms of its outstanding

Trust Preferred indentures, which permit interest deferral.

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Receipt of dividends from the Extended Warranty subsidiaries is limited for the holding company at this time even though excess cash generated by Trinity's operating results is freely available for distribution to the holding company. IWS is somewhat constrained from paying dividends, given the existence of a 10% minority owner of its common equity, and PWSC is constrained from paying dividends while the bank loan incurred to partially finance the acquisition of PWSC remains outstanding.

Receipt of dividends from the Leased Real Estate segment is not generally considered a source of liquidity for the holding company. Because of the Lease Amendment, CMC may be in a position to distribute to the Corporation some of the cash received from the additional rental income. Any material cash flow to the Corporation, however, to help the Corporation meet its holding company obligations remains likely to occur only upon the occurrence of one of the three events described in the next paragraph that would trigger payment of service fees. There can be no assurance as to the timing of the occurrence, or the resulting outcome, from one of these events.

Pursuant to the terms of the management services agreement entered into at the closing of the acquisition of CMC, an affiliate of the seller (the Service Provider) will provide certain services to CMC and its subsidiaries in exchange for service fees. Such services (collectively, the Services) will include (i) causing an affiliate of the Service Provider to guaranty certain obligations of the Property Owner (pursuant to an Indemnity and Guaranty Agreement between such affiliate and the holder of the Mortgage (the Mortgagor)), (ii) providing certain individuals to serve as members of the board of directors and/or certain executive officers of CMC and/or its subsidiaries and (iii) providing asset management services with respect to the Real Property. In exchange for the Services, the Property Owner will pay certain fees to the Service Provider. The payment of such service fees may be triggered by (i) a sale of the Real Property, (ii) a restructuring of the lease to which the Real Property is subject or (iii) a refinancing or restructuring of the Mortgage. The amount of the service fees will range from 40%-80% of the net proceeds generated by the event triggering the payment of the service fees (depending on the nature and timing of the triggering event). The Lease Amendment has not triggered the payment of service fees to the Service Provider.

The holding company's liquidity, defined as the amount of cash in the bank accounts of Kingsway Financial Services Inc. and Kingsway America Inc., was \$0.6 million and \$14.9 million at December 31, 2017 and December 31, 2016, respectively. The holding company's liquidity was \$2.5 million at September 30, 2018. These amounts are reflected in the cash and cash equivalents of \$23.6 million, \$20.8 million, \$32.0 million reported at September 30, 2018, December 31, 2017 and December 31, 2016, respectively, on the Corporation's consolidated balance sheets. The cash and cash equivalents other than the holding company's liquidity represent restricted and unrestricted cash held by Amigo, Kingsway Re and the Corporation's Extended Warranty and Leased Real Estate subsidiaries and are not considered to be available to meet holding company obligations, which primarily consist of interest payments on subordinated debt; holding company operating expenses; transaction related expenses; investments; and any other extraordinary demands on the holding company. Specifically pursuant to the definitive agreement to sell Mendota, Mendakota and MCC (the Acquired Companies) that the Corporation completed on October 18, 2018, the Corporation has deployed the proceeds from the sale to acquire equity investments, limited liability investments, limited liability investment, at fair value and other investments owned by the Acquired Companies at the time of the closing and to fund \$5.0 million into an escrow account to be used to satisfy potential indemnity obligations under the definitive agreement. See Regulatory Capital section below for further discussion.

The holding company's liquidity of \$2.5 million at September 30, 2018 represented approximately six months of regularly recurring operating expenses before any transaction related expenses, any new holding company investments or any other extraordinary demands on the holding company.

During the third quarter of 2018, the Company gave notice to its Trust Preferred trustees of its intention to exercise its voluntary right to defer interest payments for up to 20 quarters, pursuant to the contractual terms of its outstanding

Trust Preferred indentures, which permit interest deferral. As a result of this action, the projected obligations of the holding company for the subsequent twelve-month period have been reduced by approximately

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\$6.2 million based upon current LIBOR. The holding company's liquidity of \$2.5 million at September 30, 2018 represents only actual cash on hand and does not include cash that would be made available to the holding company from the sale of investments, particularly investments in publicly traded securities, owned by the holding company.

In addition, the holding company has access to some of the operating cash generated by the Extended Warranty subsidiaries. While these sources do not represent cash of the holding company at September 30, 2018, they do represent future sources of liquidity that make it probable that the holding company will be able to meet its obligations as they become due over the next 12 months.

While the Corporation believes it has sources of liquidity available to allow it to continue to meet its holding company obligations, there can be no assurance that such sources of liquidity will be available when needed.

Regulatory Capital

In the United States, a risk-based capital (RBC) formula is used by the National Association of Insurance Commissioners (NAIC) to identify property and casualty insurance companies that may not be adequately capitalized. In general, insurers reporting surplus as regards policyholders below 200% of the authorized control level, as defined by the NAIC, at December 31 are subject to varying levels of regulatory action, including discontinuation of operations. As of December 31, 2017, surplus as regards policyholders reported by Amigo exceeded the 200% threshold.

During the fourth quarter of 2012, the Corporation began taking steps to place all of Amigo into voluntary run-off. As of December 31, 2012, Amigo's RBC was 157%. In April 2013, Kingsway filed a comprehensive run-off plan with the Florida Office of Insurance Regulation, which outlines plans for Amigo's run-off. Amigo remains in compliance with that plan. As of December 31, 2017, Amigo's RBC was 5,206%.

Kingsway Re, our reinsurance subsidiary domiciled in Barbados, is required by the regulator in Barbados to maintain minimum capital levels. As of December 31, 2017, the capital maintained by Kingsway Reinsurance Corporation was in excess of the regulatory capital requirements in Barbados.

CONTRACTUAL OBLIGATIONS

Table 15 summarizes cash disbursements related to the Corporation's contractual obligations projected by period, including debt maturities, interest payments on outstanding debt, the provision for unpaid loss and loss adjustment expenses and future minimum payments under operating leases. Interest payments in Table 15 related to the subordinated debt assume LIBOR remains constant throughout the projection period.

Our provision for unpaid loss and loss adjustment expenses does not have contractual payment dates. In Table 15 below, we have included a projection of when we expect our unpaid loss and loss adjustment expenses to be paid, based on historical payment patterns. The exact timing of the payment of unpaid loss and loss adjustment expenses cannot be predicted with certainty. We maintain an investments portfolio with varying maturities and a substantial amount in short-term investments to provide adequate cash flows for the projected payments in Table 15. The unpaid loss and loss adjustment expenses in Table 8 have not been reduced by amounts recoverable from reinsurers.

Table of Contents**TABLE 15 Cash payments related to contractual obligations projected by period**

As of December 31, 2017 (in thousands of dollars)

	2018	2019	2020	2021	2022	Thereafter	Total
Note payable	2,981	3,337	3,712	4,108	4,526	157,472	176,136
Bank loan	1,000	1,000	1,000	1,000	917		4,917
Subordinated debt						90,500	90,500
Interest payments on outstanding debt	12,760	12,581	12,388	12,180	11,955	110,956	172,820
Unpaid loss and loss adjustment expenses	922	193	110	66	29	9	1,329
Future minimum lease payments	1,025	726	158	123	124	210	2,366
Total	18,688	17,837	17,368	17,477	17,551	359,147	448,068

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation has off-balance sheet arrangements related to a guarantee, which is further described in Note 22, Commitments and Contingencies, to the Quarterly Consolidated Financial Statements.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**Market Risk**

Market risk is the risk that we will incur losses due to adverse changes in interest or currency exchange rates and equity prices. We have exposure to market risk through our investment activities and our financing activities.

Given our U.S. operations typically invest in U.S. dollar denominated fixed maturity instruments, our primary market risk exposures in the investments portfolio are to changes in interest rates. Periodic changes in interest rate levels generally affect our financial results to the extent that the investments are recorded at market value and reinvestment yields are different than the original yields on maturing instruments. During periods of rising interest rates, the market values of the existing fixed maturities will generally decrease. The reverse is true during periods of declining interest rates.

We manage our exposure to risks associated with interest rate fluctuations through active review of our investment portfolio by our management and Board of Directors, consultation with third-party financial advisors and by managing the maturity profile of our fixed maturity portfolio. Our goal is to maximize the total after-tax return on all of our investments. An important strategy we employ to achieve this goal is to try to hold enough in cash and short-term investments in order to avoid liquidating longer-term investments to pay loss and loss adjustment expenses.

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Table 16 below summarizes the fair value by contractual maturities of the fixed maturities portfolio, excluding cash and cash equivalents, at December 31, 2017 and 2016.

TABLE 16 Fair value of fixed maturities by contractual maturity date

As of December 31 (in thousands of dollars, except for percentages)

	2017	% of Total	2016	% of Total
Due in less than one year	3,605	24.8%	1,201	7.4%
Due in one through five years	9,310	64.0%	9,373	57.7%
Due after five through ten years	345	2.4%	706	4.3%
Due after ten years	1,281	8.8%	4,963	30.6%
Total	14,541	100.0%	16,243	100.0%

At December 31, 2017, 84.5% of fixed maturities, including treasury bills, government bonds and corporate bonds, had contractual maturities of five years or less. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. The Corporation holds cash and high-grade short-term assets that, along with fixed maturities, management believes are sufficient in amount for the payment of unpaid loss and loss adjustment expenses and other obligations on a timely basis. In the event additional cash is required to meet obligations to our policyholders and customers, we believe that the high-quality investments in the portfolios provide us with sufficient liquidity.

Table 17 below summarizes the fair value by contractual maturities of the fixed maturities portfolio, excluding cash and cash equivalents, at September 30, 2018.

TABLE 17 Fair value of fixed maturities by contractual maturity date

(in thousands of dollars, except for percentages)

	September 30, 2018	% of Total
Due in less than one year	5,117	46.2%
Due in one through five years	4,781	43.2%
Due after five through ten years	117	1.0%
Due after ten years	1,061	9.6%
Total	11,076	100.0%

At September 30, 2018, 89.4% of fixed maturities, including treasury bills, government bonds and corporate bonds, had contractual maturities of five years or less. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. The Company holds cash and high-grade short-term assets that, along with fixed maturities, management believes are sufficient in

amount for the payment of unpaid loss and loss adjustment expenses and other obligations on a timely basis. In the event additional cash is required to meet obligations to our policyholders and customers, we believe the high-quality investments in the portfolios provide us with sufficient liquidity.

Based upon the results of interest rate sensitivity analysis, Tables 18 and 19 below shows the interest rate risk of our investments in fixed maturities, measured in terms of fair value (which is equal to the carrying value for all our fixed maturity securities), at September 30, 2018, December 31, 2017 and December 31, 2016.

Table of Contents**TABLE 18 Sensitivity analysis on fixed maturities**

As of December 31 (in thousands of dollars)

	100 Basis Point Decrease in Interest Rates	No Change	100 Basis Point Increase in Interest Rates
As of December 31, 2017			
Estimated fair value	\$ 14,840	\$ 14,541	\$ 14,242
Estimated increase (decrease) in fair value	\$ 299	\$	\$ (299)
As of December 31, 2016			
Estimated fair value	\$ 16,680	\$ 16,243	\$ 15,806
Estimated increase (decrease) in fair value	\$ 437	\$	\$ (437)

TABLE 19 Sensitivity analysis on fixed maturities

(in thousands of dollars)

	100 Basis Point Decrease in Interest Rates	No Change	100 Basis Point Increase in Interest Rates
As of September 30, 2018			
Estimated fair value	\$ 11,248	\$ 11,076	\$ 10,904
Estimated increase (decrease) in fair value	\$ 172	\$	\$ (172)

We use both fixed and variable rate debt as sources of financing. Because our subordinated debt is LIBOR-based, our primary market risk related to financing activities is to changes in LIBOR. As of September 30, 2018, each one hundred basis point increase in LIBOR would result in an approximately \$0.9 million increase in our annual interest expense.

Equity Risk

Equity risk is the risk we will incur economic losses due to adverse changes in equity prices. Our exposure to changes in equity prices results from our holdings of common stock. We principally manage equity price risk through industry and issuer diversification and asset allocation techniques and by continuously evaluating market conditions.

Credit Risk

Credit risk is defined as the risk of financial loss due to failure of the other party to a financial instrument to discharge an obligation. Credit risk arises from our positions in short-term investments, corporate debt instruments and government bonds. The Investment Committee of the Board of Directors is responsible for the oversight of key investment policies and limits. These policies and limits are subject to annual review and approval by the Investment

Committee. The Investment Committee is also responsible for ensuring these policies are implemented and procedures are in place to manage and control credit risk.

Tables 20 and 21 below summarize the composition of the fair values of fixed maturities, excluding cash and cash equivalents, at September 30, 2018, December 31, 2017 and December 31, 2016, by rating as assigned by Standard and Poor's (S&P) or Moody's Investors Service (Moody's). Fixed maturities consist of predominantly high-quality instruments in corporate and government bonds with 100.0% of those investments rated A or better at September 30, 2018. Not Rated in Table 20 below includes \$3.0 million of 8% preferred stock of 1347 Property Insurance Holdings, Inc., redeemable on February 24, 2020. During the first quarter of 2018, the preferred stock was redeemed at its par value of \$3.0 million.

Table of Contents**TABLE 20 Credit ratings of fixed maturities**

As of December 31 (ratings as a percentage of total fixed maturities)

Rating (S&P/Moody s)	2017	2016
AAA/Aaa	59.6%	64.2%
AA/Aa	8.8	9.3
A/A	10.9	7.5
Percentage rated A/A2 or better	79.3%	81%
Not rated	20.7	19
Total	100.0%	100.0%

TABLE 21 Credit ratings of fixed maturities

(ratings as a percentage of total fixed maturities)

Rating (S&P/Moody s)	September 30, 2018
AAA/Aaa	74.1%
AA/Aa	12.8
A/A	13.1
Percentage rated A/A2 or better	100.0%
Not rated	
Total	100.0%

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COMMUNICATIONS WITH THE BOARD OF DIRECTORS

It is the Corporation's policy to forward to the directors any correspondence it receives that is addressed to them. Shareholders, or other interested parties, who wish to communicate with the directors may do so by sending their correspondence addressed to the director or directors as follows: Kingsway Financial Services Inc., Attention: Investor Relations, 45 St. Clair Avenue West, Suite 400, Toronto, Ontario M4V 1K9 Canada.

Our directors' attendance at annual meetings can provide shareholders with an opportunity to communicate with directors about issues affecting the Corporation. Our Statement of Corporate Governance Practices encourages our directors to attend the annual meeting of shareholders. All of our directors attended our 2017 annual meeting.

LEGAL MATTERS

Certain legal matters relating to the Domestication under United States law will be passed upon by McDermott Will & Emery LLP. Certain legal matters relating to the Domestication under Canadian law will be passed upon by Norton Rose Fulbright Canada LLP.

EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) have been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their reports appearing elsewhere herein, and are included in reliance upon such reports and upon the authority of said firm as experts in auditing and accounting.

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WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC the Registration Statement on Form S-4 (the Registration Statement) under the Securities Act with respect to the Domestication. This Circular, which constitutes part of the Registration Statement, does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information about us and the Domestication, we refer you to the Registration Statement and the exhibits and schedules filed as a part of the Registration Statement. Statements contained in this Circular as to the contents of any contract or other document referred to are not necessarily complete. If a contract or document has been filed as an exhibit to the Registration Statement, we refer you to the copy of the contract or document that has been filed as an exhibit to the Registration Statement, each statement about such contract or document being qualified in all respects by such reference.

A copy of the Registration Statement, including the exhibits and schedules thereto, may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is www.sec.gov.

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Kingsway Financial Services Inc.**

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Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders

Kingsway Financial Services Inc.

Itasca, Illinois

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Kingsway Financial Services Inc. and subsidiaries (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive (loss) income, shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws, and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

\s\ BDO USA, LLP

We have served as the Company's auditor since 2010.

Grand Rapids Michigan

March 16, 2018, except for Note 5 and Note 25, as to which the date is November 7, 2018.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.

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

	December 31, 2017	December 31, 2016
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost of \$14,707 and \$16,353, respectively)	\$ 14,541	\$ 16,243
Equity investments, at fair value (cost of \$4,854 and \$7,889, respectively)	4,476	8,256
Limited liability investments	4,922	1,199
Limited liability investment, at fair value	5,771	6,112
Other investments, at cost which approximates fair value	2,321	4,593
Short-term investments, at cost which approximates fair value	151	401
Total investments	32,182	36,804
Cash and cash equivalents	20,774	31,951
Investment in investee	5,230	3,116
Accrued investment income	331	470
Service fee receivable, net of allowance for doubtful accounts of \$318 and \$274, respectively	4,286	1,320
Other receivables, net of allowance for doubtful accounts of zero and \$806, respectively	6,536	3,299
Deferred acquisition costs, net	6,325	5,827
Property and equipment, net of accumulated depreciation of \$11,683 and \$8,803, respectively	108,008	116,818
Goodwill	80,112	71,061
Intangible assets, net of accumulated amortization of \$8,333 and \$7,181, respectively	80,062	81,214
Other assets	4,302	4,680
Assets held for sale	136,452	144,461
Total Assets	\$ 484,600	\$ 501,021
Liabilities and Shareholders Equity		
Liabilities:		
Property and casualty unpaid loss and loss adjustment expenses	\$ 1,329	\$ 2,202
Note payable	186,469	190,074
Bank loan	4,917	
Subordinated debt, at fair value	52,105	43,619
Net deferred income tax liabilities	28,745	46,067
Deferred service fees	42,257	38,424
Income taxes payable	2,644	2,051
Accrued expenses and other liabilities	10,924	12,652
Liabilities held for sale	105,900	102,670

Total Liabilities	435,290	437,759
Class A preferred stock, no par value; unlimited number authorized; 222,876 and 262,876 issued and outstanding at December 31, 2017 and December 31, 2016, respectively; redemption amount of \$5,572	5,461	6,427
Shareholders' Equity:		
Common stock, no par value; unlimited number authorized; 21,708,190 and 21,458,190 issued and outstanding at December 31, 2017 and December 31, 2016, respectively		
Additional paid-in capital	356,021	353,882
Accumulated deficit	(313,487)	(297,668)
Accumulated other comprehensive loss	(3,852)	(208)
Shareholders' equity attributable to common shareholders	38,682	56,006
Noncontrolling interests in consolidated subsidiaries	5,167	829
Total Shareholders' Equity	43,849	56,835
Total Liabilities, Class A preferred stock and Shareholders' Equity	\$ 484,600	\$ 501,021

See accompanying notes to Consolidated Financial Statements.

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

	Years ended December 31,	
	2017	2016
Revenues:		
Service fee and commission income	\$ 30,807	\$ 23,487
Rental income	13,384	5,436
Net investment income	968	2,862
Net realized gains	306	66
Other-than-temporary impairment loss		(17)
Other income	1,381	663
Total revenues	46,846	32,497
Operating expenses:		
Claims authorized on vehicle service agreements	5,327	5,285
Loss and loss adjustment expenses	404	(1,643)
Commissions	3,086	3,061
Cost of services sold	6,535	4,193
General and administrative expenses	27,038	20,739
Leased real estate segment interest expense	6,264	2,899
Total operating expenses	48,654	34,534
Operating loss	(1,808)	(2,037)
Other expenses (revenues), net:		
Interest expense not allocated to segments	4,977	4,496
Amortization of intangible assets	1,152	1,242
Contingent consideration benefit	(212)	(657)
Loss on change in fair value of debt	8,487	3,721
Gain on deconsolidation of subsidiary		(5,643)
Equity in net (income) loss of investees	(2,115)	1,017
Total other expenses, net	12,289	4,176
Loss from continuing operations before income tax benefit	(14,097)	(6,213)
Income tax benefit	(16,694)	(9,720)
Income from continuing operations	2,597	3,507
Loss on liquidation of subsidiary, net of taxes	(494)	
Loss from discontinued operations, net of taxes	(14,252)	(4,240)
Gain on disposal of discontinued operations, net of taxes	1,017	1,255

Net (loss) income	(11,132)	522
Less: net income (loss) attributable to noncontrolling interests in consolidated subsidiaries	4,337	(281)
Less: dividends on preferred stock, net of tax	350	565
Net (loss) income attributable to common shareholders	\$ (15,819)	\$ 238
(Loss) earnings per share continuing operations:		
Basic:	\$ (0.10)	\$ 0.16
Diluted:	\$ (0.10)	\$ 0.15
Loss per share discontinued operations:		
Basic:	\$ (0.64)	\$ (0.15)
Diluted:	\$ (0.64)	\$ (0.14)
(Loss) earnings per share net (loss) income attributable to common shareholders:		
Basic:	\$ (0.73)	\$ 0.01
Diluted:	\$ (0.73)	\$ 0.01
Weighted average shares outstanding (in 000s):		
Basic:	21,547	20,003
Diluted:	21,547	21,019

See accompanying notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Comprehensive (Loss) Income****(in thousands)**

	Years ended December 31,	
	2017	2016
Net (loss) income	\$ (11,132)	\$ 522
Other comprehensive (loss) income, net of taxes ⁽¹⁾ :		
Unrealized gains (losses) on fixed maturities and equity investments:		
Unrealized (losses) gains arising during the period	(5,213)	2,764
Reclassification adjustment for amounts included in net (loss) income	1,076	(494)
Recognition of currency translation loss on liquidation of subsidiary	494	
Other comprehensive (loss) income	(3,643)	2,270
Comprehensive (loss) income	\$ (14,775)	\$ 2,792
Less: comprehensive income (loss) attributable to noncontrolling interests in consolidated subsidiaries	4,338	(289)
Comprehensive (loss) income attributable to common shareholders	\$ (19,113)	\$ 3,081

(1) Net of income tax benefit of \$0 and \$0 in 2017 and 2016, respectively

See accompanying notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Shareholders' Equity****(in thousands, except share data)**

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Shareholders'		Total Shareholders' Equity
						Equity	Noncontrolling Interests in Consolidated Subsidiaries	
Balance, January 1, 2016	19,709,706	\$	\$ 341,646	\$ (297,209)	\$ (2,486)	\$ 41,951	\$ 1,752	\$ 43,703
Deconsolidation of 1347 Investors LLC				(572)		(572)	(933)	(1,505)
Net income (loss)				803		803	(281)	522
Other comprehensive income (loss)					2,278	2,278	(8)	2,270
Common stock issued, net	1,775,384		11,221			11,221		11,221
Repurchases of common stock for cancellation	(26,900)			(125)		(125)		(125)
Consolidation of CMC Industries, Inc.							299	299
Preferred stock dividends, net of tax				(565)		(565)		(565)
Stock-based compensation			1,015			1,015		1,015
Balance, December 31, 2016	21,458,190	\$	\$ 353,882	\$ (297,668)	\$ (208)	\$ 56,006	\$ 829	\$ 56,835
Common stock issuance expenses			(47)			(47)		(47)
Conversion of Class A preferred stock to common stock	250,000		1,000			1,000		1,000
Net (loss) income				(15,469)		(15,469)	4,337	(11,132)
Preferred stock dividends, net of tax				(350)		(350)		(350)
Other comprehensive loss					(3,644)	(3,644)	1	(3,643)

Stock-based compensation			1,186			1,186		1,186
Balance, December 31, 2017	21,708,190	\$	\$ 356,021	\$ (313,487)	\$ (3,852)	\$ 38,682	\$ 5,167	\$ 43,849

See accompanying notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Cash Flows****(in thousands)**

	Years ended December 31,	
	2017	2016
Cash provided by (used in):		
Operating activities:		
Net (loss) income	\$ (11,132)	\$ 522
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Loss from discontinued operations, net of taxes	14,252	4,240
Gain on disposal of discontinued operations, net of taxes	(1,017)	(1,255)
Equity in net (income) loss of investees	(2,115)	1,017
Equity in net income of limited liability investments	(685)	(392)
Loss (gain) on change in fair value of investments	632	(1,650)
Depreciation and amortization expense	5,457	2,630
Contingent consideration benefit	(212)	(657)
Stock-based compensation expense, net of forfeitures	1,186	1,015
Net realized gains	(306)	(66)
Loss on change in fair value of debt	8,487	3,721
Deferred income taxes	(17,322)	(9,807)
Other-than-temporary impairment loss		17
Amortization of fixed maturities premiums and discounts	95	12
Amortization of note payable premium	(960)	(447)
Gain on deconsolidation of subsidiary		(5,643)
Loss on liquidation of subsidiary	494	
Changes in operating assets and liabilities:		
Service fee receivable, net, adjusted for PWSC assets acquired	(1,544)	(409)
Other receivables, net, adjusted for PWSC assets acquired	(3,187)	806
Deferred acquisition costs, net	(498)	(380)
Unpaid loss and loss adjustment expenses	(873)	(3,446)
Deferred service fees, adjusted for PWSC liabilities acquired	1,754	1,480
Other, net, adjusted for PWSC assets acquired and liabilities assumed	(2,331)	(1,006)
Cash used in operating activities continuing operations	(9,825)	(9,698)
Cash used in operating activities discontinued operations	(9,152)	(5,891)
Net cash used in operating activities	(18,977)	(15,589)
Investing activities:		
Proceeds from sales and maturities of fixed maturities	1,756	3,084
Proceeds from sales of equity investments	3,754	1,390
Purchases of fixed maturities	(192)	(16,184)
Purchases of equity investments	(338)	
Net acquisitions of limited liability investments	(8,910)	(732)
Net proceeds from (purchases of) other investments	2,272	(1,148)

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Net proceeds from (purchases of) short-term investments	250	(264)
Net proceeds from sale of discontinued operations	1,017	1,255
Acquisition of business, net of cash acquired	(7,929)	(494)
Net disposals (purchases) of property and equipment and intangible assets, adjusted for PWSC assets acquired	4,743	(610)
Cash used in investing activities continuing operations	(3,577)	(13,703)
Cash provided by investing activities discontinued operations	28,140	4,934
Net cash provided by (used in) investing activities	24,563	(8,769)
Financing activities:		
Proceeds from issuance of common stock, net	(47)	10,477
Repurchase of common stock for cancellation		(125)
Proceeds from bank loan, net of principal payments	4,917	
Principal payments on note payable assumed in CMC acquisition	(2,645)	(1,220)
Cash provided by financing activities continuing operations	2,225	9,132
Cash provided by financing activities discontinued operations		
Net cash provided by financing activities	2,225	9,132
Net decrease in cash and cash equivalents from continuing operations	(11,177)	(14,269)
Cash and cash equivalents at beginning of period	36,475	51,701
Less: cash and cash equivalents of discontinued operations at beginning of period	4,524	5,481
Cash and cash equivalents of continuing operations at beginning of period	31,951	46,220
Cash and cash equivalents of continuing operations at end of period	\$ 20,774	\$ 31,951
Supplemental disclosures of cash flows information:		
Cash paid during the year for:		
Interest	\$ 12,134	\$ 7,298
Income taxes	\$ 37	\$ 10
Non-cash investing and financing activities:		
Conversion of Class A preferred stock to common stock	\$ 1,000	\$
Issuance of common stock in connection with acquisition of Argo	\$	\$ 744
Accrued dividends on Class A preferred stock issued	\$ 350	\$ 565

See accompanying notes to Consolidated Financial Statements.

Table of Contents**NOTE 1 BUSINESS**

Kingsway Financial Services Inc. (the Company or Kingsway) was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. Kingsway is a Canadian holding company with operating subsidiaries located in the United States. The Corporation owns or controls subsidiaries primarily in the extended warranty, asset management and real estate industries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**(a) Principles of consolidation:**

The accompanying information in the 2017 Annual Report has been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain prior year amounts have been reclassified to conform to current year presentation. Such reclassifications had no impact on previously reported net (loss) income or total shareholders' equity.

Subsidiaries

The Corporation's consolidated financial statements include the assets, liabilities, shareholders' equity, revenues, expenses and cash flows of the holding company and its subsidiaries and have been prepared on the basis of U.S. GAAP. A subsidiary is an entity which is controlled, directly or indirectly, through ownership of more than 50% of the outstanding voting rights, or where the Corporation has the power to govern the financial and operating policies so as to obtain benefits from its activities. Assessment of control is based on the substance of the relationship between the Corporation and the entity and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable and convertible. The operating results of subsidiaries that have been disposed of are included up to the date control ceased and any difference between the fair value of the consideration received and the carrying value of the subsidiary are recognized in the consolidated statements of operations. All intercompany balances and transactions are eliminated in full.

The consolidated financial statements are prepared as of December 31, 2017 based on individual company financial statements at the same date. Accounting policies of subsidiaries have been aligned where necessary to ensure consistency with those of Kingsway. The consolidated financial statements include the following subsidiaries, all of which are owned, directly or indirectly: 1347 Advisors LLC; 1347 Capital LLC; Advantage Auto, Inc.; Appco Finance Corporation; American Country Underwriting Agency Inc.; Argo Management Group, LLC (Argo); ARM Holdings, Inc.; CMC Industries, Inc. (CMC); Congress General Agency, Inc.; Insurance Management Services Inc.; Itasca Capital Corp.; Itasca Investors LLC; Itasca Real Estate Investors, LLC; IWS Acquisition Corporation (IWS); KFS Capital LLC; Kingsway America II Inc.; Kingsway America Inc.; Kingsway America Agency Inc.; Kingsway Amigo Insurance Company (Amigo); Kingsway General Insurance Company; Kingsway LGIC Holdings, LLC; Kingsway Reinsurance Corporation (Kingsway Re); Mattoni Insurance Brokerage, Inc.; Mendakota Casualty Company (MCC); Mendakota Insurance Company (Mendakota); Mendota Insurance Agency, Inc.; Mendota Insurance Company (Mendota); MIC Insurance Agency, Inc.; Professional Warranty Service Corporation (PWSC); Professional Warranty Services LLC; and Trinity Warranty Solutions LLC (Trinity).

Noncontrolling interests

The Corporation has noncontrolling interests attributable to its subsidiaries, CMC and IWS. The Corporation previously had a noncontrolling interest attributable to 1347 Investors LLC (1347 Investors) prior to the deconsolidation of 1347 Investors in July 2016. Refer to Note 5, Deconsolidation, Discontinued Operations and Liquidation, for information regarding the deconsolidation of 1347 Investors. A noncontrolling interest arises where the Corporation owns less than 100% of the voting rights and economic interests in a subsidiary and is initially recognized at the proportionate share of the identifiable net assets of the subsidiary at the acquisition

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date and is subsequently adjusted for the noncontrolling interest's share of the acquiree's net income (losses) and changes in capital. The effects of transactions with noncontrolling interests are recorded in shareholders' equity where there is no change of control.

(b) Use of estimates:

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and classification of assets and liabilities, revenues and expenses, and the related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Estimates and their underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recorded in the accounting period in which they are determined. The critical accounting estimates and assumptions in the accompanying consolidated financial statements include the provision for unpaid loss and loss adjustment expenses; valuation of fixed maturities and equity investments; impairment assessment of investments; valuation of limited liability investment, at fair value; valuation of deferred income taxes; valuation and impairment assessment of intangible assets; goodwill recoverability; deferred acquisition costs; fair value assumptions for performance shares; and fair value assumptions for subordinated debt obligations.

(c) Foreign currency translation:

The consolidated financial statements have been presented in U.S. dollars because the Corporation's principal investments and cash flows are denominated in U.S. dollars. The Corporation's functional currency is the U.S. dollar since the substantial majority of its operations is conducted in the United States. Assets and liabilities of subsidiaries with non-U.S. dollar functional currencies are translated to U.S. dollars at period-end exchange rates, while revenue and expenses are translated at average monthly rates and shareholders' equity is translated at the rates in effect at dates of capital transactions. The net unrealized gains or losses which result from the translation of non-U.S. subsidiaries financial statements are recognized in accumulated other comprehensive loss. Such currency translation gains or losses are recognized in the consolidated statements of operations upon the sale of a foreign subsidiary. Transactions settled in foreign currencies are translated to functional currencies at the exchange rate prevailing at the transaction dates. The unrealized foreign currency translation gains and losses arising from available-for-sale financial assets are recognized in other comprehensive (loss) income until realized, at which date they are reclassified to the consolidated statements of operations. Unrealized foreign currency translation gains and losses on certain interest bearing debt obligations carried at fair value are included in the consolidated statements of operations.

Foreign currency translation adjustments are included in shareholders' equity under the caption accumulated other comprehensive loss. Foreign currency gains and losses resulting from transactions which are denominated in currencies other than the entity's functional currency are reflected in foreign exchange losses, net in the consolidated statements of operations.

(d) Business combinations:

The acquisition method of accounting is used to account for acquisitions of subsidiaries or other businesses. The results of acquired subsidiaries or other businesses are included in the consolidated statements of operations from the date of acquisition. The cost of an acquisition is measured as the fair value of the assets received, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and

contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any noncontrolling interest. The excess of the cost of an acquisition over the fair value of the Corporation's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statements of operations. Noncontrolling interests in the net assets of consolidated entities are reported separately in shareholders' equity.

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(e) Investments:

Investments in fixed maturities and equity investments in common stocks are classified as available-for-sale and reported at fair value. Unrealized gains and losses are included in accumulated other comprehensive loss, net of tax, until sold or until an other-than-temporary impairment is recognized, at which point cumulative unrealized gains or losses are transferred to the consolidated statements of operations.

Limited liability investments include investments in limited liability companies and limited partnerships in which the Corporation's interests are not deemed minor and, therefore, are accounted for under the equity method of accounting.

Limited liability investment, at fair value represents the Corporation's investment in 1347 Investors. The Corporation has made an irrevocable election to account for this investment at fair value with changes in fair value reported in the consolidated statements of operations.

Other investments include mortgage and collateral loans and are reported at their unpaid principal balance.

Short-term investments, which consist of investments with original maturities between three months and one year, are reported at cost which approximates fair value.

Realized gains and losses on sales, determined on a first-in first-out basis, are included in net realized gains.

Dividends and interest income are included in net investment income. Investment income is recorded as it accrues. Income from limited liability investments is recognized based on the Corporation's share of the earnings of the limited liability entities and is included in net investment income. Income from limited liability investment, at fair value is included in net investment income.

The Corporation accounts for all financial instruments using trade date accounting.

The Corporation conducts a quarterly review to identify and evaluate investments that show objective indications of possible impairment. Impairment is charged to the consolidated statements of operations if the fair value of an instrument falls below its cost/amortized cost and the decline is considered other-than-temporary. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been below cost; the financial condition and near-term prospects of the issuer; and the Corporation's ability and intent to hold investments for a period of time sufficient to allow for any anticipated recovery.

(f) Derivative financial instruments:

Derivative financial instruments include investments in warrants and performance shares issued to the Corporation under various performance share grant agreements. Refer to Note 6, Investments, for further details regarding the performance shares. Warrants are classified as equity investments in the consolidated balance sheets.

The Corporation measures derivative financial instruments at fair value. The fair value of derivative financial instruments is required to be revalued each reporting period, with corresponding changes in fair value recorded in the consolidated statements of operations, or, in the case of derivative financial instruments that are publicly traded, in other accumulated other comprehensive loss. Realized gains or losses are recognized upon settlement of the contracts.

(g) Cash and cash equivalents:

Cash and cash equivalents include cash and investments with original maturities of three months or less that are readily convertible into cash.

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(h) Investment in investee:

At December 31, 2017 and 2016, investment in investee includes the Corporation's investment in the common stock of Itasca Capital Ltd. (ICL). This investment is accounted for under the equity method of accounting and reported as investment in investee in the consolidated balance sheets. Investment in investee is comprised of an investment in an entity where the Corporation has the ability to exercise significant influence but not control. Significant influence is presumed to exist when the Corporation owns, directly or indirectly, between 20% and 50% of the outstanding voting rights of the investee. Assessment of significant influence is based on the substance of the relationship between the Corporation and the investee and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable and convertible. This investment is reported as investment in investee in the consolidated balance sheets, with the Corporation's share of income (loss) and other comprehensive income (loss) of the investee reported in the corresponding line in the consolidated statements of operations and consolidated statements of comprehensive (loss) income, respectively. Under the equity method of accounting, an investment in investee is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Corporation's share of net assets of the investee.

At each reporting date, and more frequently when conditions warrant, management assesses its investment in investee for potential impairment. If management's assessment indicates that there is objective evidence of impairment, the investee is written down to its recoverable amount, which is determined as the higher of its fair value less costs to sell and its value in use. Write-downs to reflect other-than-temporary impairments in value are included in other-than-temporary impairment loss in the consolidated statements of operations.

The most recently available financial statements of the investee are used in applying the equity method. The difference between the end of the reporting period of the investee and that of the Corporation is no more than three months. Adjustments are made for the effects of significant transactions or events that occur between the date of the investee's financial statements and the date of the Corporation's consolidated financial statements.

(i) Service fee receivable:

Service fee receivable includes balances due and uncollected from customers. Service fee receivable is reported net of an estimated allowance for doubtful accounts.

(j) Reinsurance:

Reinsurance losses and loss adjustment expenses are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Losses ceded to other companies have been reported as a reduction of incurred loss and loss adjustment expenses. Commissions paid to the Corporation by reinsurers on business ceded have been accounted for as a reduction of the related policy acquisition costs. Reinsurance recoverable is recorded for that portion of paid and unpaid losses and loss adjustment expenses that are ceded to other companies.

(k) Deferred acquisition costs, net:

The Corporation defers commissions and agency expenses that are directly related to successful efforts to acquire new or existing vehicle service agreements to the extent they are considered recoverable. Costs deferred on vehicle service agreements are amortized as the related revenues are earned. Changes in estimates, if any, are recorded in the

accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred acquisition costs.

(l) Property and equipment:

Property and equipment are reported in the consolidated financial statements at cost. Depreciation of property and equipment has been provided using the straight-line method over the estimated useful lives of such assets.

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Repairs and maintenance are recognized in operations during the period incurred. Land is not depreciated. The Corporation estimates useful life to be thirty to forty years for buildings; five to fifty years for site improvements; three to ten years for leasehold improvements; three to ten years for furniture and equipment; and three to five years for computer hardware.

(m) Goodwill and intangible assets:

When the Corporation acquires a subsidiary or other business where it exerts significant influence, the fair value of the net tangible and intangible assets acquired is determined and compared to the amount paid for the subsidiary or business acquired. Any excess of the amount paid over the fair value of those net assets is considered to be goodwill.

Goodwill is tested for impairment annually as of December 31, or more frequently if events or circumstances indicate that the carrying value may not be recoverable, to ensure that its fair value is greater than or equal to the carrying value. Any excess of carrying value over fair value is charged to the consolidated statements of operations in the period in which the impairment is determined.

The Corporation has the option to assess goodwill for impairment by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If facts and circumstances indicate that it is more likely than not that the goodwill is impaired, a fair value-based impairment test would be required. The goodwill impairment test is a two-step process that requires management to make judgments in determining what assumptions to use in the calculation. In the first step, the fair value of the reporting unit is compared to its book value including goodwill. If the fair value of the reporting unit is in excess of its book value, the related goodwill is not impaired and no further analysis is necessary. If the fair value of the reporting unit is less than its book value, there is an indication of potential impairment and a second step is performed. When required, the second step of testing involves calculating the implied fair value of goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit determined in step one over the fair value of its net assets and identifiable intangible assets as if the reporting unit had been acquired. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. For reporting units with a negative book value, qualitative factors are evaluated to determine whether it is necessary to perform the second step of the goodwill impairment test.

When the Corporation acquires a subsidiary or other business where it exerts significant influence or acquires certain assets, intangible assets may be acquired, which are recorded at their fair value at the time of the acquisition. An intangible asset with a definite useful life is amortized in the consolidated statements of operations over its estimated useful life. The Corporation writes down the value of an intangible asset with a definite useful life when the undiscounted cash flows are not expected to allow for full recovery of the carrying value.

Intangible assets with indefinite useful lives are not subject to amortization and are tested for impairment annually as of December 31, or more frequently if events or circumstances indicate that the carrying value may not be recoverable, to ensure that fair values are greater than or equal to carrying values. Any excess of carrying value over fair value is charged to the consolidated statements of operations in the period in which the impairment is determined.

(n) Unpaid loss and loss adjustment expenses:

Unpaid loss and loss adjustment expenses represent the estimated liabilities for reported loss events, incurred but not yet reported loss events and the related estimated loss adjustment expenses, including investigation. Unpaid loss and loss adjustment expenses are determined using case-basis evaluations and statistical analyses, including

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industry loss data, and represent estimates of the ultimate cost of all claims incurred through the balance sheet date. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid loss and loss adjustment expenses is adequate. The estimates are continually reviewed and adjusted as necessary, and such adjustments are included in current operations and accounted for as changes in estimates.

(o) Debt:

The Corporation's note payable is reported at amortized cost. The note payable includes a premium that is being amortized through the maturity date of the note payable using the effective interest rate method.

The Corporation's bank loan is reported at its unpaid principal balance.

The Corporation's subordinated debt is measured and reported at fair value. The fair value of the subordinated debt is calculated using a model based on significant market observable inputs and inputs developed by a third party. These inputs include credit spread assumptions developed by a third party and market observable swap rates. Changes in fair value are reported in the consolidated statements of operations as loss (gain) on change in fair value of debt.

(p) Contingent consideration:

The consideration for certain of the Corporation's acquisitions included future payments to the former owners that were contingent upon the achievement of certain targets over future reporting periods. Liabilities for contingent consideration are measured and reported at fair value at the date of acquisition and are included in accrued expenses and other liabilities in the consolidated balance sheets. Changes in the fair value of contingent consideration liabilities can result from changes to one or multiple inputs, including adjustments to the discount rates or changes in the assumed achievement or timing of any targets. These fair value measurements are based on significant inputs not observable in the market. Changes in assumptions could have an impact on the payout of contingent consideration liabilities. Changes in fair value are reported in the consolidated statements of operations as contingent consideration benefit.

(q) Income taxes:

The Corporation and its non-U.S. subsidiaries file separate foreign income tax returns. Kingsway America II Inc. and its eligible U.S. subsidiaries file a U.S. consolidated federal income tax return (KAI Tax Group). The method of allocating federal income taxes among the companies in the KAI Tax Group is subject to written agreement, approved by each company's Board of Directors. The allocation is made primarily on a separate return basis, with current credit for any net operating losses or other items utilized in the consolidated federal income tax return. The Corporation's U.S. subsidiaries not included in the KAI Tax Group file separate federal income tax returns.

The Corporation follows the asset and liability method of accounting for income taxes, whereby deferred income tax assets and liabilities are recognized for (i) the differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and (ii) loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not and a valuation allowance is

established for any portion of a deferred tax asset that management believes will not be realized. Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. The Corporation accounts for uncertain tax positions in accordance with the income tax accounting guidance. The Corporation recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax (benefit) expense.

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(r) Leases:

Rental income from operating leases is recognized on a straight-line basis, based on contractual lease terms with fixed and determinable increases over the non-cancellable term of the related lease when collectability is reasonably assured. Rental income recognized in excess of amounts contractually due and collected pursuant to the underlying lease is recorded in other receivables in the consolidated balance sheets. Rental expense for operating leases is recognized on a straight-line basis over the lease term, net of any applicable lease incentive amortization. Below market lease liabilities recorded in connection with the acquisition method of accounting are amortized on a straight-line basis over the remaining term of the lease, as determined at the acquisition date, and are included in accrued expenses and other liabilities in the consolidated balance sheets. Amortization of below market lease liabilities is included in rental income in the consolidated statements of operations.

(s) Revenue recognition:

Service fee and commission income and deferred service fees

Service fee and commission income represents vehicle service agreement fees, maintenance support service fees, warranty product commissions, homebuilder warranty service fees and homebuilder warranty commissions based on terms of various agreements with credit unions, consumers, businesses and homebuilders.

Vehicle service agreement fees include the fees collected to cover the costs of future automobile mechanical breakdown claims and the associated administration of those claims. Vehicle service agreement fees are earned over the duration of the vehicle service agreement contracts as the single performance obligation is satisfied. Vehicle service agreement fees are initially recorded as deferred service fees. On a quarterly basis, the Corporation compares the remaining deferred service fees balance to the estimated amount of expected future claims under the vehicle service agreement contracts and records an additional accrual when the deferred service fees balance is less than expected future claims costs.

Maintenance support service fees include the service fees collected to administer equipment breakdown and maintenance support services and are earned as services are rendered.

Warranty product commissions include the commissions from the sale of warranty contracts for certain new and used heating, ventilation, air conditioning (HVAC), standby generator, commercial LED lighting and refrigeration equipment. The Corporation acts as an agent on behalf of the third-party insurance companies that underwrite and guaranty these warranty contracts. The Corporation does not guaranty the performance underlying the warranty contracts it sells. Warranty product commissions are earned at the time of the warranty product sales.

Homebuilder warranty service fees include fees collected from the sale of warranties issued by new homebuilders. Homebuilder warranty service fees are recognized as income over the warranty period, the majority of which is 10 years and is based on homes closed by the builder. The Corporation estimates deferred revenue for years two through ten of the warranty period, based on historical dispute resolution services experience.

Homebuilder warranty commissions include commissions from the sale of warranty contracts for those builders who have requested and receive insurance backing of their warranty obligations. The Corporation acts as an agent on behalf of the third-party insurance company that underwrites and guaranties these warranty contracts. Homebuilder warranty commissions are earned on the certification date, which is typically the date of the closing of the sale of the home to the buyer. The Corporation also earns fees to manage remediation or repair services related to claims on insurance-backed warranty obligations, which are earned when the claims are closed, and a profit-sharing bonus on

eligible warranties, which is determined based on expected ultimate loss ratio targets and is earned at the time the profit-sharing bonus is received.

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Contingent revenue

The terms of the sale of one of the Corporation's subsidiaries includes potential receipt by the Corporation of future earnout payments. The gain related to the earnout payments is recorded when the consideration is determined to be realizable and is reported in the consolidated statements of operations as gain on disposal of discontinued operations, net of taxes.

The assumptions and methodologies used are continually reviewed and any adjustments are reflected in the consolidated statements of operations in the period in which the adjustments are made.

(t) Cost of services sold:

Cost of services sold is comprised of direct costs incurred to generate maintenance support fee revenue. Cost of services sold includes payments to third-party contractors who service equipment breakdowns and perform maintenance support.

(u) Stock-based compensation:

The Corporation has a stock-based compensation plan for key officers of the Corporation. The Corporation uses the fair-value method of accounting for stock-based compensation awards granted to employees. Expense is recognized on a straight-line basis over the service period during which awards are expected to vest, with a corresponding increase to additional paid-in capital. The Corporation determines the fair value of stock options on their grant date using the Black-Scholes option pricing model. When these stock options are exercised, the amount of proceeds together with the amount recorded in additional paid-in capital is recorded in shareholders' equity.

(v) Fair value of financial instruments:

The fair values of the Corporation's investments in fixed maturities and equity investments, limited liability investment, at fair value, performance shares and subordinated debt are estimated using a fair value hierarchy to categorize the inputs it uses in valuation techniques. The fair value of the Corporation's investment in investee is based on quoted market prices. Fair values for other investments approximate their unpaid principal balance. The carrying amounts reported in the consolidated balance sheets approximate fair values for cash, short-term investments and certain other assets and other liabilities because of their short-term nature.

NOTE 3 RECENTLY ISSUED ACCOUNTING STANDARDS

(a) Adoption of New Accounting Standards:

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). ASU 2016-09 was issued to simplify the accounting for share-based payment awards. The guidance requires, prospectively, all tax effects related to share-based payments be made through the statement of operations at the time of settlement as opposed to excess tax benefits being recognized in additional paid-in-capital under the current guidance. ASU 2016-09 also removes the requirement to delay recognition of a tax benefit until it

reduces current taxes payable. This change is required to be applied on a modified retrospective basis, with a cumulative-effect adjustment to opening accumulated deficit. Additionally, all tax related cash flows resulting from share-based payments are to be reported as operating activities on the statement of cash flows, a change from the current requirement to present tax benefits as an inflow from financing activities and an outflow from operating activities. ASU 2016-09 is effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is permitted with any adjustments reflected as of the beginning of the fiscal year of adoption. Effective January 1, 2017, the Corporation adopted ASU 2016-09. The adoption of the standard did not affect the Corporation's consolidated financial statements.

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In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date* (ASU 2015-14). This amendment defers the effective date of the previously issued ASU 2014-09 until the interim and annual reporting periods beginning after December 15, 2017. Earlier application is permitted for interim and annual reporting periods beginning after December 15, 2016. In addition, the FASB has issued four related ASU s on principal versus agent guidance (ASU 2016-08), identifying performance obligations and the licensing implementation guidance (ASU 2016-10), a revision of certain SEC Staff Observer comments (ASU 2016-11) and implementation guidance (ASU 2016-12). The guidance permits two methods of transition upon adoption; full retrospective and modified retrospective. The Corporation will utilize the modified retrospective method upon adoption of ASU 2014-09 on January 1, 2018. Under the modified retrospective method, revenues and other disclosures for pre-2017 periods would be provided in the notes to the consolidated financial statements as previously reported under the current revenue standard. Insurance contracts, lease contracts and investments are not within the scope of ASU 2014-09. ASU 2014-09 is applicable to the Corporation s service fee and commission income. Service fee and commission income represents vehicle service agreement fees, maintenance support service fees, warranty product commissions, homebuilder warranty service fees and homebuilder warranty commissions based on terms of various agreements with credit unions, consumers, businesses and homebuilders. With the exception of homebuilder warranty service fees, the adoption of ASU 2014-09 will not change the way we recognize revenue. The new guidance affects PWSC s homebuilder warranty service fees, which will be recognized more slowly as compared to the current revenue recognition pattern. Upon adoption of ASU 2014-09, the Corporation will record a cumulative effect adjustment to increase accumulated deficit by \$0.5 million and increase deferred service fees by \$0.5 million.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01). The amendments in ASU 2016-01 address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Most significantly, ASU 2016-01 requires (1) equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of an investee) to be measured at fair value with changes in fair value recognized in net income (loss); and (2) an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. For public business entities, the amendments in ASU 2016-01 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and will be applied using a cumulative-effect adjustment to accumulated deficit as of the beginning of the fiscal year of adoption. The Corporation currently records its equity investments at fair value with net unrealized gains or losses reported in accumulated other comprehensive income (loss). Adoption of ASU 2016-01 will require the changes in fair value on equity investments with readily determinable fair values to be recorded in net income (loss). The Corporation currently records its subordinated debt at fair value with the total change in fair value reported in net income (loss). Adoption of ASU 2016-01 will require the portion of the change in fair value of subordinated debt related to the instrument-specific credit risk to be recorded in other comprehensive income (loss). The adoption of ASU 2016-01 will have no impact on the Corporation s total shareholders equity as of January 1, 2018. Subsequent to adoption, ASU 2016-01 could have a significant effect on the Corporation s results of operations and earnings (loss) per share as changes in fair value of equity investments will be presented in net income (loss) rather than other comprehensive income (loss) and certain changes in fair value of subordinated debt will be presented in other comprehensive income (loss) rather than net income (loss).

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In February 2016, the FASB issued ASU 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 was issued to improve the financial reporting of leasing transactions. Under current guidance for lessees, leases are only included on the balance sheet if certain criteria, classifying the agreement as a capital lease, are met. This update will require the recognition of a right-of-use asset and a corresponding lease liability, discounted to the present value, for all leases that extend beyond 12 months. For operating leases, the asset and liability will be expensed over the lease term on a straight-line basis, with all cash flows included in the operating section of the statement of cash flows. For finance leases, interest on the lease liability will be recognized separately from the amortization of the right-of-use asset in the statement of comprehensive income and the repayment of the principal portion of the lease liability will be classified as a financing activity while the interest component will be included in the operating section of the statement of cash flows. The accounting treatment for lessors will remain relatively unchanged. ASU 2016-02 is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. Upon adoption, leases will be recognized and measured at the beginning of the earliest period presented using a modified retrospective approach. The Corporation is currently evaluating the potential effect of the adoption of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments* (ASU 2016-15). The objective of ASU 2016-15 is to reduce diversity in the classification of cash receipts and payments for specific cash flow issues, including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination and proceeds from the settlement of insurance claims. ASU 2016-15 is effective for fiscal years beginning after December 31, 2017, and interim periods within those fiscal years. Early adoption of ASU 2016-15 is permitted. The Corporation does not believe the adoption of ASU 2016-15 will have a material effect on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (ASU 2017-04). ASU 2017-04 was issued to simplify the subsequent measurement of goodwill. This update changes the impairment test by requiring an entity to compare the fair value of a reporting unit with its carrying amount as opposed to comparing the carrying amount of goodwill with its implied fair value. ASU 2017-04 is effective for annual and interim reporting periods beginning after December 15, 2019. Early adoption is permitted. The Corporation does not believe the adoption of ASU 2017-04 will have a material effect on its consolidated financial statements.

NOTE 4 ACQUISITIONS**Professional Warranty Service Corporation:**

On October 12, 2017, the Corporation acquired 100% of the outstanding shares of PWSC for estimated cash consideration of approximately \$9.9 million. The final purchase price is subject to a true-up that will be finalized in 2018. The consolidated statements of operations include the earnings of PWSC from the date of acquisition. No supplemental pro forma revenue and earnings information related to the acquisition has been presented for the years ended December 31, 2017 and December 31, 2016, as the impact is immaterial. As further discussed in Note 25,

Segmented Information, PWSC is included in the Extended Warranty segment. PWSC is based in Virginia and is a leading provider of new home warranty products and administration services to the largest tier of domestic residential construction firms in the United States. This acquisition allows the Corporation to grow its portfolio of warranty companies and expand into the home warranty business.

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The Corporation intends to finalize during 2018 its fair value analysis of the assets acquired and liabilities assumed. The assets acquired and liabilities assumed are recorded in the Consolidated Financial Statements at their estimated fair market values. These estimates, allocations and calculations are subject to change as we obtain further information; therefore, the final fair market values of the assets acquired and liabilities assumed may not agree with the estimates included in the Consolidated Financial Statements. The following table summarizes the estimated allocation of the assets acquired and liabilities assumed at the date of acquisition:

(in thousands)	October 12, 2017
Cash and cash equivalents	\$ 2,071
Other receivables	50
Service fee receivable	1,422
Property and equipment	238
Other assets	205
Goodwill	\$ 9,051
Total assets	\$ 13,037
Deferred service fees	\$ 2,079
Accrued expenses and other liabilities	1,089
Total liabilities	\$ 3,168
Purchase price	\$ 9,869

CMC Industries, Inc.:

On July 14, 2016, the Corporation completed the acquisition of 81.0% of CMC for cash consideration of \$1.5 million. The consolidated statements of operations include the earnings of CMC from the date of acquisition. As further discussed in Note 25, Segmented Information, CMC is included in the Leased Real Estate segment. CMC owns, through an indirect wholly owned subsidiary (the Property Owner), a parcel of real property consisting of approximately 192 acres located in the State of Texas (the Real Property). The Real Property is leased to a third party pursuant to a long-term triple net lease. Effective beginning the first quarter of 2017, the Corporation executed a lease amendment between CMC and its tenant under which the tenant will pay an aggregate \$25.0 million of additional rental income through May 2034, the remaining term of the lease. The Real Property is also subject to a mortgage, which is recorded as note payable in the consolidated balance sheets (the Mortgage). The Mortgage is nonrecourse indebtedness with respect to CMC and its subsidiaries (including the Property Owner), and the Mortgage is not, nor will it be, guaranteed by Kingsway or its affiliates.

This acquisition was accounted for as a business combination using the acquisition method of accounting. The purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. During the fourth quarter of 2016, the Corporation completed its fair value analysis on the assets acquired and liabilities assumed. Goodwill of \$61.0 million was recognized. The goodwill is not deductible for tax purposes. Separately identifiable intangible assets of \$74.8 million were recognized resulting from the valuations of in-place lease and a tenant relationship. Refer to Note 11, Intangible Assets, for further disclosure of the intangible assets related to this acquisition. The Mortgage was recorded at its estimated fair value of \$191.7 million, which included the unpaid principal amount of \$180.0 million as of the date of acquisition plus a premium of \$11.7 million.

Refer to Note 14, Debt, for further discussion of the Mortgage. The Corporation also recognized a below market lease liability of \$0.9 million, which is included in accrued expenses and other liabilities. The below market lease liability resulted from the terms of the acquired operating lease contract being unfavorable relative to market terms of comparable leases on the date of acquisition. The below market lease liability is amortized on a straight-line basis over the remaining term of the lease, as determined at the acquisition date. Amortization of below market lease liabilities is included in rental income in the consolidated statements of operations.

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The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

(in thousands)	July 14, 2016
Cash and cash equivalents	\$ 1,006
Other receivables	1,971
Property and equipment	113,008
Intangible asset - subject to amortization	1,125
Intangible asset - not subject to amortization	73,667
Other assets	1,385
Goodwill	60,983
Total assets	\$ 253,145
Note payable	\$ 191,741
Deferred income tax liability	55,603
Income taxes payable	2,018
Accrued expenses and other liabilities	1,984
Noncontrolling interest in CMC	299
Total liabilities and noncontrolling interest	\$ 251,645
Purchase price	\$ 1,500

The consolidated statements of operations include the earnings of CMC from the date of acquisition. From the date of acquisition through December 31, 2016, CMC earned revenue of \$5.4 million and net income of \$0.5 million. The following unaudited pro forma summary presents the Corporation's consolidated financial statements for the year ended December 31, 2016 as if CMC had been acquired on January 1, 2016. The pro forma summary is presented for illustrative purposes only and does not purport to represent the results of our operations that would have actually occurred had the acquisition occurred on January 1, 2016 or project our results of operations as of any future date or for any future period, as applicable.

(in thousands, except per share data)	Year ended December 31, 2016
Revenues	\$ 39,101
Income from continuing operations attributable to common shareholders	\$ 4,611
Basic earnings per share - continuing operations	\$ 0.23
Diluted earnings per share - continuing operations	\$ 0.22

Argo Management Group LLC:

Effective April 21, 2016, the Corporation issued 160,000 shares of its common stock to acquire Argo. The Argo purchase price of \$0.7 million was determined using the closing price of Kingsway common stock on the date the 160,000 shares were issued. The consolidated statements of operations include the earnings of Argo from the date of acquisition. No supplemental pro forma revenue and earnings information related to the acquisition has been presented for the years ended December 31, 2016 and December 31, 2015, as the impact is immaterial. Argo's primary business is to act as the Managing Member of Argo Holdings Fund I, LLC, an investment fund organized for purposes of making control-oriented equity investments in established lower middle market companies based in North America, with a focus on search fund investments.

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This acquisition was accounted for as a business combination using the acquisition method of accounting. The purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values at the date of acquisition. During the second quarter of 2016, the Corporation completed its fair value analysis on the assets acquired and liabilities assumed. Separately identifiable intangible assets of \$0.7 million were recognized resulting from the valuations of contract-based management fee and promote fee revenues. Refer to Note 11, Intangible Assets, for further disclosure of the intangible assets related to this acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

(in thousands)	April 21, 2016
Cash and cash equivalents	\$ 5
Other receivables	17
Intangible assets - subject to amortization	731
Other assets	5
Total assets	\$ 758
Accrued expenses and other liabilities	\$ 14
Total liabilities	\$ 14
 Purchase price	 \$ 744

NOTE 5 DECONSOLIDATION, DISCONTINUED OPERATIONS AND LIQUIDATION**(a) Deconsolidation**

At June 30, 2016, the Corporation owned 61.0% of the outstanding units of 1347 Investors. Because the Corporation owned more than 50% of the outstanding units, 1347 Investors was included in the consolidated financial statements of the Corporation. 1347 Investors had an investment in the common stock and private units of 1347 Capital Corp. which was reflected in investment in investee in the consolidated balance sheets. 1347 Capital Corp., which completed an initial public offering on July 21, 2014 and had 24 months from the date of the initial public offering to complete a successful business combination, was formed for the purpose of entering into a merger, share exchange, asset acquisition or other similar business combination with one or more businesses or entities.

On March 23, 2016, 1347 Capital Corp. announced the signing of a definitive agreement with Limbach Holdings LLC (Limbach), in which 1347 Capital Corp. would merge with Limbach. On July 21, 2016, Limbach announced the closing of the previously announced merger, and 1347 Capital Corp. was renamed Limbach Holdings, Inc. As a result of this transaction, the Corporation's ownership percentage in 1347 Investors was reduced to 26.7% at the transaction date, leading the Corporation to record a non-cash gain of \$5.6 million during 2016 related to the deconsolidation of 1347 Investors. This gain results from removing the carrying value of the noncontrolling interest in 1347 Investors and the carrying value of the consolidated net assets of 1347 Investors, which the Corporation reported prior to the closing of the transaction, and recording the fair value of the Corporation's 26.7% retained noncontrolling investment in 1347 Investors as of the transaction date. Subsequent to the transaction date, the Corporation is accounting for its

remaining noncontrolling investment in 1347 Investors at fair value.

(b) Discontinued Operations

Mendota Insurance Company, Mendakota Insurance Company and Mendakota Casualty Company:

On July 16, 2018, the Corporation announced it had entered into a definitive agreement to sell its non-standard automobile insurance companies Mendota, Mendakota and MCC (collectively Mendota). On October 18,

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2018, the Corporation completed the previously announced sale of Mendota. The final aggregate purchase price of \$28.6 million was redeployed primarily to acquire equity investments, limited liability investments, limited liability investment, at fair value and other investments, which were owned by Mendota at the time of the closing, and to fund \$5.0 million into an escrow account to be used to satisfy potential indemnity obligations under the definitive stock purchase agreement. As part of the transaction, the Corporation will indemnify the buyer for any loss and loss adjustment expenses with respect to open claims and certain specified claims in excess of Mendota's carried unpaid loss and loss adjustment expenses at June 30, 2018. The maximum obligation to the Corporation with respect to the open claims is \$2.5 million. There is no maximum obligation to the Corporation with respect to the specified claims.

As a result of this announcement, Mendota, previously disclosed as part of the Insurance Underwriting segment, has been classified as a discontinued operation and the results of their operations are reported separately for all periods presented. The assets and liabilities of Mendota are presented as held for sale in the consolidated balance sheets at December 31, 2017 and December 31, 2016.

Assigned Risk Solutions Ltd.:

On April 1, 2015, the Corporation closed on the sale of its subsidiary, Assigned Risk Solutions Ltd. (ARS). The terms of the sale provided for receipt by the Corporation of future earnout payments equal to 1.25% of ARS' written premium and fee income during the earnout periods. The earnout payments were payable in three annual installments beginning in April 2016 through April 2018. During 2017, the Corporation received cash consideration, before expenses, for the second annual installment earnout payment of \$1.3 million. During 2016, the Corporation received cash consideration, before expenses, of \$1.5 million, consisting of the first annual installment earnout payment of \$1.4 million and \$0.1 million related to state tax overpayments. Net of expenses, the Corporation recorded an additional gain on disposal of ARS of \$1.0 million and \$1.3 million for the years ended December 31, 2017 and December 31, 2016, respectively. As a result of the sale, ARS, previously disclosed as part of the Extended Warranty (formerly Insurance Services) segment, has been classified as a discontinued operation.

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Summary financial information for Mendota and ARS included in loss from discontinued operations, net of taxes for the years ended December 31, 2017 and 2016 is presented below:

(in thousands)	Years ended December 31,	
	2017	2016
Loss from discontinued operations, net of taxes:		
Revenues:		
Net premiums earned	\$ 130,443	\$ 127,608
Net investment income	1,701	5,382
Net realized gains	3,465	294
Other-than-temporary impairment loss	(316)	(140)
Other income	9,938	10,229
Total revenues	145,231	143,373
Expenses:		
Loss and loss adjustment expenses	120,387	106,027
Commissions and premium taxes	20,682	20,696
General and administrative expenses	19,231	20,890
Impairment of other intangible assets	250	
Total expenses	160,550	147,613
Loss from discontinued operations before income tax benefit	(15,319)	(4,240)
Income tax benefit	(1,067)	
Loss from discontinued operations, net of taxes	(14,252)	(4,240)
Gain on disposal of discontinued operations, net of taxes	1,017	1,255
Income tax benefit		
Gain on disposal of discontinued operations, net of taxes	1,017	1,255
Total loss from discontinued operations, net of taxes	\$ (13,235)	\$ (2,985)

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The assets and liabilities of Mendota are presented as held for sale in the consolidated balance sheets. The carrying amounts of the major classes of assets and liabilities of Mendota at December 31, 2017 and 2016 are as follows:

(in thousands)	December 31, 2017	December 31, 2016
Assets		
Investments:		
Fixed maturities, at fair value	\$ 38,673	\$ 45,521
Equity investments, at fair value	4,518	14,974
Limited liability investments	20,251	21,775
Limited liability investment, at fair value	4,543	4,588
Other investments, at cost which approximates fair value	1,400	4,775
Total investments	69,385	91,633
Cash and cash equivalents	23,512	4,524
Accrued investment income	195	320
Premiums receivable, net	27,855	31,564
Other receivables	603	
Deferred acquisition costs, net	6,720	7,782
Property and equipment, net	222	143
Intangible assets, net	7,553	7,803
Other assets	407	692
Assets held for sale	\$ 136,452	\$ 144,461
Liabilities		
Property and casualty unpaid loss and loss adjustment expenses	\$ 62,323	\$ 51,593
Unearned premiums	36,686	40,176
Net deferred income tax liabilities	1,586	2,653
Accrued expenses and other liabilities	5,305	8,248
Liabilities held for sale	\$ 105,900	\$ 102,670

For the years ended December 31, 2017 and 2016, ARS net cash used in operating activities was zero and zero, respectively. ARS had no cash flows from investing activities for the years ended December 31, 2017 and 2016. For the years ended December 31, 2017 and 2016, Mendota's net cash used in operating activities was \$9.2 million and \$5.9 million, respectively. For the years ended December 31, 2017 and 2016, Mendota's net cash provided by investing activities was \$28.1 million and \$4.9 million, respectively.

(c) Liquidation

During 2017, the Corporation's subsidiary, Kingsway ROC GP (ROC GP), was liquidated. As a result of the liquidation of this subsidiary, the Corporation realized a net after-tax loss of \$0.5 million for the year ended December 31, 2017. This loss represents the foreign exchange loss previously recorded in accumulated other comprehensive loss and now recognized in the statements of operations as a result of the liquidation of ROC GP. Summarized financial information for liquidation of subsidiary is shown below:

(in thousands)	Years ended December 31,	
	2017	2016
Liquidation:		
Loss on liquidation before income taxes	\$ (494)	\$
Income tax benefit		\$
Loss on liquidation of subsidiary, net of taxes	\$ (494)	\$

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The amortized cost, gross unrealized gains and losses, and estimated fair value of the Corporation's investments in fixed maturities and equity investments at December 31, 2017 and December 31, 2016 are summarized in the tables shown below:

(in thousands)	December 31, 2017			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Fixed maturities:				
U.S. government, government agencies and authorities	\$ 5,671	\$	\$ 59	\$ 5,612
States, municipalities and political subdivisions	639		13	626
Mortgage-backed	2,933		57	2,876
Corporate	5,464		37	5,427
Total fixed maturities	14,707		166	14,541
Equity investments:				
Common stock	3,883		313	3,570
Warrants - publicly traded	11	47		58
Warrants - not publicly traded	960	173	285	848
Total equity investments	4,854	220	598	4,476
Total fixed maturities and equity investments	\$ 19,561	\$ 220	\$ 764	\$ 19,017

(in thousands)	December 31, 2016			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
Fixed maturities:				
U.S. government, government agencies and authorities	\$ 6,898	\$	\$ 52	\$ 6,846
States, municipalities and political subdivisions	656		15	641
Mortgage-backed	3,312		64	3,248
Corporate	5,487	71	50	5,508
Total fixed maturities	16,353	71	181	16,243
Equity investments:				
Common stock	6,918	128		7,046
Warrants - publicly traded	11	59		70
Warrants - not publicly traded	960	180		1,140
Total equity investments	7,889	367		8,256

Total fixed maturities and equity investments	\$ 24,242	\$ 438	\$ 181	\$ 24,499
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Net unrealized gains and losses in the tables above are reported as other comprehensive (loss) income with the exception of net unrealized losses of \$0.1 million, at December 31, 2017, and net unrealized gains of \$0.2 million, at December 31, 2016, related to warrants - not publicly traded, which are reported in the consolidated statements of operations.

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The table below summarizes the Corporation's fixed maturities at December 31, 2017 by contractual maturity periods. Actual results may differ as issuers may have the right to call or prepay obligations, with or without penalties, prior to the contractual maturity of these obligations.

(in thousands)	December 31, 2017	
	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 3,623	\$ 3,605
Due after one year through five years	9,422	9,310
Due after five years through ten years	353	344
Due after ten years	1,309	1,282
Total	\$ 14,707	\$ 14,541

The following tables highlight the aggregate unrealized loss position, by security type, of fixed maturities and equity investments in unrealized loss positions as of December 31, 2017 and December 31, 2016. The tables segregate the holdings based on the period of time the investments have been continuously held in unrealized loss positions.

(in thousands)	December 31, 2017					
	Less than 12 Months		Greater than 12 Months		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Fixed maturities:						
U.S. government, government agencies and authorities	\$ 4,067	\$ 50	\$ 1,545	\$ 9	\$ 5,612	\$ 59
States, municipalities and political subdivisions	626	13			626	13
Mortgage-backed	2,876	57			2,876	57
Corporate	2,427	37			2,427	37
Total fixed maturities	9,996	157	1,545	9	11,541	166
Equity investments:						
Common stock	3,570	313			3,570	313
Warrants	675	285			675	285
Total equity investments	4,245	598			4,245	598
Total	\$ 14,241	\$ 755	\$ 1,545	\$ 9	\$ 15,786	\$ 764

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(in thousands)	December 31, 2016					
	Less than 12 Months		Greater than 12 Months		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Fixed maturities:						
U.S. government, government agencies and authorities	\$ 6,846	\$ 52	\$	\$	\$ 6,846	\$ 52
States, municipalities and political subdivisions	641	15			641	15
Mortgage-backed	3,248	64			3,248	64
Corporate	2,437	50			2,437	50
Total fixed maturities	13,172	181			13,172	181
Equity investments:						
Common stock						
Warrants						
Total equity investments						
Total	\$ 13,172	\$ 181	\$	\$	\$ 13,172	\$ 181

Fixed maturities and equity investments contain approximately 68 and 66 individual investments that were in unrealized loss positions as of December 31, 2017 and 2016, respectively.

The establishment of an other-than-temporary impairment on an investment requires a number of judgments and estimates. The Corporation performs a quarterly analysis of the individual investments to determine if declines in market value are other-than-temporary. The analysis includes some or all of the following procedures as deemed appropriate by the Corporation:

identifying all unrealized loss positions that have existed for at least six months;

identifying other circumstances management believes may impact the recoverability of the unrealized loss positions;

obtaining a valuation analysis from third-party investment managers regarding the intrinsic value of these investments based on their knowledge and experience together with market-based valuation techniques;

reviewing the trading range of certain investments over the preceding calendar period;

assessing if declines in market value are other-than-temporary for debt instruments based on the investment grade credit ratings from third-party rating agencies;

assessing if declines in market value are other-than-temporary for any debt instrument with a non-investment grade credit rating based on the continuity of its debt service record;

determining the necessary provision for declines in market value that are considered other-than-temporary based on the analyses performed; and

assessing the Corporation's ability and intent to hold these investments at least until the investment impairment is recovered.

The risks and uncertainties inherent in the assessment methodology used to determine declines in market value that are other-than-temporary include, but may not be limited to, the following:

the opinions of professional investment managers could be incorrect;

the past trading patterns of individual investments may not reflect future valuation trends;

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the credit ratings assigned by independent credit rating agencies may be incorrect due to unforeseen or unknown facts related to a company's financial situation; and

the debt service pattern of non-investment grade instruments may not reflect future debt service capabilities and may not reflect a company's unknown underlying financial problems.

As a result of the analysis performed by the Corporation to determine declines in market value that are other-than-temporary, there were no write downs for other-than-temporary impairments related to investments for the year ended December 31, 2017. The Corporation recorded a write-down of \$0.0 million for other-than-temporary impairment related to equity investments for the year ended December 31, 2016.

There were \$0.3 million and \$0.1 million of other-than-temporary losses recognized in other comprehensive (loss) income for the years ended December 31, 2017 and 2016, respectively.

The Corporation has reviewed currently available information regarding investments with estimated fair values less than their carrying amounts and believes 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 Corporation does not intend to sell those investments, and it is not likely it will be required to sell those investments before recovery of its amortized cost.

The Corporation does not have any exposure to subprime mortgage-backed investments.

Limited liability investments include investments in limited liability companies and limited partnerships. The Corporation's interests in these investments are not deemed minor and, therefore, are accounted for under the equity method of accounting. The most recently available financial statements are used in applying the equity method. The difference between the end of the reporting period of the limited liability entities and that of the Corporation is no more than three months. As of December 31, 2017 and December 31, 2016, the carrying value of limited liability investments totaled \$4.9 million and \$1.2 million, respectively.

Limited liability investment, at fair value represents the Corporation's investment in 1347 Investors. In connection with the deconsolidation of 1347 Investors during the third quarter of 2016, the Corporation retained a minority investment in 1347 Investors. The Corporation has made an irrevocable election to account for this investment at fair value. As of December 31, 2017 and December 31, 2016, the carrying value of the Corporation's limited liability investment, at fair value was \$5.8 million and \$6.1 million, respectively.

Other investments include mortgage and collateral loans and are reported at their unpaid principal balance. As of December 31, 2017 and December 31, 2016, the carrying value of other investments totaled \$2.3 million and \$4.6 million, respectively.

The Corporation had previously entered into two separate performance share grant agreements with 1347 Property Insurance Holdings, Inc. (PIH), whereby the Corporation will be entitled to receive up to an aggregate of 475,000 shares of PIH common stock upon achievement of certain milestones for PIH's stock price. Pursuant to the performance share grant agreements, if at any time the last sales price of PIH's common stock equals or exceeds: (i) \$10.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period, the Corporation will receive 100,000 shares of PIH common stock; (ii) \$12.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period, the Corporation will receive 125,000 shares of PIH common stock (in addition to the 100,000 shares of common stock earned pursuant to clause (i) herein); (iii) \$15.00 per share

(as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period, the Corporation will receive 125,000 shares of PIH common stock (in addition to the 225,000 shares of common stock earned pursuant to clauses (i) and (ii) herein); and (iv) \$18.00 per share (as adjusted for stock splits, stock dividends,

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reorganizations, recapitalizations and the like) for any 20 trading days within any 30-trading day period, the Corporation will receive 125,000 shares of PIH common stock (in addition to the 350,000 shares of common stock earned pursuant to clauses (i), (ii) and (iii) herein). To the extent shares of PIH common stock are granted to the Corporation under either of the performance share grant agreements, they will be recorded at the time the shares are granted and will have a valuation equal to the last sales price of PIH common stock on the day prior to such grant. No shares were received by the Corporation under either of the performance share grant agreements as of December 31, 2017. On January 2, 2018, the Corporation entered into an agreement with PIH to cancel the \$10.00 per share Performance Shares Grant Agreement in exchange for cash consideration of \$0.3 million. The Corporation will record this gain during the first quarter of 2018. Refer to Note 26, Fair Value of Financial Instruments, for further details regarding the performance shares.

Gross realized gains and losses on fixed maturities, equity investments and limited liability investments for the years ended December 31, 2017 and 2016 were as follows:

(in thousands)	Years ended December 31,	
	2017	2016
Gross realized gains	\$ 309	\$ 75
Gross realized losses	(3)	(9)
Total	\$ 306	\$ 66

Net investment income for the years ended December 31, 2017 and 2016, respectively, is comprised as follows:

(in thousands)	Years ended December 31,	
	2017	2016
Investment income		
Interest from fixed maturities	\$ 190	\$ 37
Dividends	400	428
Income from limited liability investments	685	392
(Loss) gain on change in fair value of limited liability investment, at fair value	(340)	1,270
(Loss) gain on change in fair value of warrants not publicly traded	(292)	380
Other	347	367
Gross investment income	990	2,874
Investment expenses	(22)	(12)
Net investment income	\$ 968	\$ 2,862

NOTE 7 INVESTMENT IN INVESTEES

Investment in investee includes the Corporation's investment in the common stock of ICL and is accounted for under the equity method. Prior to the second quarter of 2016, the Corporation's investment in ICL was included in equity investments in the consolidated balance sheets. During the second quarter of 2016, the Corporation's ownership percentage in ICL was increased to 31.2%. As a result of this change in ownership, the Corporation determined that its

investment in the common stock of ICL qualified for the equity method of accounting and, thus, is included in investment in investee in the consolidated balance sheets at December 31, 2017 and December 31, 2016. The Corporation's investment in ICL is recorded on a three-month lag basis.

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The carrying value, estimated fair value and approximate equity percentage for the Corporation's investment in investee at December 31, 2017 and December 31, 2016 were as follows:

(in thousands, except for percentages)

	December 31, 2017			December 31, 2016		
	Equity Percentage	Estimated Fair Value	Carrying Value	Equity Percentage	Estimated Fair Value	Carrying value
ICL	31.2%	\$ 3,816	\$ 5,230	31.2%	\$ 4,251	\$ 3,116

The estimated fair value of the Corporation's investment in ICL at December 31, 2017 in the table above is calculated based on the published closing price of ICL at September 30, 2017 to be consistent with the three-month lag in reporting its carrying value under the equity method. The estimated fair value of the Corporation's investment in ICL based on the published closing price of ICL at December 31, 2017 is \$3.4 million.

1347 Investors previously had an investment in the common stock and private units of 1347 Capital Corp., which was included in investment in investee in the consolidated balance sheet at June 30, 2016. As discussed in Note 5, Deconsolidation, Discontinued Operations and Liquidation, during the third quarter of 2016, the Corporation's ownership percentage in 1347 Investors was reduced to 26.7% and the Corporation deconsolidated 1347 Investors. As a result of removing the net assets of 1347 Investors from the Corporation's consolidated balance sheets, the Corporation no longer had a direct investment in the common stock and private units of 1347 Capital Corp. at December 31, 2016.

The Corporation reported equity in net income of investees of \$2.1 million for the year ended December 31, 2017 and equity in net loss of investees of \$1.0 million for the year ended December 31, 2016.

NOTE 8 REINSURANCE

Ceded loss and loss adjustments expenses, unpaid loss and loss adjustment expenses and commissions as of and for the years ended December 31, 2017 and 2016 are summarized as follows:

(in thousands)	Years ended December 31,	
	2017	2016
Ceded loss and loss adjustment expenses	\$ (226)	\$
Ceded unpaid loss and loss adjustment expenses	72	354
Ceding commissions	226	

NOTE 9 DEFERRED ACQUISITION COSTS

Policy acquisition costs consist primarily of commissions and agency expenses incurred related to successful efforts to acquire vehicle service agreements. Acquisition costs deferred on vehicle service agreements are amortized over the period in which the related revenues are earned.

The components of deferred acquisition costs and the related amortization expense as of and for the years ended December 31, 2017 and 2016 are comprised as follows:

(in thousands)	Years ended December 31,	
	2017	2016
Balance at January 1, net	\$ 5,827	\$ 5,447
Additions	4,722	4,047
Amortization	(4,224)	(3,667)
Balance at December 31, net	\$ 6,325	\$ 5,827

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Table of Contents**NOTE 10 GOODWILL**

Goodwill was \$80.1 million and \$71.1 million at December 31, 2017 and 2016, respectively, and is attributable to the Extended Warranty and Leased Real Estate reportable segments. As further discussed in Note 4, Acquisitions, the Corporation recorded goodwill of \$9.0 million related to the acquisition of PWSC on October 12, 2017. The Corporation intends to finalize during 2018 its fair value analysis of the assets acquired and liabilities assumed as part of the acquisition of PWSC. The estimates, allocations and calculations recorded at December 31, 2017 are subject to change as we obtain further information; therefore, the final fair market values of the assets acquired and liabilities assumed may not agree with the estimates included in the Consolidated Financial Statements.

Goodwill is assessed for impairment annually as of December 31, or more frequently if events or circumstances indicate that the carrying value may not be recoverable. The Corporation tested goodwill for recoverability at December 31, 2017 and 2016. Based on the assessment performed, no goodwill impairments were recognized in 2017 or 2016.

NOTE 11 INTANGIBLE ASSETS

Intangible assets are comprised as follows:

(in thousands)	December 31, 2017		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization			
Database	\$ 4,918	\$ 2,521	\$ 2,397
Vehicle service agreements in-force	3,680	3,640	40
Customer relationships	3,611	1,965	1,646
In-place lease	1,125	92	1,033
Contract-based revenues	731	115	616
Intangible assets not subject to amortization			
Tenant relationship	73,667		73,667
Trade name	663		663
Total	\$ 88,395	\$ 8,333	\$ 80,062

(in thousands)	December 31, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization			
Database	\$ 4,918	\$ 2,029	\$ 2,889
Vehicle service agreements in-force	3,680	3,554	126
Customer relationships	3,611	1,521	2,090
In-place lease	1,125	29	1,096
Contract-based revenues	731	48	683
Intangible assets not subject to amortization			

Tenant relationship	73,667		73,667
Trade name	663		663
Total	\$ 88,395	\$ 7,181	\$ 81,214

As further discussed in Note 4, Acquisitions, during 2016, the Corporation recorded \$74.8 million of separately identifiable intangible assets related to in-place lease and tenant relationship, as part of the acquisition of CMC. The in-place lease intangible asset of \$1.1 million is being amortized on a straight-line basis over its estimated

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useful life of approximately 18 years, which is based on the term of the existing operating lease. The tenant relationship intangible asset of \$73.7 million relates to a single long-term tenant relationship. The Corporation has determined that there are no legal, regulatory, contractual, competitive, economic or other factors limiting the useful life of the tenant relationship; therefore, the tenant relationship intangible asset is deemed to have an indefinite useful life and is not amortized.

As further discussed in Note 4, Acquisitions, during the second quarter of 2016, the Corporation recorded \$0.7 million of separately identifiable intangible assets for contract-based management fee and promote fee revenues as part of the acquisition of Argo. The contract-based management fee revenue intangible asset is being amortized over nine years. The contract-based promote fee revenue intangible asset is being amortized over a three-year period beginning in 2022. The amortization periods for the contract-based revenues intangible assets are based on the patterns in which the economic benefits of the intangible assets are expected to be consumed.

The Corporation's other intangible assets with definite useful lives are amortized either based on the patterns in which the economic benefits of the intangible assets are expected to be consumed or using the straight-line method over their estimated useful lives, which range from seven to fifteen years. Amortization of intangible assets was \$1.2 million and \$1.2 million for the years ended December 31, 2017 and 2016, respectively. The estimated aggregate future amortization expense of all intangible assets is \$1.1 million for 2018, \$0.9 million for 2019, \$0.8 million for 2020, \$0.8 million for 2021 and \$0.8 million for 2022.

The tenant relationship and trade name intangible assets have indefinite useful lives and are not amortized. All intangible assets with indefinite useful lives are reviewed annually by the Corporation for impairment. No impairment charges were taken on intangible assets in 2017 or 2016.

NOTE 12 PROPERTY AND EQUIPMENT

Property and equipment are comprised as follows:

(in thousands)	December 31, 2017		
	Cost	Accumulated Depreciation	Carrying Value
Land	\$ 21,371	\$	\$ 21,371
Site improvements	91,308	6,028	85,280
Buildings	968	53	915
Leasehold improvements	190	117	73
Furniture and equipment	1,072	973	99
Computer hardware	4,782	4,512	270
Total	\$ 119,691	\$ 11,683	\$ 108,008

(in thousands)	December 31, 2016		
	Cost	Accumulated Depreciation	Carrying Value
Land	\$ 23,355	\$	\$ 23,355

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Site improvements	91,308	1,894	89,414
Buildings	5,533	1,828	3,705
Leasehold improvements	208	101	107
Furniture and equipment	951	777	174
Computer hardware	4,266	4,203	63
Total	\$ 125,621	\$ 8,803	\$ 116,818

For the year ended December 31, 2017, depreciation expense on property and equipment of \$4.3 million and zero is included in general and administrative expenses and loss and loss adjustment expenses, respectively, in the

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consolidated statements of operations. For the year ended December 31, 2016, depreciation expense on property and equipment of \$2.1 million and \$0.2 million is included in general and administrative expenses and loss and loss adjustment expenses, respectively, in the consolidated statements of operations.

NOTE 13 UNPAID LOSS AND LOSS ADJUSTMENT EXPENSES

The establishment of the provision for unpaid loss and loss adjustment expenses is based on known facts and interpretation of circumstances and is, therefore, a complex and dynamic process influenced by a large variety of factors. These factors include the Corporation's experience with similar cases and historical trends involving loss payment patterns, pending levels of unpaid loss and loss adjustment expenses, product mix or concentration, loss severity and loss frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment; actuarial studies; professional experience and expertise of the Corporation's claims departments' personnel and independent adjusters retained to handle individual claims; the quality of the data used for projection purposes; existing claims management practices including claims-handling and settlement practices; the effect of inflationary trends on future loss settlement costs; court decisions; economic conditions; and public attitudes.

Consequently, the process of determining the provision for unpaid loss and loss adjustment expenses necessarily involves risks that the actual loss and loss adjustment expenses incurred by the Corporation will deviate, perhaps materially, from the estimates recorded.

The Corporation's evaluation of the adequacy of unpaid loss and loss adjustment expenses includes a re-estimation of the liability for unpaid loss and loss adjustment expenses relating to each preceding financial year compared to the liability that was previously established.

The results of this comparison and the changes in the provision for property and casualty unpaid loss and loss adjustment expenses, net of amounts recoverable from reinsurers, as of December 31, 2017 and December 31, 2016 were as follows:

(in thousands)	December 31,	
	2017	2016
Balance at beginning of period, gross	\$ 2,202	\$ 5,647
Less reinsurance recoverable related to property and casualty unpaid loss and loss adjustment expenses	354	434
Balance at beginning of period, net	1,848	5,213
Incurred related to:		
Current year	3	
Prior years	401	(1,643)
Paid related to:		
Current year		
Prior years	(995)	(1,722)
Balance at end of period, net	1,257	1,848
	72	354

Plus reinsurance recoverable related to property and casualty unpaid loss and loss adjustment expenses

Balance at end of period, gross	\$ 1,329	\$ 2,202
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The Corporation reported unfavorable development on property and casualty unpaid loss and loss adjustment expenses of \$0.4 million and favorable development of \$1.6 million in 2017 and 2016, respectively. The unfavorable development in 2017 was related to an increase in property and casualty unpaid loss and loss

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adjustment expenses due to the continuing voluntary run-off of Amigo. The favorable development in 2016 was related to a decrease in property and casualty unpaid loss and loss adjustment expenses due to the continuing voluntary run-off of Amigo. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

The following tables contain information about property and casualty incurred and paid loss and loss adjustment expenses development as of and for the year December 31, 2017, net of reinsurance, as well as cumulative claim frequency and the total of IBNR liabilities, including expected development on reported property and casualty unpaid loss and loss adjustment expenses included within the net incurred losses and allocated loss adjustment expenses amounts. The information about property and casualty incurred and paid loss and loss adjustment expenses development for the years ended December 31, 2008 through 2016, and the average annual percentage payout of incurred claims by age as of December 31, 2017, is presented as supplementary information.

Non-standard automobile insurance - Private passenger auto liability
(in thousands)

Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,										As of December 31, 2017	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total of IBNR Plus Expected Development on Reported	Cumulative Number of Reported Claims
2008	22,125	29,111	28,204	28,817	30,062	30,515	30,371	30,285	30,344	30,267		1
2009		35,209	37,387	38,486	40,219	40,436	40,308	40,211	40,177	40,091		6
2010			47,253	51,951	55,120	54,591	54,021	53,993	53,810	53,693		29
2011				29,034	29,458	28,744	28,094	27,865	27,613	27,597		17
2012					13,736	13,536	13,273	12,926	12,815	12,720		(4)
2013						6,456	6,434	5,474	4,488	4,617		26
2014												
2015												
2016												
2017												
Total												168,985

Non-standard automobile insurance - Private passenger auto liability
(in thousands)

Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance
For the Years Ended December 31,

Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2008	15,589	24,305	26,025	27,759	29,713	30,152	30,204	30,179	30,205	30,232
2009		18,742	32,436	36,390	38,796	39,600	40,072	40,089	40,087	40,085

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2010	25,659	46,356	50,591	51,944	52,889	53,451	53,484	53,518
2011		18,456	25,296	26,599	27,023	27,378	27,431	27,479
2012			7,060	11,724	12,284	12,530	12,618	12,635
2013				3,575	4,277	4,437	4,496	4,562
2014								
2015								
2016								
2017								
							Total	168,511

Liabilities for non-standard automobile-private passenger auto liability unpaid loss and loss adjustment expenses prior to 2008, net of reinsurance 5

Total liabilities for non-standard automobile-private passenger auto liability unpaid loss and loss adjustment expenses, net of reinsurance 479

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Non-standard automobile insurance - Auto physical damage
(in thousands)

Incurred Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,									As of December 31, 2017	
	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016 Unaudited	Total of IBNR Plus Expected Development on Reported Losses	Number of Reported Claims
2008	10,464	10,114	9,261	8,871	8,532	8,518	8,522	8,527	8,526	8,526	
2009		9,829	7,343	6,857	6,451	6,458	6,476	6,482	6,480	6,482	
2010			7,977	6,192	5,499	5,487	5,518	5,532	5,535	5,538	
2011				4,366	3,247	3,241	3,263	3,262	3,260	3,269	1
2012					1,755	1,920	1,990	2,015	2,007	2,018	1
2013						1,085	996	1,001	999	1,003	
2014											
2015											
2016											
2017											
Total										26,836	

Non-standard automobile insurance - Auto physical damage
(in thousands)

Cumulative Paid Loss and Allocated Loss Adjustment Expenses, Net of Reinsurance

Accident Year	For the Years Ended December 31,									2017
	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016 Unaudited	
2008	8,196	8,599	8,591	8,561	8,567	8,540	8,525	8,525	8,526	8,526
2009		6,221	6,463	6,505	6,499	6,489	6,487	6,480	6,481	6,482
2010			5,155	5,583	5,548	5,526	5,537	5,537	5,537	5,538
2011				2,971	3,268	3,270	3,270	3,266	3,267	3,269
2012					1,783	1,951	2,006	2,016	2,017	2,018
2013						1,050	1,015	1,001	1,002	1,002
2014										
2015										
2016										
2017										
Total										26,835

Liabilities for non-standard automobile-auto physical damage unpaid loss and loss adjustment expenses prior to 2008, net of reinsurance

1

2

Total liabilities for non-standard automobile-auto physical damage unpaid loss and loss adjustment expenses, net of reinsurance

The following table reconciles the non-standard automobile unpaid loss and loss adjustment expenses, net of reinsurance presented in the tables above to the property and casualty unpaid loss and loss adjustment expenses reported in the consolidated balance sheet at December 31, 2017:

(in thousands)	December 31, 2017
Liabilities for property and casualty loss and loss adjustment expenses, net of reinsurance	
Non-standard automobile private passenger auto liability	479
Non-standard automobile auto physical damage	2
Other short-duration insurance lines	697
Liabilities for unpaid loss and allocated loss adjustment expenses, net of reinsurance	1,178
Reinsurance recoverable on unpaid loss and loss adjustment expenses	
Non-standard automobile private passenger auto liability	64
Other short-duration insurance lines	8
Total reinsurance recoverable on unpaid losses	72
Unallocated loss adjustment expenses	79
Total gross liability for property and casualty unpaid loss and loss adjustment expenses	1,329

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The following is supplementary information about average historical incurred loss duration as of December 31, 2017.

	Average Annual Percentage Payout of Incurred Losses by Age, Net of Reinsurance (Unaudited)									
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Non-standard automobile private passenger auto liability	61.5%	23.7%	10.1%	3.4%	1.0%	0.2%	%	%	%	%
Non-standard automobile auto physical damage	100.0%	%	%	%	%	%	%	%	%	%

NOTE 14 DEBT

Debt consists of the following instruments:

(in thousands)	December 31, 2017			December 31, 2016		
	Principal	Carrying Value	Fair Value	Principal	Carrying Value	Fair Value
Note payable	\$ 176,136	\$ 186,469	\$ 168,477	\$ 178,781	\$ 190,074	\$ 190,074
Bank loan	4,917	4,917	4,864			
Subordinated debt	90,500	52,105	52,105	90,500	43,619	43,619
Total	\$ 271,553	\$ 243,491	\$ 225,446	\$ 269,281	\$ 233,693	\$ 233,693

Subordinated debt mentioned above consists of the following trust preferred debt instruments:

Issuer	Principal (in thousands)	Issue date	Interest	Redemption date
Kingsway CT Statutory Trust I	\$ 15,000	12/4/2002	annual interest rate equal to LIBOR, plus 4.00% payable quarterly	12/4/2032
Kingsway CT Statutory Trust II	\$ 17,500	5/15/2003	annual interest rate equal to LIBOR, plus 4.10% payable quarterly	5/15/2033
Kingsway CT Statutory Trust III	\$ 20,000	10/29/2003	annual interest rate equal to LIBOR, plus 3.95% payable quarterly	10/29/2033
Kingsway DE Statutory Trust III	\$ 15,000	5/22/2003	annual interest rate equal to LIBOR, plus 4.20% payable quarterly	5/22/2033
Kingsway DE Statutory Trust IV	\$ 10,000	9/30/2003		9/30/2033

			annual interest rate equal to LIBOR, plus 3.85% payable quarterly	
Kingsway DE Statutory Trust VI	\$ 13,000	1/8/2004	annual interest rate equal to LIBOR, plus 4.00% payable quarterly	1/8/2034

(a) Note payable:

As further discussed in Note 4, Acquisitions, as part of the acquisition of CMC, the Mortgage, which is recorded as note payable in the consolidated balance sheets, was recorded at its estimated fair value of \$191.7 million, which included the unpaid principal amount of \$180.0 million as of the date of acquisition plus a

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premium of \$11.7 million. The Mortgage matures on May 15, 2034 and has a fixed interest rate of 4.07%. The Mortgage is carried in the consolidated balance sheets at its amortized cost, which reflects the monthly pay-down of principal as well as the amortization of the premium using the effective interest rate method. The fair value of the Mortgage disclosed in the table above is derived from quoted market prices of A-rated industrial bonds with similar maturities.

(b) Bank loan:

On October 12, 2017, the Corporation borrowed a principal amount of \$5.0 million from a bank at a fixed interest rate of 5.0%. The bank loan matures on October 12, 2022. The carrying value of the bank loan at December 31, 2017 of \$4.9 million represents its unpaid principal balance. The fair value of the bank loan disclosed in the table above is derived from quoted market prices of B and B minus rated industrial bonds with similar maturities.

(c) Subordinated debt:

Between December 4, 2002 and December 16, 2003, six subsidiary trusts of the Corporation issued \$90.5 million of 30-year capital securities to third-parties in separate private transactions. In each instance, a corresponding floating rate junior subordinated deferrable interest debenture was then issued by KAI to the trust in exchange for the proceeds from the private sale. The floating rate debentures bear interest at the rate of the London interbank offered interest rate for three-month U.S. dollar deposits (LIBOR), plus spreads ranging from 3.85% to 4.20%. At December 31, 2017, the interest rates ranged from 5.33% to 5.68%. The Corporation has the right to call each of these securities at par value any time after five years from their issuance until their maturity.

During the first quarter of 2011, the Corporation gave notice to its Trust Preferred trustees of its intention to exercise its voluntary right to defer interest payments for up to 20 quarters, pursuant to the contractual terms of its outstanding Trust Preferred indentures, which permit interest deferral. This action does not constitute a default under the Corporation's Trust Preferred indentures or any of its other debt indentures. On November 6, 2015, the Corporation paid \$22.1 million to its Trust Preferred trustees to be used by the trustees to pay the interest the Corporation had been deferring since the first quarter of 2011.

NOTE 15 VEHICLE SERVICE AGREEMENT LIABILITY

Vehicle service agreement fees include the fees collected to cover the costs of future automobile mechanical breakdown claims and the associated administration of those claims. Vehicle service agreement fees are initially recorded as deferred service fees. On a quarterly basis, the Corporation compares the remaining deferred service fees balance to the estimated amount of expected future claims under the vehicle service agreement contracts and records an additional accrual when the deferred service fees balance is less than expected future claims costs.

A reconciliation of the changes in the vehicle service agreement liability, including deferred service fees related to vehicle service agreements, for the years ended December 31, 2017 and 2016, respectively, are as follows:

(in thousands)	Years ended December 31,	
	2017	2016
Balance at January 1, net	\$ 38,713	\$ 37,294

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Deferred service fees for vehicle service agreements sold	20,689	18,125
Recognition of deferred service fees on vehicle service agreements	(18,924)	(16,610)
Liability for claims authorized on vehicle service agreements	5,327	5,285
Payments of claims authorized on vehicle service agreements	(5,377)	(5,321)
Re-estimation of deferred service fees	(136)	(60)
Balance at December 31, net	\$ 40,292	\$ 38,713

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The vehicle service agreement liability in the table above is presented as components of deferred services fees and accrued expenses and other liabilities in the consolidated balance sheets as follows:

(in thousands)	Years ended December 31,	
	2017	2016
Deferred service fees	\$ 40,029	\$ 38,400
Accrued expenses and other liabilities	263	313
Balance at December 31, net	\$ 40,292	\$ 38,713

NOTE 16 FINANCE LEASE OBLIGATION LIABILITY

On October 2, 2014, the Corporation completed a sale and leaseback transaction involving building and land located in Miami, Florida, which was previously recorded as asset held for sale. The transaction did not qualify for sales recognition and was accounted for as a financing due to the Corporation's continuing involvement with the property as a result of nonrecourse financing provided to the buyer in the form of prepaid rent. A finance lease obligation liability equal to the selling price of the property was established at the date of the transaction. During the lease term, the Corporation recorded interest expense on the finance lease obligation at its incremental borrowing rate and increased the finance lease obligation liability by the same amount.

During the second quarter of 2017, the Corporation was informed of the landlord's intent to terminate the lease agreement effective October 10, 2017. The Corporation had the option to vacate the property and effectively terminate the lease earlier than October 10, 2017. As a result of terminating the lease, the Corporation no longer has continuing involvement with the property and has recognized the sale of the property as well as the related gain of \$0.7 million. The gain results primarily from removing the carrying values of the land, building and finance lease obligation liability from the consolidated balance sheets and from the return of part of the original prepaid rent. The gain is included in other income in the consolidated statements of operations for the year ended December 31, 2017. At December 31, 2017 and 2016, finance lease obligation liability of zero and \$5.1 million, respectively, is included in accrued expenses and other liabilities in the consolidated balance sheets. At December 31, 2017 and 2016, the carrying value of the land and building of zero and \$4.8 million, respectively, is included in property and equipment in the consolidated balance sheets.

NOTE 17 LEASES

As further discussed in Note 4, Acquisitions, the Corporation owns Real Property that is subject to a long-term triple net lease agreement with a third party. The lease provides for future rent escalations and renewal options. The initial lease term ends in May 2034. The lessee bears the cost of maintenance and property taxes. In addition, the Corporation leases a property to a third party under an operating lease, where we are the lessor. Rental income from operating leases is recognized on a straight-line basis, based on contractual lease terms with fixed and determinable increases over the non-cancellable term of the related lease when collectability is reasonably assured. Rental income includes amortization of below market lease liabilities of \$0.1 million and \$0.0 million for the years ended December 31, 2017 and 2016. The estimated aggregate future amortization of below market lease liabilities is \$0.1 million for 2018, \$0.1 million for 2019, \$0.1 million for 2020, \$0.1 million for 2021 and \$0.1 million for 2022.

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Assets, which are included in property and equipment, net on the consolidated balance sheets, leased to third parties under operating leases where the Corporation is the lessor, are as follows:

(in thousands)	As of December 31, 2017	
Land	\$	21,183
Site improvements		91,308
Buildings		811
Gross property and equipment leased		113,302
Accumulation depreciation		(6,068)
Net property and equipment leased	\$	107,234

The Corporation also leases certain office space under non-cancelable leases, with initial terms typically ranging from three to eight years, along with options that permit renewals for additional periods. The Corporation also leases certain equipment and automobiles under non-cancelable operating leases, with initial terms typically ranging from three to five years. Minimum rent is expensed on a straight-line basis over the term of the lease.

Future minimum annual lease payments and lease receipts under operating leases for the next five years and thereafter are:

(in thousands)	Lease Commitments	Lease Receipts
2018	\$ 1,025	\$ 11,331
2019	726	11,572
2020	158	11,832
2021	123	12,099
2022	124	12,371
Thereafter	210	162,546

NOTE 18 INCOME TAXES

The Tax Cuts and Jobs Act (the Tax Act) was enacted on December 22, 2017. The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) a permanent reduction in the U.S. federal corporate income tax rate to 21% and (2) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized.

The Corporation is subject to the provisions of the ASC 740-10, *Income Taxes*, which requires that the effect on deferred income tax assets and liabilities of a change in tax rates be recognized in the period the tax rate change was enacted. In December of 2017, the SEC staff issued Staff Accounting Bulletin 118 (SAB 118), which provides that companies that have not completed their accounting for the effects of the Tax Act but can determine a reasonable estimate of those effects should include a provisional amount based on their reasonable estimate in their financial statements.

Pursuant to SAB 118, the Corporation recorded provisional amounts for the estimated income tax effects of the Tax Act on deferred income taxes. The Corporation estimates that (1) the reduction in the corporate income tax rate decreased its net deferred income tax liability as of December 31, 2017 by \$17.9 million and (2) the change in the AMT credit rules allowed the Corporation to reduce its valuation allowance against its gross deferred income tax assets by \$0.1 million, for a combined Tax Act total of \$18.0 million. The \$18.0 million Tax Act amount was recorded as a decrease to income tax expense in the Corporation's consolidated statements of operations for the year ended December 31, 2017. In addition, as result of the reduction in the corporate income tax rate, the Corporation provisionally reduced its December 31, 2017 net deferred income tax asset balance and the related net deferred income tax valuation allowance by \$105.6 million, the net effect of which had no impact on the Corporation's consolidated statements of operations for the year ended December 31, 2017.

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Although the \$18.0 million tax benefit represents what the Corporation believes is a reasonable estimate of the impact of the income tax effects of the Tax Act on the Corporation's Consolidated Financial Statements as of December 31, 2017, it should be considered provisional. In light of the complexity of the Tax Act, the Corporation anticipates additional interpretive guidance from the U.S. Treasury. In addition, once the KAI Tax Group finalizes certain tax positions when it files its 2017 U.S. tax return, the Corporation will be able to conclude whether any further adjustments are required to its deferred income tax balances. Any adjustments to these provisional amounts will be reported as a component of the consolidated statements of operations during the reporting period in which any such adjustments are determined, all of which will be reported no later than the fourth quarter of 2018.

Income tax benefit consists of the following:

(in thousands)	Years ended December 31,	
	2017	2016
Current income tax expense	\$ 628	\$ 87
Deferred income tax benefit	(17,322)	(9,807)
Income tax benefit	\$ (16,694)	\$ (9,720)

Income tax benefit varies from the amount that would result by applying the applicable U.S. corporate income tax rate of 34% to loss from continuing operations before income tax benefit. The following table summarizes the differences:

(in thousands)	Years ended December 31,	
	2017	2016
Income tax benefit at U.S. statutory income tax rate	\$ (4,793)	\$ (2,112)
Tax Act adjustment	(18,040)	
Valuation allowance	3,883	(8,185)
Indefinite life intangibles	1,156	108
Change in unrecognized tax benefits	490	51
Non-deductible compensation	403	345
Foreign operations subject to different tax rates	32	145
Other	175	(72)
Income tax benefit for continuing operations	\$ (16,694)	\$ (9,720)

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The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities are presented as follows:

(in thousands)	December 31,	
	2017	2016
Deferred income tax assets:		
Losses carried forward	\$ 188,248	\$ 291,632
Unpaid loss and loss adjustment expenses and unearned premiums	1,513	2,349
Intangible assets	2,490	1,135
Debt issuance costs	988	1,621
Investments	722	1,547
Deferred rent	807	1,355
Deferred revenue	394	385
Other	29	401
Valuation allowance	(177,040)	(268,764)
Deferred income tax assets	\$ 18,151	\$ 31,661
Deferred income tax liabilities:		
Indefinite life intangibles	\$ (16,419)	\$ (25,426)
Depreciation and amortization	(16,967)	(28,692)
Fair value of debt	(5,894)	(12,100)
Land	(4,435)	(7,181)
Investments	(1,853)	(2,348)
Deferred acquisition costs	(1,328)	(1,981)
Deferred income tax liabilities	(46,896)	(77,728)
Net deferred income tax liabilities	\$ (28,745)	\$ (46,067)

The Corporation maintains a valuation allowance for its gross deferred income tax assets of \$177.0 million (U.S. operations \$170.6 million; Other \$6.4 million) and \$268.8 million (U.S. operations \$261.9 million; Other \$6.9 million) at December 31, 2017 and December 31, 2016, respectively. The Corporation's businesses have generated substantial operating losses in prior years. These losses can be available to reduce income taxes that might otherwise be incurred on future taxable income; however, it is uncertain whether the Corporation will generate the taxable income necessary to utilize these losses or other reversing temporary differences. This uncertainty has caused management to place a full valuation allowance on its December 31, 2017 and December 31, 2016 net deferred income tax assets, excluding the deferred income tax liability and deferred income tax assets relating to AMT credit amounts set forth in the paragraph below. In 2017 and 2016, the Corporation released into income \$0.4 million and \$9.9 million, respectively, of its valuation allowance, as a result of its acquisition of CMC, due to net deferred income tax liabilities that are expected to reverse during the period in which the Corporation will have deferred income tax assets available.

The Corporation carries net deferred income tax liabilities of \$28.7 million at December 31, 2017, \$8.0 million of which relates to deferred income tax liabilities that are scheduled to reverse in periods after the expiration of the KAI Tax Group's consolidated U.S. net operating loss carryforwards, \$20.8 million of which relates to deferred income tax liabilities related to land and indefinite life intangible assets, and \$0.1 million of which relates to deferred income tax

assets relating to AMT credits. The Corporation carries net deferred income tax liabilities of \$46.1 million at December 31, 2016, \$13.4 million of which relates to deferred income tax liabilities that are scheduled to reverse in periods after the expiration of the KAI Tax Group's consolidated U.S. net operating loss carryforwards and \$32.7 million of which relates to deferred income tax liabilities related to land and indefinite life intangible assets. The Corporation considered a tax planning strategy in arriving at its December 31, 2017 and December 31, 2016 net deferred income tax liabilities.

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The Tax Act modified the U.S. net operating loss deduction, effective with respect to losses arising in tax years beginning after December 31, 2017. The Tax Act, however, did not limit the utilization, in 2018 and later tax years, of U.S. net operating losses generated in 2017 and prior tax years.

Amounts, originating dates and expiration dates of the KAI Tax Group's consolidated U.S. net operating loss carryforwards, totaling \$857.4 million, are as follows:

Year of net operating loss	Expiration date	Net operating loss (in thousands)
2006	2026	8,321
2007	2027	60,081
2008	2028	53,703
2009	2029	506,768
2010	2030	85,463
2011	2031	42,299
2012	2032	32,083
2013	2033	29,465
2014	2034	6,923
2016	2036	15,584
2017	2037	16,695

In addition, not reflected in the table above, are net operating loss carryforwards of (i) \$6.5 million relating to separate U.S. tax returns, which losses will expire over various years through 2037; (ii) \$25.7 million, relating to operations in Barbados, of which, \$24.2 million will expire in 2018 and \$1.5 million will expire over various years through 2026; and (iii) \$24.1 million relating to operations in Canada, which losses will expire over various years through 2037.

A reconciliation of the beginning and ending unrecognized tax benefits, exclusive of interest and penalties, is as follows:

(in thousands)	December 31,	
	2017	2016
Unrecognized tax benefits beginning of year	\$ 1,274	\$
Gross additions current year tax positions		
Gross additions prior year tax positions	93	1,274
Gross reductions prior year tax positions		
Gross reductions settlements with taxing authorities		
Impact due to expiration of statute of limitations		
Unrecognized tax benefits end of year	\$ 1,367	\$ 1,274

The amount of unrecognized tax benefits that, if recognized as of December 31, 2017 and 2016 would affect the Corporation's effective tax rate, was an expense of \$0.5 million and \$0.1 million, respectively.

As of December 31, 2017 and December 31, 2016, the Corporation carried a liability for unrecognized tax benefits of \$1.4 million and \$1.3 million, respectively, that is included in income taxes payable in the consolidated balance sheets. The Corporation classifies interest and penalty accruals, if any, related to unrecognized tax benefits as income tax expense. During the years ended December 31, 2017 and 2016, the Corporation recognized an expense for interest and penalties of \$0.5 million and \$0.1 million, respectively. At December 31, 2017 and December 31, 2016, the Corporation carried an accrual for the payment of interest and penalties of \$0.9 million and \$0.4 million, respectively.

The federal income tax returns of the Corporation's U.S. operations for the years through 2013 are closed for Internal Revenue Service (IRS) examination. The Corporation's federal income tax returns are not currently

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under examination by the IRS for any open tax years. The federal income tax returns of the Corporation's Canadian operations for the years through 2012 are closed for Canada Revenue Agency (CRA) examination. Kingsway's 2015 and 2014 Canadian federal income tax returns are currently under examination by the CRA. No material audit adjustments have been proposed by the CRA.

NOTE 19 (LOSS) EARNINGS FROM CONTINUING OPERATIONS PER SHARE

The following table sets forth the reconciliation of numerators and denominators for the basic and diluted (loss) earnings from continuing operations per share computation for the years ended December 31, 2017 and 2016:

(in thousands, except per share data)	Years ended December 31,	
	2017	2016
Numerator:		
Income from continuing operations	\$ 2,597	\$ 3,507
(Less) plus: net (income) loss attributable to noncontrolling interests	(4,337)	281
Less: dividends on preferred stock, net of tax	(350)	(565)
(Loss) income from continuing operations attributable to common shareholders	\$	