

KINGSWAY FINANCIAL SERVICES INC
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PROSPECTUS

KINGSWAY FINANCIAL SERVICES INC.

13,148,971 SUBSCRIPTION RIGHTS TO PURCHASE ONE COMMON SHARE, ONE SERIES A WARRANT AND ONE SERIES B WARRANT, EACH TO PURCHASE ONE COMMON SHARE

We are distributing at no charge to the holders of shares of our common stock (“Common Shares”) transferable subscription rights (each a “Subscription Right”) exercisable for up to an aggregate of 3,287,242 units (singularly a “Unit”), each Unit consisting of one Common Share, one Series A Warrant (as defined below) and one Series B Warrant (as defined below) (the “Rights Offering”). Each Series A Warrant and Series B Warrant entitles the holders thereof to purchase one Common Share. The exercise price per Common Share for the first warrant is the greater of \$4.50 and 120% of the volume weighted average price of the Common Shares (“VWAP”) over the twenty trading day period on the New York Stock Exchange (“NYSE”) ending on such trading day prior to the issuance date of the warrant, and each such warrant is redeemable by the Company and has a term of seven years from its date of issuance (each such warrant a “Series A Warrant”). The Company may redeem the Series A Warrants at a price of \$0.25 per Warrant if, and only if, the closing price of the Common Shares equals or exceeds \$6.00 per Common Share for twenty consecutive trading days on the NYSE or such other market or exchange as the Common Shares of the Company trade or are quoted at the time of redemption; but in any event no earlier than the first anniversary of the date of issuance. The exercise price per Common Share for the second warrant is the greater of \$5.00 and 120% of VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant, and each such warrant is non-redeemable, and has a term of ten years from its date of issuance (each such warrant a “Series B Warrant”, and the Series B Warrants together with the Series A Warrants, the “Warrants”). Subject to applicable securities laws, (i) the Series A Warrants may be exercised at any time starting on the first day of the thirty-seventh month after the date of issuance until any time before 5:00 p.m. (Eastern time) on or before the seventh anniversary after the date of issuance and (ii) the Series B Warrants may be exercised at any time starting on the first day of the thirty-seventh month after the date of issuance until any time before 5:00 p.m. (Eastern time) on or before the tenth anniversary after the date of issuance. Four Subscription Rights entitle the holder to purchase one Unit at a subscription price of \$4.00 per Unit, which we refer to as the “basic subscription privilege.” Based upon the volume weighted average price on the NYSE for the twenty trading days ending on August 7, 2013, and relying upon the advice that the Company has received from its financial advisors, the Company believes that the fair value of one Series A Warrant and one Series B Warrant, taken together, is at least C\$0.21 and \$0.20 as of August 7, 2013. If any holders of Subscription Rights (including holders who acquired Subscription Rights by purchasing Subscription Rights from others) do not exercise their basic subscription privilege in full, then holders of Subscription Rights who have exercised their basic subscription privilege in full (including in respect of Subscription Rights purchased from others) will be entitled to exercise an “over-subscription privilege,” subject to certain limitations and subject to allotment, to purchase a portion of the number of Units, if any, that are not purchased by our other shareholders or their transferees through the exercise of their basic subscription privilege at the same subscription price of \$4.00. The maximum number of Units that a holder may purchase through the over-subscription privilege is five Units for each Unit that a holder purchases through the basic subscription privilege. The Rights Offering is not subject to any minimum subscription level or attaining a minimum amount of proceeds. Upon the closing of the Rights Offering, the

Units will immediately separate into the Common Shares and the Warrants and will trade separately. The Units are not themselves tradable, nor will they be listed on any stock exchange or on the OTC.

The Subscription Rights will expire if they are not exercised by 5:00 p.m., Eastern time, on September 6, 2013 unless we extend the offering period in our sole discretion. You should carefully consider whether to exercise your Subscription Rights before the expiration of the Rights Offering. Subscription Rights that are not exercised by the expiration date of the Rights Offering will expire and will have no value. All exercises of Subscription Rights are irrevocable. Our Board of Directors is making no recommendation regarding your exercise of the Subscription Rights. We may in our sole discretion cancel the Rights Offering at any time and for any reason. If we cancel this Rights Offering, the subscription agent will return all subscription payments it has received for the cancelled offering without interest or penalty.

If all of the Subscription Rights are exercised, we expect to receive net proceeds, after fees and expenses, of approximately \$12.5 million in the aggregate. We intend to use the proceeds to repay a portion of our \$26.4 million principal amount of 7.5% senior notes maturing February 1, 2014 (the "Notes"). Taking into account the expected net proceeds to be raised from the Rights Offering along with our current cash resources, as of the closing of the Rights Offering we would not have the liquidity necessary to satisfy completely the repayment obligations of the Notes. We intend to generate the remaining proceeds needed to repay the Notes by raising additional capital or selling assets. Please refer to "Use of Proceeds".

Our Common Shares are traded on the Toronto Stock Exchange ("TSX") and the NYSE under the symbol "KFS." The closing price of our Common Shares on the TSX and the NYSE on August 7, 2013 was C\$3.74 and \$3.59 per Common Share, respectively. We intend to request that the Warrants trade on an over-the-counter market ("OTC"). There is no guarantee that requests for such applications for quotation will be accepted. The Subscription Rights have been cleared for an unpriced quotation on the OTC Bulletin Board by the Financial Industry Regulatory Authority ("FINRA"). Trading in the Subscription Rights on the OTC will cease at 12:00 p.m. (Eastern time) on September 6, 2013. The TSX has conditionally approved the listing of the Warrants on the TSX. Listing of the Warrants on the TSX is subject to the Company fulfilling all of the listing requirements of the TSX, including distribution of the Warrants to a minimum number of public security holders. There is currently no market through which the Subscription Rights or Warrants may be sold and purchasers may not be able to resell the Subscription Rights or Warrants. All of the dollar amounts in this prospectus 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.

INVESTMENT IN THE SUBSCRIPTION RIGHTS, COMMON SHARES AND WARRANTS INVOLVES A HIGH DEGREE OF RISK. YOU SHOULD READ CAREFULLY THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 23 OF THIS PROSPECTUS, AS WELL AS THE RISK FACTORS AND OTHER INFORMATION CONTAINED IN ANY DOCUMENTS WE INCORPORATE BY REFERENCE INTO THIS PROSPECTUS BEFORE EXERCISING YOUR SUBSCRIPTION RIGHTS.

This is not an underwritten offering. The Subscription Rights are being offered directly by us without the services of an underwriter or selling agent.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER SECURITIES COMMISSION OR SIMILAR REGULATORY AUTHORITY HAS APPROVED OR DISAPPROVED OF THE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL, ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is August 9, 2013

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ABOUT THIS PROSPECTUS

You should rely only on the information contained or incorporated by reference in this prospectus or in any prospectus supplement we may authorize to be delivered to you, including any free writing prospectus that we use in connection with this offering. We have not, and neither our subscription agent, Computershare Investor Services Inc., nor our information agent, Georgeson Shareholder Communications Canada Inc., has authorized anyone to provide you with additional or different information from that contained or incorporated by reference in this prospectus. We are not making an offer of securities in any state or other jurisdiction where it is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date subsequent to the date set forth on the front cover of this document or that any information we have incorporated herein by reference is correct on any date subsequent to the date of the prospectus incorporated by reference, regardless of the time of delivery of this prospectus or any exercise of rights. Further, you should not consider any information in this prospectus to be investment, legal or tax advice. We encourage you to consult your own counsel, accountant and other advisors for legal, tax, business, financial and related advice regarding an investment in our securities. For further information, please see the section of this prospectus entitled “Where You Can Find More Information.”

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This prospectus, including information incorporated by reference herein contains “forward-looking statements” within the meaning of the U.S. federal securities laws. Forward-looking statements relate to future events or future performance and reflect Kingsway management's current beliefs, based on information currently available. The words “anticipate,” “expect,” “believe,” “may,” “should,” “would,” “could,” “estimate,” “project,” “outlook,” “forecast,” “intend,” “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, statements about (i) our ability to preserve and use our net operating losses; (ii) our expected liquidity; and (iii) the potential impact of volatile investment markets and other economic conditions on our investment portfolio and underwriting results, among others, are forward-looking, and we may also make forward-looking statements about, among other things:

- our results of operations and financial condition (including, among other things, premium volume, premium rates, net and operating income, investment income and performance, return on equity, and expected current returns and combined ratios);
- the timing of and other procedural matters associated with the Rights Offering;
- the successful completion of the Rights Offering and the use of proceeds therefrom;
- expectations regarding the Company's ability to raise capital;
- changes in facts and circumstances affecting assumptions used in determining the provision for unpaid loss and loss adjustment expenses;
 - the number and severity of insurance claims (including those associated with catastrophe losses) and their impact on the adequacy of the provision for unpaid loss and loss adjustment expenses;
- the impact of emerging claims issues as well as other insurance and other litigation and regulatory actions;
- orders, interpretations or other actions by regulators that impact the reporting, adjustment and payment of claims;
- changes in industry trends and significant industry developments;
- uncertainties related to regulatory approval of insurance rates, policy forms, license applications and similar matters;
- our ability to complete current or future acquisitions successfully;
- our ability to successfully implement our restructuring activities;
- our existing debt and our ability to service it in the future;
- the potential impact of certain guarantees made by the Company in favor of third parties;
- our ability to adequately estimate and provide for an appropriate level of reserves at our insurance company subsidiaries; and
- our ability to implement other strategic initiatives.

Risks and uncertainties that could adversely affect our business and prospects include, but are not limited to, those discussed in “Risk Factors,” which include certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate in the circumstances, which include: the impact of increasing competition; the general stability of the economic and political environment in which the Company operates; the timely receipt of any required regulatory approvals; the ability of the Company to obtain qualified staff and services in a timely and cost efficient manner; the ability of the Company to obtain financing on acceptable terms; currency, exchange and interest rates; the regulatory framework regarding insurance in the jurisdictions in which the Company operates; the ability of the Company to successfully market its insurance products; that the Company will not have any labor or other disruptions at any of its operations of any significance and that any third parties on which the Company is relying will not experience any unplanned disruptions; and that the risk factors discussed in this prospectus under “Risk Factors” do not materialize. Accordingly, forward-looking information and statements are subject to known and unknown risks and uncertainties and other factors. As a result, actual results, performance or achievements could differ materially from those expressed in, or implied by, such forward-looking information and statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information and statements will transpire or occur, or if any of them do so, what benefits will be derived therefrom. These risks, uncertainties and other factors include, but are not limited to, those risk factors discussed in this prospectus under the heading “Risk Factors”, many of which are beyond the control of the Company. We cannot assure you that we have identified all the factors that create uncertainties. Moreover, new risks emerge from time to time and it is not possible for our management to predict all risks, nor can we assess the impact of all risks on our business or the extent to which any risk, or combination of risks, may cause actual results to differ from those contained in any forward-looking statements. Readers should not place undue reliance on forward-looking statements. You should, however, review the factors and risks we describe in the reports we file from time to time with the SEC after the date of this prospectus. See the section of this prospectus entitled “Where You Can Find More Information.” All of the forward-looking information and statements of the Company contained in this prospectus are expressly qualified, in their entirety, by this cautionary statement. The forward-looking information and statements are made as of the date of this document, and the Company assumes no obligation to update or revise them except as required pursuant to applicable securities laws.

QUESTIONS AND ANSWERS RELATING TO THE RIGHTS OFFERING

The following are examples of what we anticipate will be common questions about the Rights Offering. The answers are based on selected information included elsewhere in this prospectus. The following questions and answers do not contain all of the information that may be important to you and may not address all of the questions that you may have about the Rights Offering. This prospectus and the documents incorporated by reference in this prospectus contain more detailed descriptions of the terms and conditions of the Rights Offering and provide additional information about us and our business, including potential risks related to the Rights Offering, the Common Shares and our Warrants offered in the Rights Offering and Common Shares issuable upon the exercise of our Warrants.

What is the Rights Offering?

The Rights Offering is a distribution to holders of our Common Shares, at no charge, of Subscription Rights. We are distributing one Subscription Right for each Common Share owned as of 5:00 p.m. Eastern time on August 9, 2013, the record date, for a total of 13,148,971 Subscription Rights. Each Subscription Right is evidenced by a Subscription Rights certificate.

What is a Subscription Right?

Four Subscription Rights will allow their holder to purchase one Unit, consisting of one Common Share, one Series A Warrant and one Series B Warrant, each to purchase one Common Share. The exercise price per Common Share of a Series A Warrant is the greater of \$4.50 and 120% of the VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. The exercise price per Common Share of a Series B Warrant is the greater of \$5.00 and 120% of VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. The Series A Warrants are redeemable by the Company and have a seven-year term from its date of issuance, while the Series B Warrants are non-redeemable and have a ten-year term from its date of issuance. Subject to applicable securities laws, (i) the Series A Warrants may be exercised at any time starting on the first day of the thirty-seventh month after the date of issuance until any time before 5:00 p.m. (Eastern time) on or before the seventh anniversary after the date of issuance and (ii) the Series B Warrants may be exercised at any time starting on the first day of the thirty-seventh month after the date of issuance until any time before 5:00 p.m. (Eastern time) on or before the tenth anniversary after the date of issuance. The Company may redeem the Series A Warrants at a price of \$0.25 per Warrant if, and only if, the closing price of the Common Shares equals or exceeds \$6.00 per Common Share for twenty consecutive trading days on the NYSE or such other market or exchange as the Common Shares of the Company trade or are quoted at the time of redemption; but in any event no earlier than the first anniversary of the date of issuance. The Subscription Rights carry a basic subscription privilege and an over-subscription privilege. We will not issue fractional Units. If, upon exercise of the Subscription Rights, a holder would be entitled to receive a fractional number of Units, we will, upon exercise, round down to the nearest whole number, the number of Units to be issued to the Subscription Right holder; with the total subscription payment being adjusted accordingly. Any excess subscription payments received by the subscription agent will be returned as soon as practicable, without interest or penalty, following the expiration of the Rights Offering.

Are the Units tradable?

No. Upon the closing of the Rights Offering, the Units will immediately separate and the Common Shares and Warrants will be issued separately and will trade separately. The Units are not themselves tradable, nor will they be listed on any exchange.

What is the basic subscription privilege?

Four Subscription Rights entitle you to purchase one Unit at the subscription price of \$4.00 per Unit. You may exercise all or a portion of your basic subscription privilege or you may choose not to exercise any basic subscription privilege at all. In addition, you may purchase Subscription Rights from others and exercise all or a portion of those Subscription Rights or you may seek to sell all or a portion of your Subscription Rights.

What is the over-subscription privilege?

If any holders of Subscription Rights (including holders who acquired Subscription Rights by purchasing Subscription Rights from others) do not exercise their basic subscription privilege in full, then holders of Subscription Rights who have exercised their basic subscription privilege in full (including in respect of Subscription Rights purchased from others) will be entitled to exercise an over-subscription privilege, subject to certain limitations and subject to allotment, to purchase a portion of the number of Units, if any, that are not purchased through the basic subscription privilege. The over-subscription privilege will be executed at the same subscription price of \$4.00 per Unit. The maximum number of Units that a holder may purchase through the over-subscription privilege is five Units for each Unit that a holder purchases through the basic subscription privilege.

If sufficient Units are available, we will seek to honor your over-subscription request in full. If, however, over-subscription requests exceed the number of Units available, we will allocate the available Units pro rata based on the total number of Units you request pursuant to the over-subscription privilege in proportion to the total number of over-subscription requests from all holders as of the expiration date of the Rights Offering.

May I transfer or sell my Subscription Rights if I do not want to exercise my Subscription Rights?

Yes. The Subscription Rights are transferable. Transferees of Subscription Rights will be entitled to exercise the basic subscription privilege in full and will be able to exercise the over-subscription privilege with respect to those Subscription Rights transferred to them. The Subscription Rights have been cleared for an unpriced quotation on the OTC Bulletin Board by FINRA. The Subscription Rights will, subject to any applicable state law restrictions, be transferable during the subscription period. Trading in the Subscription Rights will cease at 12:00 p.m. (Eastern time) on September 6, 2013.

Are there any limits on the number of Units I may purchase in the Rights Offering or the number of Common Shares I may own as a result of the exercise of Subscription Rights under the Rights Offering?

Yes. You may only purchase the number of whole Units consisting of Common Shares and Warrants purchasable upon exercise of the basic subscription privilege included in the Subscription Rights distributed to you in the Rights Offering, or purchased by you as a result of buying Subscription Rights, plus the maximum amount of over-subscription privilege Units to which you are entitled and which are available, if any. Accordingly, the number of Units that you may purchase in the Rights Offering is limited by the number of our Common Shares you held on the record date, by the number of Subscription Rights purchased by you as a result of buying Subscription Rights, and by the extent to which other shareholders exercise their Subscription Rights, which we cannot determine prior to completion of the Rights Offering. We reserve the right to reject any or all subscriptions not properly submitted or the acceptance of which would, in the opinion of our counsel, be unlawful.

Under U.S. federal income tax law, we can carry forward U.S. net operating losses as potential tax deductions until they expire. As of March 31, 2013, we had U.S. net operating loss carryforwards totaling approximately \$827.4 million. On September 28, 2010, we put in place the Tax Benefit Preservation Plan Agreement (the "Tax Plan"). Under the Tax Plan, upon (i) any person becoming an owner of 5% or more of the outstanding Common Shares of Kingsway Financial Services Inc. or (ii) an existing greater than 5% shareholder acquiring additional Common Shares (each of the persons described in clauses (i) and (ii), a "5% Shareholder"), without express approval of the board of directors of the Company (the "Board"), the Company will issue rights to purchase additional Common Shares to shareholders of the Company holding Common Shares as of the closing of such transaction (other than such 5% Shareholder), potentially resulting in dilution to such 5% Shareholder. If the total of your current beneficially owned Common Shares and the Common Shares you expect to receive by exercising the Subscription Rights (including Common Shares received by exercising Subscription Rights acquired by purchasing Subscription Rights from others) is greater than 650,000

beneficially owned Common Shares, you may need to request an exemption from the Board as described above and in the Tax Plan and the subscription materials provided to you to avoid such dilution. The Board reserves the right to review and approve the exemption requests up to three business days after the close of the Rights Offering period.

Additionally, as a result of our ownership of statutory insurance companies with their own set of regulatory rules, acquiring more than 10% of our total Common Shares may subject you to additional scrutiny or restrictions from those regulators.

Why are we engaging in a Rights Offering, and how will we use the proceeds from the Rights Offering?

We have chosen to raise up to \$12.5 million in new capital through a Rights Offering to allow our existing shareholders to purchase our Common Shares and Warrants based on their pro rata ownership percentage without subjecting us to unduly burdensome restrictive covenants and other negative consequences associated with incurring high yield debt. There can be no assurance that the Rights Offering will be successful.

We expect to receive net proceeds from the Rights Offering of approximately \$12.5 million. We intend to use the proceeds to repay a portion of the Notes, which mature February 1, 2014 and carry an annual interest rate of 7.5%. Taking into account the expected net proceeds to be raised from the Rights Offering along with our current cash resources, as of the closing of the Rights Offering we would not have the liquidity necessary to satisfy completely the repayment obligation of the Notes. We intend to generate the remaining proceeds needed to repay the Notes by raising additional capital or selling assets. See "Use of Proceeds".

If we are unable to raise sufficient funds in this Rights Offering or in an alternative financing on acceptable terms, if at all, we may need to implement additional cost reduction measures and explore other sources to fund our longer term business needs and repay our Notes. Our failure to do so could result, among other things, in a cross default under our debt covenants, increased regulatory demands, loss of our customers and a loss of your entire investment. Our operating performance may also be affected by risks and uncertainties, which may affect our short and long-term liquidity. For further information on these risks and uncertainties, please see "Risk Factors - Financial Risk."

Will there be a backstop to the Rights Offering or other guarantee that it will be sufficiently subscribed?

No. There will be no backstop or other guarantee to the Rights Offering. This means that the Rights Offering may not be sufficiently subscribed or subscribed at all, therefore we may not raise sufficient capital from the Rights Offering. In addition, there is no minimum proceeds condition to the Rights Offering and we may consummate the Rights Offering even if the amount of proceeds does not meet our financial goals.

What are the material terms of our Warrants?

The Warrants are initially exercisable for an aggregate of 6,574,484 Common Shares. Each Unit will have two Warrants - one Series A Warrant and one Series B Warrant. The exercise price per Common Share of a Series A Warrant is the greater of \$4.50 and 120% of the VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. The Company may redeem the Series A Warrants at a price of \$0.25 per Warrant if, and only if, the closing price of the Common Shares equals or exceeds \$6.00 per Common Share for twenty consecutive trading days on the NYSE or such other market or exchange as the Common Shares of the Company trade or are quoted at the time of redemption; but in any event no earlier than the first anniversary of the date of issuance. The exercise price per Common Share of a Series B Warrant is the greater of \$5.00 and 120% of VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. The number of Common Shares subject to the Warrants and the exercise price of the Warrants is subject to certain adjustments in connection with a stock split, a stock dividend, a subdivision, combination or recapitalization of our Common Shares. The Series B Warrants, however, are non-redeemable. Subject to state securities laws, the Warrants may be exercised at any time starting on the first day of the thirty-seventh month after the date of issuance until any time before 5:00 p.m., Eastern time on or before the seventh anniversary after the date of issuance, with

respect to the Series A Warrants, and the tenth anniversary after the date of issuance, with respect to the Series B Warrants. If we exercise our redemption option with respect to the Series A Warrants, then they may be exercised prior to the first day of the thirty-seventh month after the date of issuance. The holders of the Warrants will not have voting rights or other rights as a shareholder unless and until (and then only to the extent) the Warrants have been exercised. Upon a capital reorganization, reclassification of our securities, consolidation, amalgamation or merger of our Company resulting in a change of 50%

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of the voting power of the Company, a sale of substantially all of our assets or a similar transaction requiring shareholder approval, the holders of the Warrants shall be required to exercise the Warrants immediately prior to the closing of the transaction, or such Warrants shall automatically expire.

May I sell my Warrants?

Yes. We intend to request that the Series A Warrants and Series B Warrants trade on the OTC, but even if either such application is unsuccessful, you may be able to sell your Warrants in a private transaction. We cannot assure you that there will be a market to sell the Warrants, or the price at which you will be able to sell your Warrants. In addition, following the closing of the Rights Offering, the Warrants may not be immediately tradable until the OTC makes a decision with respect to the quotation applications in respect of the Warrants. As a result, even if the quotation applications with respect to each of the Series A Warrants and Series B Warrants are successful, the Warrants may not be immediately tradable on the OTC following the closing of the Rights Offering. The TSX has also conditionally approved the listing of the Warrants on the TSX. Listing of the Warrants on the TSX is subject to the Company fulfilling all of the listing requirements of the TSX, including distribution of the Warrants to a minimum number of public security holders. There is currently no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants.

What happens to my Warrants if I sell my new Common Shares before I exercise my Warrants?

You may exercise your Warrants even if you have sold your new Common Shares prior to the exercise of your Warrants.

How were the \$4.00 per Unit subscription price, the composition of the Units and exercise price of the Warrants and other terms of the Warrants determined?

In determining the subscription price, the composition of the Unit, and the terms of the Warrants, our Board, based on the recommendation by management, considered a number of factors, including, without limitation:

- the price at which our shareholders might be willing to participate in the Rights Offering;
- the amount of proceeds desired to achieve our financing goals;
- potential market conditions;
- historic and current trading prices for our Common Shares;
- the terms of the Warrants;
- the implication of the composition of the Units and the terms of the underlying securities on our ability to realize the full benefits of our net operating losses and related tax benefits; and
- the desire to provide an opportunity to our shareholders to participate in the Rights Offering on a pro rata basis.

Based on these considerations, the subscription price for each Unit is \$4.00 and each Unit is comprised of one Common Share, one Series A Warrant and one Series B Warrant. The volume weighted average price on the TSX and the NYSE for the twenty trading days ending on August 7, 2013 was C\$3.92 and \$3.80 per Common Share, respectively. Based upon such volume weighted average price on the NYSE, and relying upon the advice that the Company has received from its financial advisors, the Company believes that the aggregate fair value of one Series A Warrant and one Series B Warrant, taken together, is at least \$0.20 (being at least C\$0.21) as of August 7, 2013. The \$4.00 per Unit price is not necessarily related to or reflective of our book value, net worth or any other established criteria of fair value, and may or may not be considered the fair value of the Units to be offered in the Rights Offering. See "The Rights Offering Determination of Subscription Price" in this prospectus.

The price per Unit in the Rights Offering may not be indicative of the market value of the Subscription Rights, Common Shares or the Warrants. This Rights Offering and other factors may cause the market price of our Common Shares to decline after the Rights Offering and you may not be able to sell our Common Shares at a price equal to or higher than the current market price of our Common Shares or at a price you believe may be indicated by the price per Unit, if at all. Prior to the issuance of the Subscription Rights and the Warrants there has been no market for those securities and you may not be able to sell the Subscription Rights or the Warrants at a price you believe may be indicated by the price

per Unit, if at all. We cannot provide you any assurances as to the liquidity of or the trading market for the Subscription Rights or Warrants issued in connection with the Rights Offering.

Am I required to subscribe in the Rights Offering?

No. You may exercise any number of your Subscription Rights or you may choose not to exercise any Subscription Rights. If you do not exercise any Subscription Rights, the number of Common Shares you own will not change and you will not be issued any Common Shares or Warrants. Furthermore, if you choose not to exercise your basic subscription privilege in full and other shareholders do, your ownership interest in the Company may be diluted by purchases of Common Shares by others, and may be further diluted if our Warrants are exercised, and, in each case, your voting and other rights will be diluted to the extent that other shareholders exercise their basic and/or over-subscription rights.

How soon must I act to exercise my Subscription Rights?

If you hold a Subscription Right and you wish to participate in the Rights Offering, you must properly complete and sign Form 1 of the Subscription Rights certificate for the basic subscription privilege, and if you wish to exercise a portion or all of your entitlement under the over-subscription privilege, Form 2 of the Subscription Rights certificate, and deliver the signed Subscription Rights certificate, together with payment of the purchase price, to the subscription agent before 5:00 p.m., Eastern time, on September 6, 2013, the expiration date of the Rights Offering, unless such date is extended by us or you have used the guaranteed delivery procedures described under “The Rights Offering - Guaranteed Delivery Procedures.” If you hold your Subscription Rights through a broker, dealer, custodian bank or other nominee, your nominee may establish a submission deadline before the expiration of the Rights Offering by which you must provide it with your instructions to exercise your Subscription Rights. Although our Board may, in its discretion, extend the expiration date of the Rights Offering, it currently does not intend to do so. If you cannot deliver your Subscription Rights certificate to the subscription agent prior to the expiration of the Rights Offering period, you may follow the guaranteed delivery procedures described under “The Rights Offering-Guaranteed Delivery Procedures.”

You should read the instruction letter carefully and strictly follow it. **DO NOT SEND SUBSCRIPTION RIGHTS CERTIFICATES OR PAYMENTS DIRECTLY TO US.** We will not consider your subscription received until the subscription agent has received delivery of a properly completed and duly executed Subscription Rights certificate and payment of the full subscription amount. The risk of delivery of all documents and payments is borne by you or your nominee, not by the subscription agent or us.

Although we will make reasonable attempts to provide and make available this prospectus to our shareholders and holders of the Subscription Rights, unless extended, the Rights Offering and all Subscription Rights will expire on the expiration date, whether or not we have been able to locate each person holding the Subscription Rights.

Are we requiring a minimum overall subscription to complete the Rights Offering?

No. There is no individual minimum subscription requirement in the Rights Offering, and there is no minimum aggregate subscription requirement to complete the Rights Offering. We may execute the Rights Offering for less than the full \$12.5 million net proceeds that would be raised if the Rights Offering is fully subscribed. If, however, we issue any securities in this Rights Offering, we will issue all securities in respect of Subscription Rights that are properly exercised prior to the expiration date of the Rights Offering, whether exercised in respect of the basic subscription privilege or the over-subscription privilege.

What is the maximum amount of Common Shares and Warrants to be issued?

The size of the Rights Offering, if all holders exercise their basic subscription privilege, or if not all holders exercise their Subscription Rights but there are sufficient over-subscription privileges exercised to reach the same effect, would be to issue 3,287,242 Units. These 3,287,242 Units would contain 3,287,242 Common Shares and 6,574,484 Warrants, and if all Warrants were exercised, would result in 9,861,726 total Common Shares being issued.

What happens if the Rights Offering is not fully subscribed after giving effect to the over-subscription privilege?

Any Subscription Rights not exercised after giving effect to the over-subscription privilege will expire.

Can we amend the terms of, cancel or extend the Rights Offering?

We may amend the terms of the Rights Offering or extend the subscription period of the Rights Offering. We also reserve the right to cancel the Rights Offering at any time prior to the expiration date and for any reason. If the Rights Offering is cancelled, all subscription payments received by the subscription agent will be returned, without interest or penalty, as soon as practicable to those persons who subscribed for Units in the Rights Offering. Our Board may decide to extend the Rights Offering for additional periods, although we do not currently intend to do so.

Has the Board made a recommendation to shareholders regarding the Rights Offering?

No. Our Board is making no recommendation regarding your exercise, sale or transfer of the Subscription Rights. Holders who exercise Subscription Rights will incur investment risk on new money invested. The subscription price per Unit may not be indicative of the market value of the Subscription Rights, our Common Shares or our Warrants. We cannot predict the price at which our Common Shares or our Warrants will trade after the offering. Furthermore, a liquid trading market may not develop or be maintained for the Subscription Rights or our Warrants. This Rights Offering and other factors may cause the market price of our Common Shares to decline after the Rights Offering and you may not be able to sell our Common Shares at a price equal to or higher than the current market price of our Common Shares or at a price you believe may be indicated by the price per Unit, if at all. Prior to the issuance of the Subscription Rights and Warrants there has been no market for those securities and you may not be able to sell our Warrants at a price you believe may be indicated by the price per Unit, if at all. You should make your decision based on your assessment of our business and financial condition, our prospects for the future, the terms of the Rights Offering and the information contained in, or incorporated by reference in, this prospectus, as it may be supplemented.

Will our directors, executive officers or significant shareholders participate in the Rights Offering?

Our directors and executive officers who own Common Shares, as well as other significant shareholders, are permitted, but not required, to participate in this Rights Offering on the same terms and conditions applicable to all shareholders, including by purchasing Subscription Rights from other holders and exercising those Subscription Rights. Certain directors and executive officers of Kingsway have indicated their current intention to participate in the Rights Offering in amounts at least equal to their basic subscription privileges. Nevertheless, each such director and executive officer reserves the right, in his sole discretion, not to participate in the Rights Offering.

Any director, executive officer or significant shareholder who subscribes for Units in the Rights Offering will pay \$4.00 per Unit, the same price paid by all other persons who exercise their Subscription Rights in the Rights Offering.

Are there limitations to this Rights Offering under state securities laws?

The Warrants will not be listed on a U.S. securities exchange. If the securities do not qualify as a covered security, we intend to rely upon other exemptions under state securities laws to enable us to proceed with the Rights Offering.

Furthermore, our Warrants may be subject to transfer restrictions in certain states. We have the discretion to delay or to refuse to distribute any securities underlying the Units you may elect to purchase through the exercise of Subscription Rights if we deem it necessary to comply with applicable securities laws, including state securities and blue sky laws.

How do I exercise my Subscription Rights if I own Subscription Rights in certificate form?

In order to exercise your basic subscription privilege, you must properly complete and sign Form 1 of the Subscription Rights certificate, and if you wish to exercise a portion or all of your entitlement under the over-subscription privilege, Form 2 of the Subscription Rights certificate, and deliver the signed Subscription Rights certificate, together with payment of the purchase price, to the subscription agent before 5:00 p.m., Eastern time, on September 6, 2013, the expiration date of the Rights Offering, unless such date is extended by us or you have used the guaranteed delivery procedures described under "The Rights Offering-Guaranteed Delivery Procedures." In certain cases, you may be required to provide signature guarantees.

Please follow the delivery instructions on the Subscription Rights certificate. Do not deliver documents to Kingsway Financial Services Inc. You are solely responsible for completing delivery to the subscription agent of your subscription documents, Subscription Rights certificate and payment. You should allow sufficient time for delivery of your subscription materials to the subscription agent so that the subscription agent receives them by 5:00 p.m., Eastern time, on September 6, 2013, unless such date is extended by us or you have used the guaranteed delivery procedures described under "The Rights Offering-Guaranteed Delivery Procedures."

If you send a payment that is insufficient to exercise the number of Subscription Rights you requested to exercise, or if such number is not specified in the forms, the payment received will be applied to exercise your Subscription Rights to the fullest extent possible based on the amount of the payment received, subject to the availability of Units under the over-subscription privilege and the elimination of fractional Units. If your payment for the number of Subscription Rights you requested to exercise is greater than the amount you owe for your subscription, you will be deemed to have exercised your over-subscription privilege to purchase the maximum number of Units with your over-payment. Any excess subscription payments will be returned by the subscription agent, without interest or penalty, as soon as practicable following the expiration of the Rights Offering period.

If the total of your current beneficially owned Common Shares and the Common Shares you expect to receive by exercising the Subscription Rights (including Common Shares received by exercising Subscription Rights acquired by purchasing Subscription Rights from others) is greater than 650,000 beneficially owned Common Shares, you may need to request an exemption from the Board as described above and in the Tax Plan and the subscription materials provided to you to avoid such dilution. The Board reserves the right to review and approve the exemption requests up to three business days after the close of the Rights Offering period.

How do I exercise my Subscription Rights if, on August 9, 2013, I held Kingsway's Common Shares in certificated form but did not receive a Subscription Rights certificate?

If on August 9, 2013, you held Common Shares of Kingsway in certificated form but did not receive a Subscription Rights certificate, please contact our subscription agent Computershare Investor Services Inc. to have a Subscription Rights certificate reissued to you and follow the instructions provided.

What should I do if I want to participate in the Rights Offering but my Subscription Rights are held in the name of a broker, dealer, custodian bank or other nominee?

If you hold your Subscription Rights through a broker, dealer, custodian bank or other nominee, then your nominee is the record holder of the Subscription Rights you own. The record holder must exercise the Subscription Rights on your behalf. If you wish to exercise your Subscription Rights in the Rights Offering, you should contact your broker, dealer, custodian bank or nominee as soon as possible. You will not receive a Subscription Rights certificate from us. Please follow the instructions of your nominee. Your nominee may establish a submission deadline that may be before the expiration date of the Rights Offering.

What form of payment is required to purchase the Units offered in this Rights Offering?

Payments submitted to the subscription agent must be made in full in U.S. currency by:

- certified check drawn against a U.S. or Canadian bank payable to “Computershare Investor Services Inc. (acting as subscription agent for Kingsway Financial Services Inc.)”;
- U.S. or Canadian bank draft payable to “Computershare Investor Services Inc. (acting as subscription agent for Kingsway Financial Services Inc.)”; or
- U.S. or Canadian postal money order payable to “Computershare Investor Services Inc. (acting as subscription agent for Kingsway Financial Services Inc.)”

To be effective, any payment related to the exercise of a Subscription Right must clear prior to the expiration of the Rights Offering.

When will I receive my Common Shares and Warrants?

If you timely submit a Subscription Rights certificate and payment, the subscription agent will mail you certificates and/or Direct Registration System (“DRS”) statements for the Common Shares and certificates for the Warrants as soon as practicable after the completion of the Rights Offering, including the guaranteed delivery period. The Company expects the Warrants and Common Shares issuable pursuant to the Rights Offering to be delivered against payment therefor on September 16, 2013, a date that is in excess of three business days following September 6, 2013, the expiration date of the Rights Offering. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Until your certificates and DRS statements are received, you may not be able to sell the securities acquired in this Rights Offering. If your Common Shares as of the record date were held by a broker, dealer, custodian bank or other nominee, or you purchased Subscription Rights and you participate in the Rights Offering, you will not receive certificates and/or DRS statements for your new Common Shares or Warrants. Your custodian bank, broker, dealer or other nominee will be credited with the Common Shares and Warrants underlying the Units you purchase in the Rights Offering as soon as practicable after the completion of the Rights Offering.

After I send in my payment and Subscription Rights certificate to the subscription agent, may I cancel my exercise of Subscription Rights?

No. All exercises of Subscription Rights are irrevocable, even if you later obtain information that you consider to be unfavorable to the exercise of your Subscription Rights. You should not exercise your Subscription Rights unless you are certain that you wish to do so at the subscription price of \$4.00 per Unit. This Rights Offering and other factors, including any announcement of financial results, may cause the market price of our Common Shares to decline after the Rights Offering and you may not be able to sell our Common Shares at a price equal to or higher than the current market price of our Common Shares or at a price you believe may be indicated by the price per Unit, if at all. Prior to the issuance of our Subscription Rights and Warrants there will be no market for those securities and you may not be able to sell the Subscription Rights or the Warrants at a price you believe may be indicated by the price per Unit, if at all.

What effects will the Rights Offering have on the Company's outstanding Common Shares?

Assuming no other transactions by us involving our Common Shares or our Warrants other than as described herein, if the Rights Offering is fully subscribed through the exercise of the Subscription Rights before the expiration of the Rights Offering, then 3,287,242 Common Shares, 3,287,242 Series A Warrants to purchase 3,287,242 Common Shares and 3,287,242 Series B Warrants to purchase 3,287,242 Common Shares will be issued and outstanding after

the closing of the Rights Offering. Further, if all of the Warrants issued in the Rights Offering are exercised, 9,861,726 Common Shares will be issued, which will then result in a total of 23,010,697 Common Shares outstanding.

As a result of the Rights Offering, the ownership interests and voting interests of any existing shareholders that do not fully exercise their basic subscription privilege may be diluted and shareholders' ownership may be further diluted as

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a result of the exercise of the Warrants. The exact number of Common Shares and Warrants that we will issue in this Rights Offering will depend on the number of Units that are subscribed for in the Rights Offering by our shareholders.

In addition, the issuance of our Common Shares and Warrants and other factors may cause the market price of our Common Shares to decline after the Rights Offering and you may not be able to sell our Common Shares at a price equal to or higher than the current market price of our Common Shares or at a price you believe may be indicated by the price per Unit, if at all.

Are there any conditions to completing the Rights Offering?

There are no conditions to completion of the Rights Offering.

How much will Kingsway receive from the Rights Offering?

If all of the Subscription Rights are exercised in full, we expect the net proceeds from the Rights Offering to be approximately \$12.5 million, after deducting fees and expenses. If no Subscription Rights are exercised, we would receive no proceeds from the offering.

Are there risks in exercising my Subscription Rights?

Yes. The exercise of your Subscription Rights involves risks. Exercising your Subscription Rights involves the purchase of Warrants and Common Shares and exercising your Warrants involves the purchase of Common Shares. You should consider this investment as carefully as you would consider any other investment. Among other things, you should carefully consider the risks described under the heading "Risk Factors" beginning on page 23 of this prospectus and the information incorporated by reference in this prospectus.

If all or a portion of my subscription is not accepted, will my subscription payment be refunded to me?

Yes. The subscription agent will hold all funds it receives in a segregated bank account until completion of the Rights Offering. If we do not accept all or a portion of your subscription, all excessive subscription payments received by the subscription agent will be returned promptly, without interest or penalty. If you own Common Shares in "street name," it may take longer for you to receive your subscription payment because the subscription agent will return payments through the record holder of your shares.

How do I exercise my Subscription Rights if I live outside the United States?

We will not mail this prospectus to holders whose addresses are outside the United States, or who have a military post office or a foreign post office address. Holders whose addresses are in Canada will receive a separate mailing providing instructions on how to subscribe. Other registered shareholders that reside outside of the United States (each, an "Ineligible Holder", and collectively, the "Ineligible Holders") will not be able to exercise their Subscription Rights, except where the Company determines that the Rights Offering and subscription by a shareholder outside the United States is lawful and made in compliance with all securities and other laws applicable in the jurisdiction where such shareholder is resident (such a shareholder, a "Qualified Holder"). Ineligible Holders that wish to be recognized as Qualified Holders must contact the subscription agent at the earliest possible time, but in no event later than August 27, 2013 (ten calendar days before the expiration of the Rights Offering) in order to satisfy the Company in its sole discretion that such holders are Qualified Holders. Thereafter, the Company shall direct the subscription agent to attempt to sell the Subscription Rights of Ineligible Holders that have not demonstrated that they are Qualified Holders, on such date or dates and at such price or prices and in such markets as the Company may direct. The subscription agent will distribute proceeds from any such sale in United States dollars to the registered Ineligible

Holders on a pro rata basis (net of brokerage fees and selling expenses and, if applicable, costs incurred and withholding taxes).

What fees or charges apply if I exercise my Subscription Rights in the Rights Offering?

We are not charging any fee or sales commission to issue Subscription Rights or Units to you or to issue the Common Shares or Warrants underlying the Units to you if you exercise your Subscription Rights. If you exercise your Subscription Rights through a broker, dealer, custodian bank or other nominee, you are responsible for paying any fees your record holder may charge you. In addition, you are responsible for paying any transaction fees or commission that you may incur in connection with the sale or purchase of Subscription Rights.

What are the U.S. and Canadian federal income tax consequences of exercising my Subscription Rights?

We intend to take the position that the distribution of Subscription Rights is a non-taxable distribution to holders of our Common Shares. This position, however, is not binding on the United States Internal Revenue Service (“IRS”), Canada Revenue Agency (“CRA”) or the courts, and if this position is finally determined by the IRS, the CRA or a court to be incorrect, the distribution of the Subscription Rights could be taxable to holders of our Common Shares. A holder of Common Shares will not recognize any gain or loss upon the exercise of Subscription Rights received in the Rights Offering. You should consult your tax advisor as to your particular tax consequences resulting from the Rights Offering. For a detailed discussion, see “Certain U.S. Federal Income Tax Considerations” and “Certain Canadian Federal Income Tax Considerations.”

To whom should I send my forms and payment?

If your Subscription Rights are held in the name of a broker, dealer, custodian bank or other nominee, then you should send your subscription documents and subscription payment to that record holder. If, as of August 9, 2013, you were the registered holder of our Common Shares, or if you received your Subscription Rights from a registered holder, then you should send your subscription documents, Subscription Rights certificate and subscription payment by mail or overnight courier to:

Computershare Investor Services Inc.

By Mail

P.O. Box 7021
31 Adelaide St E
Toronto, ON
M5C 3H2
Attention: Corporate Actions

By Registered Mail, Hand or by Courier

100 University Avenue
8th Floor
Toronto, ON
M5J 2Y1
Attention: Corporate Actions

Toll Free (North America): 1-800-564-6253

Overseas: 1-514-982-7555

E-Mail: corporateactions@computershare.com

You or, if applicable, your nominee are solely responsible for completing delivery to the subscription agent of your subscription documents, Subscription Rights certificate and subscription payment. You should allow sufficient time for delivery of your subscription materials to the subscription agent and clearance of payment before the expiration of the Rights Offering at 5:00 p.m. Eastern time, on September 6, 2013, unless such date is extended by us or you have used the guaranteed delivery procedures described under “The Rights Offering-Guaranteed Delivery Procedures.”

If the Rights Offering is not completed, will my subscription payment be refunded to me?

Yes. The subscription agent will hold all funds it receives in escrow until completion of the Rights Offering. If the Rights Offering is not completed, the subscription agent will return promptly, without interest, all subscription payments.

Whom should I contact if I have other questions?

If you have any questions regarding the Rights Offering, completing a Subscription Rights certificate or submitting payment in the Rights Offering, please contact our information agent for the Rights Offering, Georgeson Shareholder Communications Canada Inc.

PROSPECTUS SUMMARY

The following summary contains basic information about us and the Rights Offering. Because it is a summary, it may not contain all of the information that is important to you. Before making an investment decision, you should read this prospectus carefully, including the sections entitled “Risk Factors” and “The Rights Offering,” and the information incorporated by reference in this prospectus.

Unless otherwise indicated, the terms “Kingsway,” the “Company,” “we,” “us,” “our” and similar names refer collectively to Kingsway Financial Services Inc. and its subsidiaries.

The Company

Overview

Kingsway Financial Services Inc. was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. Kingsway Financial Services Inc. is a holding company and is primarily engaged, through its subsidiaries, in the property and casualty insurance business and conducts its business through two reportable segments: Insurance Underwriting and Insurance Services. We conduct our business and distribute our products in the United States and Puerto Rico.

The Company's property and casualty insurance business operations are conducted primarily through the following subsidiaries: Mendota Insurance Company (“Mendota”), Mendakota Insurance Company, Universal Casualty Company (“UCC”), Maison Insurance Company (“Maison”), Kingsway Amigo Insurance Company (“Amigo”), KAI Advantage Auto, Inc., Kingsway Reinsurance Corporation and Kingsway Reinsurance (Bermuda) Ltd. (collectively, the “Insurance Underwriting Subsidiaries”).

The Insurance Underwriting Subsidiaries issue insurance policies and retain the risk of operating profit or loss related to the ultimate loss and loss adjustment expenses incurred on the underlying policies. They provide non-standard automobile and homeowners insurance to individuals and commercial automobile insurance to businesses and actively conduct business in 18 states. For the six months ended June 30, 2013, the following states accounted for 81.7% of the Company's gross premiums written: Florida (25.2%), Illinois (15.8%), Texas (14.2%), California (11.3%), Nevada (7.0%) and Colorado (8.2%). In November 2012, the Company formed Maison, a Louisiana domiciled property and casualty insurance company, which provides homeowners policies for wind and hail-related property losses of residential dwellings and certain contents. Louisiana generated 100% of our homeowners insurance premiums in 2012 and is expected to in 2013.

Our Insurance Underwriting Subsidiaries principally offer personal automobile insurance to drivers who do not meet the criteria for coverage by standard automobile insurers. For the six months ended June 30, 2013, non-standard automobile accounted for 91.7% of the Company's gross premiums written. Our Insurance Underwriting Subsidiaries primarily market automobile insurance products which provide coverage in three major areas: liability, accident benefits and physical damage. Liability insurance provides coverage for claims against the Company's insureds legally

responsible for automobile accidents which have injured third-parties or caused property damage to third-parties. Accident benefit policies or personal injury protection policies provide coverage for loss of income, medical and rehabilitation expenses for insured persons who are injured in an automobile accident, regardless of fault. Physical damage policies cover damages to an insured automobile arising from a collision with another object or from other risks such as fire or theft.

During the fourth quarter of 2012, the Company began taking steps to place all of Amigo into voluntary run-off. On November 19, 2012, the Florida Office of Insurance Regulation (“OIR”) approved Amigo's plan to withdraw from the business of offering commercial lines insurance in Florida. On January 30, 2013, the OIR approved Amigo's plan to withdraw from the business of offering personal lines insurance in Florida. Kingsway has commenced discussions with the OIR to outline plans for Amigo's run-off. Any comprehensive run-off plan would be subject to OIR approval.

Our Insurance Services segment includes the following subsidiaries of the Company: Assigned Risk Solutions Ltd. (“ARS”) and IWS Acquisition Corporation (“IWS”), (collectively, the “Insurance Services Subsidiaries”).

ARS is a licensed property and casualty agent, full service managing general agent and third-party administrator focused primarily on the assigned risk market. ARS is licensed to administer business in 22 states but generates its revenues primarily by operating in the states of New York and New Jersey.

IWS is a licensed motor vehicle service agreement company and is a provider of after-market vehicle protection services distributed by credit unions in 26 states and Puerto Rico to their members.

ARS generally markets the same type of insurance products as the Insurance Underwriting Subsidiaries; however, ARS does not retain the risk of operating profit or loss related to the ultimate loss and loss adjustment expenses incurred on the underlying policies. This risk is borne by the insurance companies which partner with ARS in their marketing efforts.

IWS markets and administers vehicle service agreements and related products for new and used automobiles throughout the United States and Puerto Rico. 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 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.

Recent Developments

NYSE Delisting Notification

The Company received notice on June 7, 2013 from the NYSE that it is not in compliance with certain NYSE standards for continued listing of its Common Shares. Specifically, Kingsway is below the NYSE's continued listing criteria because its average total market capitalization over a recent 30 consecutive trading day period was less than \$50 million at the same time that reported shareholders' equity was less than \$50 million. Under the NYSE's continued listing criteria, a NYSE listed company must maintain average market capitalization of not less than \$50 million over

a 30 consecutive trading day period or reported shareholders' equity of not less than \$50 million.

The Company submitted a business plan to the NYSE on July 17, 2013, intended to demonstrate its ability to achieve compliance with the listing standards within 18 months of receiving the notice, and remains engaged in discussions with the NYSE regarding such business plan. During such 18-month period, the Common Shares will continue to be

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listed and traded on the NYSE, subject to compliance with other NYSE continued listing standards; however, the consolidated tape now includes a “.BC” indicator, which will be removed at such time as the Company is deemed compliant with the NYSE's continued listing standards. Kingsway intends to address the issue through the successful completion of the Rights Offering.

The notice from the NYSE does not impact the Company's listing on the TSX, and its Common Shares will continue to be listed and traded on the TSX, subject to compliance with TSX continued listing standards.

There can be no assurance that the Company will regain compliance with NYSE listing standards.

Trinity Transaction

The Company finalized the purchase of certain tangible and intangible assets of Trinity Warranty Corporation (“Trinity”) on May 22, 2013. Trinity, based in Lombard, Illinois, is a provider of warranty products and maintenance support to consumers and businesses in the heating, ventilation, air conditioning and refrigeration industry. The tangible and intangible assets of Trinity were acquired for total consideration consisting of cash and future contingent payments in a newly formed entity.

Minnesota Department of Commerce

Two of the Company's principal insurance company subsidiaries, Mendota and Mendakota, are domiciled in Minnesota. These companies were previously under examination by the Minnesota Department of Commerce (“DOC”) for the period January 1, 2007 through December 31, 2011 as part of their regular five-year examination cycle. In a draft examination report delivered to the Company on May 23, 2013, the DOC questioned the carrying value and admissibility, for statutory accounting purposes, of certain assets and liabilities at December 31, 2011. The DOC's examination has concluded and the final DOC examination report was released on June 28, 2013. The DOC has confirmed to Mendota and Mendakota that it does not require any adjustment to the current financial statements or restatement/re-filing of any prior financial statements.

Voting Securities and Principal Holders Thereof

Since the filing of our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 11, 2013, our Director, Joseph Stilwell, and our President and Chief Executive Officer, Larry G. Swets, Jr., have purchased 2,768 and 19,000 Common Shares, respectively.

Directors and Executive Officers

Larry G. Swets, Jr., 38 years old
President and Chief Executive Officer, appointed July 1, 2010

Before joining Kingsway in January 2010, Mr. Swets founded Itasca Financial LLC, an advisory and investment firm specializing in the insurance industry. Prior to his work at Itasca Financial, Mr. Swets served as an insurance company executive and advisor, including the role of Director of Investments and Fixed Income Portfolio Manager for Kemper Insurance. At Kemper he also evaluated business units, executed corporate transactions and divestitures, and developed financial projections and analysis for the company during its runoff stage. He began his career in insurance as an intern in the Kemper Scholar program in 1994.

Mr. Swets graduated from Valparaiso University and earned a Masters degree in Finance from DePaul University; he also holds the Chartered Financial Analyst designation. He is also a member of Young Presidents' Organization

(YPO).

William A. Hickey, Jr., 54 years old

Executive Vice President and Chief Operating Officer, appointed August 30, 2010

Chief Financial Officer, appointed April 21, 2011

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Most recently, Mr. Hickey was a Managing Director with Macquarie Capital. Previously, he was Managing Director, Chief Operating Officer and Chief Financial Officer for Fox-Pitt Kelton Cochran Caronia Waller at the time of its merger with Macquarie on November 30, 2009. He also served in the same capacity for Cochran Caronia Waller at the time of its merger with Fox-Pitt Kelton on August 31, 2007.

Prior to joining Cochran Caronia Waller, Mr. Hickey was Executive Vice President and Chief Financial Officer of the Kemper Insurance Companies, formerly a leading property-casualty insurance provider. He joined the Kemper organization in 1989 as a Financial Analyst with Kemper Corporation, then the publicly-held, diversified insurance and financial services arm of the Kemper group of companies. In 1996, following Zurich Insurance Company's acquisition of Kemper Corporation, Mr. Hickey moved to the Kemper Insurance Companies as Director of Corporate Development. Before joining Kemper, he worked for Deloitte Haskins & Sells and Stein Roe & Farnham.

Mr. Hickey earned a Bachelor of Business Administration degree in accountancy with high honors from the University of Notre Dame and a Master of Management degree in finance and management policy with distinction from the J.L. Kellogg Graduate School of Management at Northwestern University. He was awarded the Chartered Financial Analyst designation in 1989 and the Certified Public Accountant designation in 1981.

Bradley S. Diericx, 40 years old
Executive Vice President, appointed September 17, 2012

Before joining Kingsway in September 2012, Mr. Diericx was a Partner and Managing Director of the Chicago office with Johnson Lambert, LLP. Previously, Mr. Diericx was a Partner and Chair of the Insurance Practice with Blackman Kallick, LLP. Prior to joining Blackman Kallick, LLP, Mr. Diericx was the Vice President of Finance for the Insurance Corporation of Hannover (part of the Hannover Re group of companies). Before joining the Insurance Corporation of Hannover, Mr. Diericx was an officer and controller of GE Reinsurance Corporation. He began his career in insurance with Kemper Reinsurance Company (before being acquired and renamed GE Reinsurance Corporation) in 1995.

Mr. Diericx graduated from Augustana College and holds the Certified Public Accountant designation.

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The high and low sales price for our Common Shares as reported on the TSX during the first quarter of 2013 was C\$4.53 and C\$3.61, respectively, while the high and low sales price for our Common Shares as reported on the NYSE was \$4.42 and \$3.68, respectively, for the same period. The high and low sales price for our Common Shares as reported on the TSX during the second quarter of 2013 was C\$4.17 and C\$3.15, respectively, while the high and low sales price for our Common Shares as reported on the NYSE was \$4.25 and \$3.08, respectively, for the same period. The high and low sales price for our Common Shares as reported on the TSX during the period July 1, 2013 to August 7, 2013 was C\$4.02 and C\$3.61, respectively, while the high and low sales price for our Common Shares as reported on the NYSE was \$3.87 and \$3.49, respectively, for the same period. For certain additional historical share prices see our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 11, 2013, which has been incorporated herein by reference.

Corporate Information

Kingsway Financial Services Inc. was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. The Company's registered office is located at 45 St. Clair Avenue West, Suite 400, Toronto, Ontario, Canada M4V 1K9. Our principal executive offices are located at 150 Pierce Road, Itasca, Illinois 60143, and our telephone number at that location is (847) 700-8059. The Common Shares of Kingsway Financial Services Inc. are listed on the TSX and the NYSE under the trading symbol "KFS."

Our Internet address is www.kingsway-financial.com. We make available free of charge on or through our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the U.S. Securities and Exchange Commission and Canadian Securities Administrators. The information contained on our website is not part of this prospectus.

THE RIGHTS OFFERING

The following summary contains basic information about the Rights Offering. It does not contain all the information that is important to you. For a more complete understanding of the Rights Offering, please refer to the section of this prospectus supplement entitled “Questions and Answers Relating to the Rights Offering” and “The Rights Offering.” In this summary, unless otherwise indicated, “we,” “us,” “our,” “the Company,” and “Kingsway” and similar words refer only to Kingsway Financial Services Inc. and not any of its subsidiaries.

The Rights Offering

We are distributing at no charge to the holders of our Common Shares transferable Subscription Rights to purchase up to an aggregate of 3,287,242 Units, each consisting of one Common Share, one Series A Warrant and one Series B Warrant. The exercise price per Common Share of one Series A Warrant is the greater of \$4.50 and 120% of the VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. The Company may redeem the Series A Warrants at a price of \$0.25 per Warrant if, and only if, the closing price of the Common Shares equals or exceeds \$6.00 per Common Share for twenty consecutive trading days on the NYSE or such other market or exchange as the Common Shares of the Company trade or are quoted at the time of redemption; but in any event no earlier than the first anniversary of the date of issuance. The exercise price per Common Share of one Series B Warrant is the greater of \$5.00 and 120% of VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. The Series A Warrants are redeemable by the Company and have a seven-year term from their date of issuance, while the Series B Warrants are non-redeemable and have a ten-year term from their date of issuance. Based upon the volume weighted average price on the NYSE for the twenty trading days ending on August 7, 2013, and relying upon the advice that the Company has received from its financial advisors, the Company believes that the fair value of one Series A Warrant and one Series B Warrant, taken together, is at least C\$0.21 and \$0.20 as of August 7, 2013.

Four Subscription Rights entitle the holder to purchase one Unit at a subscription price of \$4.00 per Unit, which we refer to as the “basic subscription privilege.” If any holders of Subscription Rights (including holders who acquired Subscription Rights by purchasing Subscription Rights from others) do not exercise their basic subscription privilege in full, then holders of Subscription Rights who have exercised their basic subscription privilege in full (including Subscription Rights purchased from others) will be entitled to exercise an “over-subscription privilege,” subject to certain limitations and subject to allotment, to purchase a portion of the number of Units, if any, that are not purchased by our other shareholders or their transferees through the exercise of their basic subscription privilege at the same subscription price of \$4.00 per

Unit. The maximum number of Units that a holder may purchase through the over-subscription privilege is five Units for each Unit that a holder purchases through the basic subscription privilege.

Upon the closing of the Rights Offering, the Units will immediately separate into the Common Shares and the Warrants and will trade separately. The Units are not themselves tradable, nor will they be listed on any stock exchange.

Record Date

August 9, 2013

Expiration Date

The Subscription Rights will expire at 5:00 p.m. Eastern time on September 6, 2013, unless the expiration date is extended.

Basic Subscription Privilege

Four Subscription Rights entitle you to purchase one Unit at the subscription price of \$4.00 per Unit purchased. Each Unit consists of one Common Share, one Series A Warrant and one Series B Warrant. The exercise price per Common Share of a Series A Warrant is the greater of \$4.50 and 120% of the VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the date of issuance of the warrant. Each Series A Warrant is redeemable by the Company and has a term of seven years from its date of issuance. The Company may redeem the Series A Warrants at a price of \$0.25 per Warrant if, and only if, the closing price of the Common Shares equals or exceeds \$6.00 per Common Share for twenty consecutive trading days on the NYSE or such other market or exchange as the Common Shares of the Company trade or are quoted at the time of redemption; but in any event no earlier than the first anniversary of the date of issuance. The exercise price per Common Share of a Series B Warrant is the greater of \$5.00 and 120% of VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. Each Series B Warrant is non-redeemable and has a term of ten years from its date of issuance. Fractional Units resulting from the exercise of the basic subscription privilege will be eliminated by rounding down to the nearest whole Unit, with the total subscription payment being adjusted accordingly.

Over-subscription Privilege

You may exercise all or a portion of your basic subscription privilege or you may choose not to exercise any basic subscription privilege at all.

If any holders of Subscription Rights (including holders who acquired Subscription Rights by purchasing Subscription Rights from others) do not exercise their basic subscription privilege in full, then holders of Subscription Rights who have exercised their basic subscription privilege in full (including in respect of Subscription Rights purchased from others) will be entitled to exercise an over-subscription privilege, subject to certain limitations and subject to allotment. This over-subscription privilege will allow holders to purchase a portion of the number of Units, if any, that are not purchased by our other shareholders or their transferees through the exercise of their basic subscription privilege at the same subscription price of \$4.00 per Unit. The maximum number of Units that a holder may purchase through the over-subscription privilege is five Units for each Unit that a holder purchases through the basic subscription privilege. Fractional Units resulting from the exercise of the over-subscription privilege will be eliminated by rounding down to the nearest whole Unit, with the total subscription payment being adjusted accordingly.

If sufficient Units are available, we will seek to honor your over-subscription request in full. If, however, over-subscription requests exceed the number of Units available, we will allocate the

available Units pro rata based on the total number of Units you request pursuant to the over-subscription privilege in proportion to the total number of over-subscription requests from all holders as of the expiration date of the Rights Offering.

Purchase Restrictions to Preserve Tax Benefits	<p>As of March 31, 2013, we had net U.S. operating loss carryforwards totaling approximately \$827.4 million, as measured for U.S. federal income tax purposes. On September 28, 2010, we put in place the Tax Plan. Under the Tax Plan, upon (i) any person becoming an owner of 5% or more of the outstanding Common Shares of Kingsway Financial Services Inc. or (ii) an existing greater than 5% shareholder acquiring additional Common Shares (each of the persons described in clauses (i) and (ii), a “5% Shareholder”), without express approval of the Board, the Company will issue rights to purchase additional Common Shares to shareholders of the Company holding Common Shares as of the closing of such transaction (other than such 5% Shareholder), potentially resulting in dilution to such 5% Shareholder. If the total of your current beneficially owned Common Shares and the Common Shares you expect to receive by exercising the Subscription Rights (including Common Shares received by exercising Subscription Rights acquired by purchasing Subscription Rights from others) is greater than 650,000 beneficially owned Common Shares, you may need to request an exemption from the Board as described above and in the Tax Plan and the subscription materials provided to you to avoid such dilution. The Board reserves the right to review and approve the exemption requests up to three business days after the close of the Rights Offering period.</p>
Sale and Transferability of Subscription Rights	<p>The Subscription Rights are transferable. The Subscription Rights have been cleared for an unpriced quotation on the OTC Bulletin Board by FINRA. Trading in the Subscription Rights will cease at 12:00 p.m. (Eastern time) on September 6, 2013. We cannot provide you any assurances as to the liquidity of the trading market for the Subscription Rights and purchasers may not be able to resell the Subscription Rights.</p>
Sale and Transferability of Warrants	<p>We intend to request that the Series A Warrants and Series B Warrants trade on the OTC, but even if either such application is unsuccessful, you may be able to sell your Warrants in a private transaction. We cannot assure you that there will be a market to sell the Warrants, or the price at which you will be able to sell your Warrants. In addition, following the closing of the Rights Offering, the Warrants may not be immediately tradable until the OTC makes a decision with respect to the quotation applications in respect of the Warrants. As a result, even if the quotation applications with respect to each of the Series A Warrants and Series B Warrants are successful, the Warrants may not be immediately tradable on the OTC following the closing of the Rights Offering. There is currently no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants.</p>
Participation of Directors, Executive Officers and Significant Shareholders	<p>Our directors and executive officers who own Common Shares, as well as other significant shareholders, are permitted, but not required, to participate in this Rights Offering on the same terms and conditions applicable to all shareholders, including by purchasing</p>

U.S. and Canadian Federal Income Tax
Consequences

rights from other holders and exercising those rights. Certain directors and executive officers of Kingsway, however, have indicated their current intention to participate in the Rights Offering in amounts at least equal to their basic subscription privileges. Nevertheless, each such director and executive officer reserves the right, in his sole discretion, not to participate in the Rights Offering. We intend to take the position that the distribution of Subscription Rights is a non-taxable distribution to holders of our Common Shares. This position, however, is not binding on the IRS, the CRA or the courts, and if this position is finally determined by the IRS, the CRA or a court to be incorrect, the distribution of the Subscription Rights could be taxable to U.S. or Canadian holders of our Common Shares. A holder of Common Shares will not recognize any gain or loss upon the exercise of Subscription Rights received in the Rights Offering. You should consult your tax advisor as to your particular tax consequences resulting from the Rights Offering. For a detailed discussion, see “Certain U.S. Federal Income Tax Considerations” and “Certain Canadian Income Tax Considerations.”

Amendment and Extension; Cancellation

We may amend the terms of the Rights Offering. Our Board may decide to extend the Rights Offering for additional periods, although it does not currently intend to do so. We also reserve the right to withdraw the Rights Offering at any time prior to the expiration date and for any reason. If the Rights Offering is cancelled, all subscription payments received by the subscription agent will be returned, without interest or penalty, as soon as practicable to those persons who subscribed for Units in the Rights Offering.

No Revocation

All exercises of Subscription Rights are irrevocable.

Procedures for Exercising Rights

To exercise your Subscription Rights, you must take the following steps:

If you hold a Subscription Rights certificate and you wish to participate in the Rights Offering, you must properly complete and sign Form 1 of the Subscription Rights certificate for the basic subscription privilege, and if you wish to exercise a portion or all of your entitlement under the over-subscription privilege, Form 2 of the Subscription Rights certificate, and deliver the signed Subscription Rights certificate, together with payment of the purchase price, to the subscription agent before 5:00 p.m., Eastern time, on September 6, 2013, the expiration date of the Rights Offering, unless such date is extended by us or you have used the guaranteed delivery procedures described under “The Rights Offering - Guaranteed Delivery Procedures.” In certain cases, you may be required to provide signature guarantees.

Please follow the delivery instructions on the Subscription Rights certificate. Do not deliver documents to Kingsway Financial Services Inc. You are solely responsible for completing delivery to the subscription agent of your subscription documents, Subscription Rights certificate and payment. You should allow sufficient time for delivery of your subscription materials to the subscription agent so that the subscription agent receives them by 5:00 p.m., Eastern time, on September 6, 2013, unless such date is extended by us. If you cannot deliver your Subscription Rights certificate to the subscription agent prior to the expiration of the Rights Offering period, you may follow the guaranteed delivery procedures described under “The Rights Offering - Guaranteed Delivery Procedures.”

If you send a payment that is insufficient to exercise the number of Subscription Rights you requested to exercise, or if such number is not specified in the forms, the payment received will be applied to exercise your Subscription Rights to the fullest extent possible based on the amount of the payment received, subject to the availability of Units under the over-subscription privilege and the elimination of fractional Units and fractional shares. If your payment for the number of Subscription Rights you requested to exercise is greater than the amount you owe for your subscription, you will be deemed

to have exercised your over-subscription privilege to purchase the maximum number of Units with your over-payment. Any excess subscription payments will be returned by the subscription agent, without interest or penalty, as soon as practicable following the expiration of the Rights Offering period.

If you hold your Subscription Rights through a broker, dealer, custodian bank or other nominee, then your nominee is the record holder of the Subscription Rights you own. The record holder must exercise the Subscription Rights on your behalf. If you wish to exercise your Subscription Rights in the Rights Offering, you should contact your broker, dealer, custodian bank or nominee as soon as possible. You will not receive a Subscription Rights certificate from Kingsway. Please follow the instructions of your nominee. Your nominee may establish a submission deadline that may be before the expiration date of the Rights Offering.

Computershare Investor Services Inc.

By Mail

P.O. Box 7021
31 Adelaide St E
Toronto, ON
M5C 3H2
Attention: Corporate Actions

Subscription Agent

By Registered Mail, Hand or by Courier

100 University Avenue
8th Floor
Toronto, ON
M5J 2Y1
Attention: Corporate Actions

Toll Free (North America): 1-800-564-6253
Overseas: 1-514-982-7555
E-Mail: corporateactions@computershare.com
Georgeson Shareholder Communications Canada Inc.
Toll-free (North America): 1-888-605-8403
E-Mail: askus@georgeson.com

Information Agent

Shares Outstanding Before the Rights Offering

13,148,971 Common Shares were outstanding as of August 7, 2013. We intend to use the proceeds to repay a portion of the Notes, which mature on February 1, 2014 and carry an annual interest rate of 7.5%. Taking into account the expected net proceeds to be raised from the Rights Offering along with our current cash resources, as of the closing of the Rights Offering we would not have the liquidity necessary to satisfy completely the repayment obligations of the Notes. We intend to generate the remaining proceeds needed to repay the Notes by raising additional capital or selling assets. You should carefully read the section entitled "Risk Factors" beginning at page 23 before you sell or exercise your rights. See also "Where You Can Find More Information" on page 68.

Use of Proceeds

Risk Factors

RISK FACTORS

Investing in our securities involves a high degree of risk. We are exposed to numerous risk factors that could cause actual results to differ materially from recent results or anticipated future results. The risks and uncertainties described below are those specific to the Company which we currently believe have the potential to be material, but they may not be the only ones we face. If any of the following risks, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected. You should carefully consider and evaluate all of the information in this prospectus and documents incorporated by reference herein before making a decision to invest in our securities.

FINANCIAL RISK

Kingsway Financial Services Inc. is a holding company, and many of its operating subsidiaries are subject to dividend restrictions and are required to maintain minimum capital and surplus levels, which could limit our operations and have a material adverse effect on our financial condition.

Kingsway Financial Services Inc. is a holding company with assets consisting primarily of the capital stock of its subsidiaries. Our operations are and will continue to be limited by the earnings of our subsidiaries and their ability to pay dividends to us. The payment of dividends is subject to various statutory and regulatory restrictions imposed by the insurance laws of the domiciliary jurisdiction, including Barbados and Bermuda, of each such subsidiary. In light of the Company's current financial situation resulting from losses recorded in recent years, none of our U.S. insurance subsidiaries is currently able to declare and pay a dividend to the holding company without prior regulatory approval. The Company expects these restrictions to continue. In the case of other subsidiaries not currently subject to these restrictions, these subsidiaries may be limited in their ability to make dividend payments or advance funds to Kingsway in the future because of the need to support their own capital levels. The inability of our subsidiaries to pay dividends to us could have a material adverse effect on our financial condition.

We have a significant amount of debt maturing in 2014.

As of June 30, 2013, we had \$26.4 million principal value of outstanding debt due February 1, 2014. The Company currently does not have the liquidity necessary to meet this obligation, and there can be no assurance that it will generate the liquidity necessary to meet its outstanding debt obligation due February 1, 2014.

We have substantial outstanding 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 June 30, 2013, we had \$132.4 million principal value of outstanding debt. Because of our substantial outstanding debt:

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

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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 debt and could adversely affect our results of operation.

\$90.5 million principal value of our outstanding debt 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 operation. As of June 30, 2013, each one percentage point increase in LIBOR would result in an approximately \$1.0 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 limit our ability, among other things, to borrow money, make particular types of investments or other restricted payments, sell assets, merge or consolidate, pay dividends or redeem Common Shares, and incur liens to secure debt. The covenants under our debt agreements could limit our ability to plan for or react to market conditions or to meet our capital needs. Our ability to comply with the covenants in these agreements may be affected by events beyond our control, and we may have to curtail some of our operations, restructuring and growth plans to maintain compliance. 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, we could be prohibited from accessing additional borrowings, 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.

We may not be able to realize our investment objectives, which could significantly reduce our net income.

We depend on income from our investments for a substantial portion of our earnings. A significant decline 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. We currently maintain and intend to continue to maintain investments primarily comprised of fixed maturities. As of June 30, 2013, the fair value of our investments included \$72.3 million of fixed maturities. Due to declines in the yields on fixed maturities, we face reinvestment risk as these investments mature because the funds may be reinvested at rates lower than those of the maturing investments.

Our ability to achieve our investment objectives is affected by general economic conditions that are beyond our control. 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 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. General economic conditions, stock market conditions

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and many other factors can also adversely affect the securities markets and, consequently, the value of the investments we own. We may not be able to realize our investment objectives, which could reduce our profitability significantly.

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. In particular, deterioration in the public debt markets could lead to investment losses and an erosion of capital in our insurance company subsidiaries as a result of a reduction in the fair value of investments.

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. We could also experience a reduction in capital in our insurance subsidiaries below levels required by the regulators in the jurisdictions in which they operate. 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 experienced extraordinary disruption and volatility during the last few years, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. Moreover, many companies are experiencing reduced liquidity and uncertainty as to their ability to raise capital. In the event that these conditions persist 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 Company'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, adequacy of unpaid loss and loss adjustment expenses and regulatory developments.

Kingsway has generated net operating loss carryforwards for U.S. income tax purposes, but its ability to use these net operating losses may be limited by the Company's inability to generate future taxable income.

The Company's U.S. businesses have generated net operating loss ("NOL") carryforwards for U.S. federal income tax purposes of approximately \$827.4 million as of March 31, 2013. These losses can be available to reduce income taxes that might otherwise be incurred on future U.S. taxable income. The utilization of these losses would have a positive effect on the Company's cash flow. The Company's operations, however, remain challenged, and there can be no assurance that the Company will generate the taxable income in the future necessary to utilize these losses and realize the positive cash flow benefit.

Kingsway has generated NOL carryforwards for U.S. income tax purposes, but its ability to preserve and use these NOLs may be limited or impaired by future ownership changes.

Our ability to utilize the NOL carryforwards is subject to the rules of Section 382 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”). Section 382 generally restricts the use of NOL carryforwards after an “ownership change.” 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 our Common Shares or are otherwise treated as five (5%) percent shareholders under Section 382 and the regulations promulgated thereunder increase their aggregate percentage ownership of our Common Shares by more than 50 percentage points over the

lowest percentage of the Common Shares owned by these shareholders over a three-year rolling period. In the event of an ownership change, Section 382 imposes an annual limitation on the amount of taxable income a corporation may offset with NOL carryforwards. This annual limitation is generally equal to the product of the value of our Common 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 IRS. Any unused Section 382 annual limitation may be carried over to later years until the applicable expiration date for the respective NOL carryforwards. In the event an ownership change as defined under Section 382 were to occur, the Company's ability to utilize its NOL carryforwards would become substantially limited. The consequence of this limitation would be the potential loss of a significant future cash flow benefit because the Company would no longer be able to substantially offset future taxable income with NOL carryforwards. There can be no assurance that such ownership change will not occur in the future.

The Tax Plan may inhibit potential acquisition bids.

The shareholders of the Company ratified and approved the Tax Plan, dated as of September 28, 2010, between the Company and Computershare Investor Services Inc., as rights agent, for the sole purpose of protecting the NOLs. The Tax Plan was designed to reduce the probability that the Company would experience an ownership change without the approval of the Board. While the Tax Plan was designed to protect the NOLs, it may also serve to inhibit potential acquisition bids which may otherwise be beneficial to our shareholders.

Expiration of the Company's Tax Plan may increase the probability that the Company will experience an ownership change as defined under Section 382.

The Tax Plan is scheduled to expire on September 28, 2013. There can be no assurance that the Board will recommend to the Company's shareholders that the Tax Plan or a similar tax benefit preservation plan be approved to replace the expiring Tax Plan; furthermore, there can be no assurance that the Company's shareholders would approve any new tax benefit preservation plan were the Board to present one for shareholder approval. The expiration of the Tax Plan, without a new tax benefit preservation plan, would expose the Company to certain changes in share ownership which the Company would not be able to prevent as it can under the Tax 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.

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 listed on the TSX and the NYSE and which owns several property and casualty insurance subsidiaries, we are subject to numerous laws and regulations. These laws and regulations delegate regulatory, supervisory and administrative powers to federal, provincial or state regulators.

Insurance regulations are generally designed to protect policyholders rather than shareholders and are related to matters including:

- rate-setting;
- risk-based capital and solvency standards;
- restrictions on the amount, type, nature, quality and quantity of investments;
- the maintenance of adequate provisions for unearned premiums and unpaid loss and loss adjustment expenses;
- restrictions on the types of terms that can be included in insurance policies;
- standards for accounting;

marketing practices;
claims-settlement practices;

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- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations;
- the licensing of insurers and their agents;
- limitations on dividends and transactions with affiliates;
- approval of certain reinsurance transactions; and
- insolvency proceedings.

In light of losses incurred in recent years, Kingsway and its regulated subsidiaries have been subject to intense review and supervision by insurance regulators. Regulators have taken significant steps to protect the policyholders of the companies we own. These steps have included:

- requesting additional capital contributions from Kingsway to its insurance subsidiaries; and
- requiring more frequent reporting, including with respect to capital and liquidity positions.

These and other actions have made it challenging for the Company to continue to maintain focus on the operation and development of its businesses. The Company does not expect these conditions to change in the foreseeable future.

In light of financial performance and a number of material transactions executed during the year, the Company 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 Company has cooperated in all respects with these reviews and has responded to information requests on a timely basis.

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, including the adoption of consumer initiatives regarding rates charged for automobile or other insurance coverage or claims-handling procedures, 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.

We are a defendant in a number of legal actions relating to our insurance and other business operations. We may from time to time be subject to a variety of legal and regulatory actions relating to our current and past business operations, including, but not limited to:

- disputes over coverage or claims adjudication;
- disputes regarding sales practices, disclosure, premium refunds, licensing, regulatory compliance and compensation arrangements;
- disputes with our agents, producers or network providers over compensation and termination of contracts and related claims;
- disputes with taxing authorities regarding our tax liabilities; and
- disputes relating to certain businesses acquired or disposed of by us.

In addition, plaintiffs continue to bring new types of legal actions against insurance and related companies. Current and future court decisions and legislative activity may increase our exposure to these types of claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant award or a judicial ruling that was otherwise

detrimental, could create a precedent in our industry that could have a material adverse effect on our results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult to obtain. We cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on our business.

We may be subject to governmental or administrative investigations and proceedings in the context of our highly regulated businesses. We cannot predict the outcome of these investigations, proceedings and reviews, and cannot assure that such investigations, proceedings or reviews or related litigation or changes in operating policies and practices would not materially adversely affect our results of operations and financial condition. In addition, if we were to experience difficulties with our relationship with a regulatory body in a given jurisdiction, it could have a material adverse effect on our ability to do business in that jurisdiction.

STRATEGIC RISK

The Company's achievement of its strategic objectives is highly dependent on effective change management.

The Company has continued to restructure its operating insurance subsidiaries, including exiting states and lines of business, placing subsidiaries into voluntary run-off and terminating managing general agent relationships, with the objective of focusing on core lines of business, creating a more effective and efficient operating structure and focusing on profitability. These actions resulted in changes to the Company's structure and business processes. While these changes are expected to bring benefits to the Company in the form of a more agile and focused business, success is dependent on management effectively realizing the intended benefits. Ineffective change management may result in disruptions to the operations of the business or may cause employees to act in a manner which is inconsistent with Company objectives. Any of these events could negatively impact the Company's performance. The Company may not always achieve the expected cost savings and other benefits of its initiatives.

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

The Company has divested a number of subsidiaries during the last few years and significantly reduced its written premium in the subsidiaries it continues to own. At the same time, the Company has been downsizing its holding company expense base in an attempt to compensate for the reduction in scale. There can be no assurance that the Company's remaining businesses will produce enough cash flow to adequately compensate and retain the staff necessary to continue the restructuring and to service the Company's other holding company obligations, particularly the interest expense burden of its remaining outstanding debt.

The insurance industry and related businesses in which we operate may be subject to periodic negative publicity which may negatively impact our financial results.

Our products and services are ultimately distributed to individual consumers. From time to time, consumer advocacy groups or the media may focus attention on insurance products and services, thereby subjecting our industry to periodic negative publicity. We also may be negatively impacted if participants in one or more of our markets engage in practices resulting in increased public attention to our businesses. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the property and casualty insurance industry as well as increased litigation. These factors may further increase our costs of doing business and adversely affect our profitability by impeding our ability to market our products and services, requiring us to change our products or services, or by increasing the regulatory burdens under which we operate.

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

The property and casualty markets in which we operate are highly competitive. We compete with major North American and other insurers, many of which have more financial, marketing and management resources than we do. There may also be other companies of which we are not aware that may be planning to enter the property and casualty

insurance industry. Insurers in our markets generally compete on the basis of price, consumer recognition, coverages offered, claims handling, financial stability, customer service and geographic coverage. Although our pricing is influenced to some degree by that of our competitors, we generally believe that it is not in our best interest to compete solely on price. As a result, we are willing to experience from time to time a loss of market share during periods of intense price

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competition. Our business could be adversely impacted by the loss of business to competitors offering competitive insurance products at lower prices. This competition could affect our ability to attract and retain profitable business.

In our non-standard automobile business, we compete with both large national underwriters and smaller regional companies. Our competitors include other companies that, like us, serve the independent agency market, as well as companies that sell insurance directly to customers. Direct underwriters may have certain competitive advantages over agency underwriters, including increased name recognition, loyalty of the customer base to the insurer rather than to an independent agency and reduced costs to acquire policies.

Additionally, in certain states, government-operated risk plans may provide non-standard automobile insurance products at lower prices than we provide.

From time to time, our markets may also attract competition from new entrants. In some cases, such entrants may, because of inexperience, the desire for new business or for other reasons, price their insurance below the rates that we believe offer acceptable premiums for the related risk. Further, a number of our competitors, including new entrants to our markets, are developing e-business capabilities which may impact the level of business transacted through our more traditional distribution channels or that may affect pricing in the market as a whole.

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. 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.

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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.

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.

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 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 incurred but not reported (“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.

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. In addition, we have in the past, and may in the future, acquire other insurance companies. We cannot assure that the provisions for unpaid loss and loss adjustment expenses of the companies that we acquire are or will be adequate.

In addition, government regulators for our insurance subsidiaries could require that we increase our provisions for unpaid loss and loss adjustment expenses if they determine that our provisions are understated. Such an increase to the provision for unpaid loss and loss adjustment expenses for one of our insurance subsidiaries could cause a reduction in its surplus as regards policyholders, which could adversely affect our ability to sell insurance policies.

Our insurance services 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 insurance services 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 which 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 independent agents can impact our ability to maintain business, and it exposes us to credit risk.

We market and distribute our automobile and homeowners insurance products through a network of independent agents in the United States. As a result, we rely heavily on these agents to attract new business. They typically represent more than one insurance company, which may expose us to competition within the agencies and, therefore, we cannot rely on their commitment to our insurance products. Loss of all or a substantial portion of the business provided by these intermediaries could have a material adverse effect on our business, results of operations and financial condition.

In accordance with industry practice, our customers sometimes pay the premiums for their policies to agents for remittance to us. These premiums are considered paid when received by the agents and thereafter the customer is no longer liable to us for those amounts, whether or not we have actually received the premiums from the agents. Consequently, we assume a degree of risk associated with our reliance on independent agents in connection with the settlement of insurance balances.

Our reliance on credit unions 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 which offer similar products exclusively through credit unions. Loss of all or a substantial portion of our existing credit union relationships could have a material adverse effect on our business, results of operations and financial condition.

The majority of our gross premiums written are derived from the non-standard automobile markets. If the demand for insurance in this market declines, our results of operations could be adversely affected.

For the year ended December 31, 2012 and for the six months ended June 30, 2013, approximately 88.8% and 91.7%, respectively, of our gross premiums written were attributable to non-standard automobile insurance. The size of the non-standard automobile insurance market can be affected significantly by many factors outside of our control, such as the underwriting capacity and underwriting criteria of standard automobile insurance carriers, and we may be specifically affected by these factors. Additionally, the non-standard automobile insurance market tends to contract

during periods of high unemployment as was experienced in the United States throughout 2011 and 2012. To the extent that the non-standard automobile insurance markets are affected adversely for any reason, our gross premiums written will be disproportionately affected due to our substantial reliance on these insurance markets.

We derive the majority of our non-standard automobile insurance gross premiums from a few geographic areas, which may cause our business to be affected by catastrophic losses or business conditions in these areas. We derive

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100% of our homeowners insurance premiums from Louisiana, which may cause our business to be affected by catastrophic losses or business conditions in Louisiana.

Certain jurisdictions, specifically Florida, Illinois, Texas, California, Nevada and Colorado, generated 84.6% and 83.9%, respectively, of our non-standard automobile insurance gross written premiums during 2012 and the first quarter of 2013. Louisiana generated 100% of our homeowners insurance premiums in 2012 and is expected to in 2013.

Our results of operations may, therefore, be adversely affected by any catastrophic losses in these areas. Catastrophic losses can be caused by a wide variety of events, including earthquakes, hurricanes, tropical storms, tornadoes, wind, ice storms, hail, fires, terrorism, riots and explosions, and their incidence and severity are inherently unpredictable. Catastrophic losses are characterized by low frequency but high severity due to aggregation of losses and could result in adverse effects on our results of operations or financial condition. Our results of operations may also be adversely affected by general economic conditions, competition, regulatory actions or other business conditions that affect losses or business conditions in the specific areas in which we do most of our business.

If reinsurance rates rise significantly or reinsurance becomes unavailable or reinsurers are unable to pay amounts due to us, we may be adversely affected.

We purchase reinsurance from third-parties in order to reduce our liability on individual risks. Reinsurance does not relieve us of our primary liability to our insureds. A third-party reinsurer's insolvency, inability or unwillingness to make payments under the terms of a reinsurance treaty could have a material adverse effect on our financial condition or results of operations. As of December 31, 2012 and June 30, 2013, we had \$8.6 million and \$15.1 million, respectively, recoverable from third-party reinsurers.

The amount and cost of reinsurance available to our insurance companies are subject, in large part, to prevailing market conditions beyond our control. Our ability to provide insurance at competitive premium rates and coverage limits on a continuing basis depends in part upon the extent to which we can obtain adequate reinsurance in amounts and at rates that will not adversely affect our competitive position. We cannot assure that we will be able to maintain our current reinsurance facilities, which generally are subject to annual renewal. If we are unable to renew any of these facilities upon their expiration or to obtain other reinsurance facilities in adequate amounts and at favorable rates, we may need to modify our underwriting practices or reduce our underwriting commitments.

Our start-up homeowners business is heavily dependent on the availability and proper structuring of reinsurance.

As a start-up company with a relatively small capital base, our homeowners insurance business relies significantly on the availability of reinsurance at economic reasonable terms. If we are unable to secure the reinsurance necessary to execute our business plan, or reinsurance is only available to us at unattractive terms, we could suffer a material adverse effect on our business or results of operations. Further, if we inadequately structure our reinsurance, our exposure to severe catastrophes could lead to a material adverse effect on our 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 underwrite and set premium rates accurately for a wide variety of risks. Adequate rates are necessary to generate premiums sufficient to pay loss and loss adjustment expenses and other 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 underwriting results, or we could overprice risks, which could reduce our sales volume and competitiveness. In either case, our results of operation could be materially and adversely affected.

Our results of operation may fluctuate as a result of cyclical changes in the property and casualty insurance industry.

Our results of operation are primarily attributable to the property and casualty insurance industry, which as an industry is cyclical in nature and has historically been characterized by soft markets followed by hard markets. A soft market is a period of relatively high levels of price competition, less restrictive underwriting standards and generally low premium rates. A hard market is a period of capital shortages resulting in lack of insurance availability, relatively low levels of competition, more selective underwriting of risks and relatively high premium rates. If we find it necessary to reduce premiums or limit premium increases due to competitive pressures on pricing in a softening market, we may experience a reduction in our premiums written and, therefore, in our earned premium revenues, which could adversely affect our results of operation.

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

The Company currently has two of its insurance subsidiaries, UCC and Amigo, operating in voluntary run-off. Our success at managing these run-offs 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 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 securities, collection of reinsurance recoverables and, potentially, capital contributions, to properly settle claims. In particular in the case of the Amigo run-off, the carrying value of its home office building is significantly in excess of its surplus as regards policyholders. Our inability to sell securities when needed; to collect outstanding reinsurance recoverables when due; or, in the case of Amigo, to sell the building at all or to avoid a material loss upon the sale of the building, 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.

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Our success at improving the Company's 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.

RISKS RELATED TO THIS OFFERING

The price of our Common Shares may be volatile as a result of this Rights Offering.

The offering price, the number of securities we propose to issue, and the number of securities actually issued if we complete the Rights Offering, may result in an immediate decrease in the market value of our Common Shares. This decrease may continue after the completion of the Rights Offering. If that occurs, you may have committed to buy Common Shares in the Rights Offering at a price greater than the prevailing market price and could have an immediate unrealized loss. Moreover, we cannot assure you that, following the exercise of your Subscription Rights, you will be able to sell your Common Shares at a price equal to or greater than the subscription price, and you may lose all or part of your investment in our Common Shares. Any decrease in the price of our Common Shares as a result of the Rights Offering may continue after the completion of the Rights Offering. In addition, the Company received notice on June 7, 2013 from the NYSE that it is not in compliance with certain NYSE standards for continued listing of its Common Shares. Specifically, Kingsway is below the NYSE's continued listing criteria because its average total market capitalization over a recent 30 consecutive trading day period was less than \$50 million at the same time that reported shareholders' equity was less than \$50 million. Under the NYSE's continued listing criteria, a NYSE listed company must maintain average market capitalization of not less than \$50 million over a 30 consecutive trading day period or reported shareholders' equity of not less than \$50 million. The Company submitted a business plan to the NYSE on July 17, 2013, intended to demonstrate its ability to achieve compliance with the listing standards within 18 months of receiving the notice, and remains engaged in discussions with the NYSE regarding such business plan. During such 18-month period, the Common Shares will continue to be listed and traded on the NYSE, subject to compliance with other NYSE continued listing standards; however, the consolidated tape now includes a ".BC" indicator, which will be removed at such time as the Company is deemed compliant with the NYSE's continued listing standards. Kingsway intends to address the issue through the successful completion of the Rights Offering. The notice from the NYSE does not impact the Company's listing on the TSX, and its Common Shares will continue to be listed and traded on the TSX, subject to compliance with TSX continued listing standards. There can be no assurance that the Company will regain compliance with NYSE listing standards.

If you exercise your Subscription Rights, you commit to purchasing Common Shares and Warrants at the designated subscription price and you may not revoke the exercise of your Subscription Rights even if the public trading market price of the Common Shares and/or the Warrants decreases below the prices you believe may be indicated by the subscription price.

Your exercise of Subscription Rights is irrevocable. If you exercise your Subscription Rights and, afterwards, the public trading market prices of the Common Shares and/or the Warrants decrease below the prices you believe may be indicated by the subscription, you will have committed to buying Common Shares and Warrants at a price above the prevailing market price and could have an immediate unrealized loss.

The subscription price determined for the Rights Offering is not necessarily an indication of the fair value of our Common Shares, the Subscription Rights, or our Warrants.

The subscription price was set by our Board at \$4.00 per Unit. Our Board considered a number of factors in establishing the subscription price, including the price at which our shareholders might be willing to participate in the Rights Offering; the amount of proceeds desired to achieve our financing goals; potential market conditions; historic

and current trading prices for our Common Shares; the terms of the Warrants; the implication of the composition of the Units and the terms of the underlying securities on our ability to realize the full benefits of our net operating losses and related tax benefits; and the desire to provide an opportunity to our shareholders to participate in the Rights Offering on a pro rata basis.

The per Unit subscription price is not necessarily related to our book value, tangible book value, multiple of earnings or any other established criteria of fair value and may or may not be considered the fair value of the securities underlying the Units to be offered in the Rights Offering. The Rights Offering and other factors may cause the market price of our Common Shares to decline after the Rights Offering and you may not be able to sell our Common Shares at a price equal to or higher than the current market price of our Common Shares or at a price you believe may be indicated by the price per Unit, if at all. You should not consider the subscription price to be an indication of our value or any assurance of future value. Prior to the issuance of our Warrants, there has been no market for these securities, and you may not be able to sell the Warrants at a price you believe may be indicated by the price per Unit, if at all. Furthermore, the market price of our Common Shares or Warrants may decline after the Rights Offering. We urge you to make your own assessment of our business and financial condition, our prospects for the future, and the terms of the Rights Offering.

There may not be a trading market for our Warrants and we cannot provide you any assurances as to the liquidity of the trading market for the Subscription Rights.

Although we intend to request for the trading of the Warrants on the OTC, both series of our Warrants will be new issues of securities with no prior trading history, and we cannot provide you any assurances as to the liquidity of the trading market for the Warrants or that such a market will develop. There is currently no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants.

The Subscription Rights have been cleared for an unpriced quotation on the OTC Bulletin Board by FINRA. Trading in the Subscription Rights will cease at 12:00 p.m. (Eastern time) on September 6, 2013. We cannot provide you any assurances as to the liquidity of the trading market for the Subscription Rights and purchasers may not be able to resell the Subscription Rights. Unless indicated otherwise, the Subscription Rights are transferable until 5:00 p.m., Eastern time on September 6, 2013, at which time they will expire, and, therefore, will be no longer transferable, unless the Rights Offering is extended. Any Subscription Rights not exercised by the expiration date will expire without any payment to the holders of those unexercised Subscription Rights.

Additionally, we cannot assure that any applications for quotation of the Warrants on the OTC will be accepted. We are not responsible if you elect to sell your Warrants and no public or private market exists to facilitate the purchase of Warrants.

Securities traded on the OTC are usually thinly traded, highly volatile, have fewer market makers and are not followed by analysts. Therefore, prices for securities traded solely on the OTC may be difficult to obtain and holders of our securities may be unable to resell their securities at or near their original acquisition price, or at any price. If either or both of the Series A Warrants and Series B Warrants are not quoted on the OTC, you may not be able to sell those securities.

In addition, following the closing of the Rights Offering, the Warrants may not be immediately tradable until the OTC makes a decision with respect to the listing applications in respect of the Warrants. As a result, even if the quotation application with respect to each of the Series A Warrants and Series B Warrants is successful, the Warrants may not be immediately tradable on the OTC following the closing of the Rights Offering.

If you do not exercise your basic subscription privilege or if you do exercise your Subscription Rights, but do not exercise the Warrants issued to you in the Rights Offering, your percentage ownership in Kingsway may be diluted as a result of Warrants being exercised or future stock offerings.

Assuming all Subscription Rights issued in the Rights Offering are exercised and all Warrants issued in the Rights Offering are exercised, we will issue approximately 9,861,726 new Common Shares. If you choose not to exercise

your basic subscription privilege in full prior to the expiration of the Rights Offering, your ownership interest in Kingsway will be diluted by other shareholders' purchases, and/or if you do not exercise all of the Warrants issued to you in the Rights Offering, your relative ownership interest in our Company will be further diluted. See "Dilution" for a more detailed discussion of certain dilutive effects of the Rights Offering on our shareholders. Holders of our Common Shares are not entitled to preemptive rights or other protections against dilution. In the future, we may

attempt to increase our capital resources by making additional offerings of equity securities, including classes or series of preferred stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any future offering. Thus, our shareholders bear the risk of our future offerings.

You will not be able to sell the securities underlying the Units you buy in the Rights Offering until you receive your certificates and/or DRS statements or your account is credited with the Common Shares and Warrants.

If you timely submit a Subscription Rights certificate and payment, the subscription agent will mail you certificates and/or DRS statements as soon as practicable after the closing of the Rights Offering, including the guaranteed delivery period. If your Common Shares are held by a broker, dealer, custodian bank or other nominee and you exercise your Subscription Rights, your account with your nominee will instead be credited with the Common Shares and the Warrants underlying the Units you purchased in the Rights Offering as soon as practicable after the expiration of the Rights Offering, or such later date as to which the Rights Offering may be extended. Until your certificates and/or DRS statements have been delivered or your account is credited, you may not be able to sell your securities even though application will be made to list the Common Shares issued upon exercise of the Subscription Rights for trading on a securities exchange, and application may be made to list the Subscription Rights and the Warrants on a securities exchange. However, we cannot assure you that the market price of our Common Shares and Warrants purchased pursuant to the exercise of Subscription Rights will not decline, including in the case of our Common Shares, below the subscription price before we are able to deliver your certificates and/or DRS statements or before your account is credited, as applicable.

If you do not act promptly and follow the subscription instructions, we will reject your exercise of Subscription Rights.

If you desire to exercise your Subscription Rights in the Rights Offering, you must act promptly to ensure that the subscription agent actually receives all required forms and that all payments clear before the expiration of the Rights Offering at 5:00 p.m., Eastern time, on September 6, 2013, unless such date is extended by us. If you cannot deliver your Subscription Rights certificate to the subscription agent prior to the expiration of the Rights Offering period, you may follow the guaranteed delivery procedures described under “The Rights Offering-Guaranteed Delivery Procedures.” If you are a beneficial owner of Common Shares, you must act promptly to ensure that your broker, dealer, custodian bank, or other nominee acts for you and that all required forms and payments are actually received by the subscription agent before the expiration of the Rights Offering. We are not responsible if your nominee fails to ensure that the subscription agent receives all required forms and payments before the expiration of the Rights Offering. We are also not responsible if you fail to complete and sign the required subscription forms, send an incorrect payment amount, or otherwise fail to follow the subscription procedures that apply to your exercise of your Subscription Rights prior to the expiration of the Rights Offering. Neither we nor the subscription agent undertake any action to contact you concerning an incomplete or incorrect subscription form or payment, nor are we under any obligation to correct such forms or payment. We have the sole discretion to determine whether a subscription exercise properly complies with the subscription procedures.

You may not receive all of the Units for which you subscribe pursuant to the over-subscription privilege.

If any holders of Subscription Rights (including holders who acquired Subscription Rights by purchasing Subscription Rights from others) do not exercise their basic subscription privilege in full, then holders of Subscription Rights who have exercised their basic subscription privilege in full (including in respect of Subscription Rights purchased from others) will be entitled to exercise an over-subscription privilege, subject to certain limitations and subject to allotment, to purchase a portion of the number of Units, if any, that are not purchased by our other shareholders or their transferees through the exercise of their basic subscription privilege at the same subscription price of \$4.00 per

Unit. The maximum number of Units that a holder may purchase through the over-subscription privilege is five Units for each Unit that a holder purchases through the basic subscription privilege. If over-subscription requests exceed the number of Units available, we will allocate the available Units pro rata based on the total number of Units you request pursuant to the over-subscription privilege in proportion to the total number of over-subscription requests from all holders as of the expiration date of the Rights Offering. You may not receive any or all of the number of Units for which you over-

subscribed. If the pro-rated number of Units allocated to you in connection with your over-subscription privilege is less than your over-subscription request, then the excess funds held by us on your behalf will be returned to you, without interest or penalty, as soon as practicable after the Rights Offering has expired and all prorating calculations and reductions contemplated by the terms of the Rights Offering have been effected, and we will have no further obligations to you. You have to exercise your basic subscription privilege in full in order to exercise your over-subscription privilege. Because Units available pursuant to the over-subscription privilege, if any, will be allocated based on the number of Subscription Rights exercised, your ability to subscribe for Units pursuant to the over-subscription privilege will be maximized if you exercise your basic subscription privilege in full and by purchasing Subscription Rights from other holders and exercising those Subscription Rights.

Because we do not have a backstop or any other binding commitments from any of our shareholders to participate in the Rights Offering, the net proceeds we receive from the Rights Offering may be lower than currently anticipated.

There will be no backstop or other guarantee to the Rights Offering, and we do not have any binding commitments from any of our shareholders to participate in the Rights Offering. Therefore, we cannot assure you that any of our shareholders will exercise all or any part of their basic subscription privilege or their over-subscription privilege. If our holders subscribe for fewer Units than anticipated, the net proceeds we receive from the Rights Offering could be significantly reduced. If the Rights Offering is not fully subscribed and we do not raise the desired amount of capital in this Rights Offering, we may need to raise additional capital in the future.

Our Tax Plan may require certain holders of Subscription Rights to seek approval from our Board to exercise some of their Subscription Rights.

The shareholders of Kingsway Financial Services Inc. ratified and approved the Tax Plan, dated as of September 28, 2010, between the Company and Computershare Investor Services Inc., as rights agent, for the sole purpose of protecting the NOLs. The Tax Plan was designed to reduce the probability that the Company would experience an ownership change without the approval of the Board. Under the Tax Plan, upon (i) any person becoming an owner of 5% or more of the outstanding Common Shares of Kingsway Financial Services Inc. or (ii) an existing greater than 5% shareholder acquiring additional Common Shares (each of the persons described in clauses (i) and (ii), a “5% Shareholder”), without express approval of the Board, the Company will issue rights to purchase additional Common Shares to shareholders of the Company holding Common Shares as of the closing of such transaction (other than such 5% Shareholder), potentially resulting in dilution to such 5% Shareholder. If the total of your current beneficially owned Common Shares and the Common Shares you expect to receive by exercising the Subscription Rights (including Common Shares received by exercising Subscription Rights acquired by purchasing Subscription Rights from others) is greater than 650,000 beneficially owned Common Shares, you may need to request an exemption from the Board as described above and in the Tax Plan and the subscription materials provided to you to avoid such dilution. The Board reserves the right to review and approve the exemption requests up to three business days after the close of the Rights Offering period. There can be no assurance the Board will provide such approval.

The expiration of the Tax Plan may increase the probability that the Company will experience an ownership change as defined under Section 382.

The Tax Plan is scheduled to expire on September 28, 2013. There can be no assurance that the Board will seek regulatory authority and shareholder approval for a similar tax benefit preservation plan to replace the expiring Tax Plan; furthermore, there can be no assurance that the Company's shareholders would approve any new tax benefit preservation plan were the Board to present one for shareholder approval. The expiration of the Tax Plan, without a new tax benefit preservation plan, would expose Kingsway Financial Services Inc. to certain changes in share ownership which the Company would not be able to discourage as it can under the Tax Plan. Such changes in share ownership could trigger an ownership change as defined under Section 382.

If the Company successfully closes the Rights Offering, the Company will experience a significant increase in the number of outstanding Common Shares; furthermore, if the Warrants which would be issued as part of the Rights Offering eventually were to be exercised, the Company would experience an even greater increase in the number of outstanding Common Shares. The potential increase in the Company's outstanding Common Shares, in conjunction

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with the expiration of the Tax Plan without a new tax benefit preservation plan, could further increase the likelihood of certain changes in share ownership which the Company would not be able to prevent as it can under the Tax Plan. Such changes in share ownership could trigger an ownership change as defined under Section 382.

If the Company were to implement a new tax benefit preservation plan to replace the expiring Tax Plan, it could inhibit the ability of Warrant holders to exercise their Warrants in the future.

The Tax Plan is scheduled to expire on September 28, 2013. There can be no assurance that the Board will not seek regulatory authority and shareholder approval for a similar tax benefit preservation plan to replace the expiring Tax Plan. Because such a plan, as is the case with the Tax Plan, would be intended to minimize the chances of an ownership change under Section 382 of the Code, the Warrant holder may need to request an exemption from the Board prior to exercising the Warrants in order to avoid dilution. There can be no assurance that such an exemption, if required, would be forthcoming. See "Questions And Answers Relating To The Rights Offering."

There is no obligation for our directors or executive officers to subscribe for any Units in the Rights Offering.

None of our directors and none of our executive officers have an obligation to subscribe for any Units in the Rights Offering.

We are required by the terms of the Warrants to use our reasonable best efforts to maintain an effective registration statement covering the issuance of the Common Shares underlying the Warrants and to maintain the listing of the Common Shares underlying the Warrants, in each case, at the time that our Warrant holders exercise their Warrants. The exercise of our Warrants may also be limited by state securities laws. We cannot guarantee that a registration statement will be effective, in which case our Warrant holders may not be able to exercise their Warrants.

Holders of our Warrants will be able to exercise the Warrants only if a registration statement under the Securities Act relating to the Common Shares underlying the Warrants is then effective. We have a contractual obligation to use our reasonable best efforts to maintain an effective registration statement covering the issuance of the Common Shares underlying the Warrants and to maintain the listing of the Common Shares underlying the Warrants, in each case, at the time that our Warrant holders exercise their Warrants, and we intend to, but may not be able to, comply with our undertaking. Subject to redemption by the Company of the Series A Warrants, our Warrants expire if they are not exercised in connection with a capital reorganization, reclassification of our securities, consolidation, amalgamation or merger of the Company with another entity resulting in a change of 50% the voting power of the Company, a sale, transfer or other disposition of all or substantially all of our assets or a similar transaction requiring shareholder approval, even if a registration statement covering the Common Shares underlying the Warrants is not effective at such time. The value of the Warrants may be greatly reduced if a registration statement covering the Common Shares issuable upon the exercise of the Warrants is not kept current.

Because the Warrants will not be listed on a securities exchange, U.S. holders of Warrants who reside in jurisdictions in which there is no exemption applicable to the exercise of the Warrants will be unable to exercise their Warrants and will either have to sell their Warrants in the open market or allow them to expire unexercised.

Because the Warrants will not be listed on a securities exchange, U.S. holders of Warrants who reside in jurisdictions in which there is no exemption applicable to exercise of the Warrants will be unable to exercise their Warrants and will either have to sell their Warrants in the open market or allow them to expire unexercised. Furthermore, state securities laws may restrict the transfer of our Warrants to residents of such states.

You will not receive interest on subscription funds, including any funds ultimately returned to you.

You will not earn any interest on your subscription funds while they are being held by the subscription agent pending the closing of this Rights Offering. In addition, if we cancel the Rights Offering, or if you exercise your oversubscription privilege and are not allocated all of the Units for which you over-subscribed, neither we nor the subscription agent will have any obligation with respect to the Subscription Rights except to return, without interest, any subscription payments to you.

Completion of the Rights Offering is not subject to us raising a minimum offering amount.

Completion of the Rights Offering is not subject to us raising a minimum offering amount and therefore proceeds may be insufficient to meet our objectives, thereby increasing the risk to investors in the Rights Offering, including investing in a company that continues to require capital.

If we terminate the Rights Offering for any reason, we will have no obligation other than to return subscription monies as soon as practicable.

We may decide, in our sole discretion and for any reason, to cancel or terminate the Rights Offering at any time prior to the expiration of the Rights Offering. If the Rights Offering is cancelled or terminated, we will have no obligation with respect to Subscription Rights that have been exercised except to return as soon as practicable, without interest, the subscription payments deposited with the subscription agent. If we terminate this offering and you have not exercised any Subscription Rights, such Subscription Rights will expire worthless.

Since the Warrants are executory contracts, they may have no value in a bankruptcy or reorganization proceeding.

In the event a bankruptcy or reorganization proceeding is commenced by or against us, a bankruptcy court may hold that any unexercised Warrants are executory contracts that are subject to rejection by us with the approval of the bankruptcy court. As a result, holders of the Warrants may, even if we have sufficient funds, not be entitled to receive any consideration for their Warrants or may receive an amount less than they would be entitled to if they had exercised their Warrants prior to the commencement of any such bankruptcy or reorganization proceeding.

USE OF PROCEEDS

If the Rights Offering is fully subscribed, we expect to receive net proceeds from the Rights Offering of approximately \$12.5 million, after deducting fees and expenses. We intend to use the proceeds to repay a portion of the Notes, which mature February 1, 2014 and carry an annual interest rate of 7.5%. Taking into account the expected net proceeds to be raised from the Rights Offering along with our current cash resources, as of the closing of the Rights Offering we would not have the liquidity necessary to satisfy completely the repayment obligation of the Notes. We intend to generate the remaining proceeds needed to repay the Notes by raising additional capital or selling assets.

The majority of the Company's cash and cash equivalents are held by its operating insurance company subsidiaries. The Company's insurance subsidiaries require regulatory approval for the return of capital and, in certain circumstances, prior to the payment of dividends. As disclosed in the Company's most recently filed Form 10-K starting on page 43, at December 31, 2012, with the exception of Maison Insurance Company, the U.S. insurance subsidiaries of the Company were restricted from making any dividend payments without regulatory approval pursuant to the domiciliary state insurance regulations. As such, due to these state insurance regulations, the Company is prevented from receiving dividends from its operating subsidiaries and using cash and cash equivalents to pay a portion of the balance of the Notes (excluding the proceeds received from the sale of Atlas common stock as described below).

We intend to generate the remaining proceeds needed to repay the Notes by using a portion of the approximately \$13.6 million in proceeds generated from the sale of Atlas common stock in the first quarter of 2013, raising additional capital, and by using a portion of the \$16.2 million in proceeds expected to be generated from the August 1, 2013 sale of Company's \$18 million worth of the Company's Atlas preferred stock for 90% of its per share liquidation value. The Company is in the process of assessing what portion of the Atlas common stock and preferred stock sale proceeds that it can make available for the repayment of the Notes, taking into account working capital requirements and interest expense on other outstanding debt instruments. The Company and its subsidiaries also continue to own 1,262,471 restricted voting common shares of Atlas, which may also be sold to generate additional liquidity.

If we are unable to raise sufficient funds in this Rights Offering or in an alternative financing on acceptable terms, if at all, we may need to implement additional cost reduction measures and explore other sources to fund our longer term business needs and repay our Notes. Our failure to do so could result, among other things, in a cross default under our debt covenants, increased regulatory demands, loss of our customers and a loss of your entire investment. Our operating performance may also be affected by risks and uncertainties, which may affect our short and long-term liquidity. For further information on these risks and uncertainties, please see our risk factor regarding liquidity in the section titled "Risk Factors - Financial Risk."

DETERMINATION OF SUBSCRIPTION PRICE

In determining the subscription price, the composition of the Unit, and the terms of the Common Shares and Warrants, our Board, based on the recommendation by management and other information available to them, considered a number of factors, including, without limitation:

- the price at which our shareholders might be willing to participate in the Rights Offering;
- the amount of proceeds desired to achieve our financing goals;
- potential market conditions;
- historic and current trading prices for our Common Shares;
- the terms of the Warrants;
- the implication of the composition of the Units and the terms of the underlying securities on our ability to realize the full benefits of our net operating losses and related tax benefits; and
- the desire to provide an opportunity to our shareholders to participate in the Rights Offering on a pro rata basis.

Based on these considerations, the subscription price for each Unit is \$4.00 and each Unit is comprised of one Common Share, one Series A Warrant and one Series B Warrant. The volume weighted average price on the TSX and the NYSE for the twenty trading days ending on August 7, 2013 was C\$3.92 and \$3.80 per Common Share, respectively. Based upon such volume weighted average price on the NYSE, and relying upon the advice that the Company has received from its financial advisors, the Company believes that the aggregate fair value of one Series A Warrant and one Series B Warrant, taken together, is at least \$0.20 (being at least C\$0.21) as of August 7, 2013. The \$4.00 per Unit price is not necessarily related to or reflective of our book value, net worth or any other established criteria of fair value, and may or may not be considered the fair value of the Units to be offered in the Rights Offering.

The price per Unit in the Rights Offering may not be indicative of the market value of the Subscription Rights, the Common Shares or the Warrants. This Rights Offering and other factors may cause the market price of our Common Shares to decline after the Rights Offering and you may not be able to sell our Common Shares at a price equal to or higher than the current market price of our Common Shares or at a price you believe may be indicated by the price per Unit, if at all. Our Warrants and the Subscription Rights will each be a new issue of securities with no prior trading market, and we cannot provide you any assurances as to the liquidity of the trading market for the Warrants or the Subscription Rights issued in the Rights Offering or, with respect to the Warrants, that such a market will develop. We urge you to make your own assessment of our business and financial condition, our prospects for the future, and the terms of this Rights Offering. The Subscription Rights have been cleared for an unpriced quotation on the OTC Bulletin Board by FINRA. Trading in the Subscription Rights will cease at 12:00 p.m. (Eastern time) on September 6, 2013. We cannot provide you any assurances as to the liquidity of the trading market for the Subscription Rights and purchasers may not be able to resell the Subscription Rights. Additionally, we intend to request that the Warrants trade on the OTC. The OTC is an inter-dealer, over-the-counter market that provides significantly less liquidity than the TSX, the NYSE and the NYSE MKT. Securities traded on the OTC are usually thinly traded, highly volatile, have fewer market makers and are not followed by analysts. Therefore, prices for securities traded solely on the OTC may be difficult to obtain and holders of our securities may be unable to resell their securities at or near their original acquisition price, or at any price. If the Warrants are not listed on a securities exchange or quoted on the OTC, you may not be able to sell those securities. The TSX has also conditionally approved the listing of the Warrants on the TSX. Listing of the Warrants on the TSX is subject to the Company fulfilling all of the listing requirements of the TSX, including distribution of the Warrants to a minimum number of public security holders.

THE RIGHTS OFFERING

Background of the Rights Offering

We have chosen to raise up to \$12.5 million, after deducting fees and expenses, in new capital through a Rights Offering to allow our existing shareholders to purchase one Unit at the subscription price of \$4.00 per Unit, consisting of one Common Share, one Series A Warrant and one Series B Warrant. The exercise price per Common Share of one Series A Warrant is the greater of \$4.50 and 120% of the VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. The Company may redeem the Series A Warrants at a price of \$0.25 per Warrant if, and only if, the closing price of the Common Shares equals or exceeds \$6.00 per Common Share for twenty consecutive trading days on the NYSE or such other market or exchange as the Common Shares of the Company trade or are quoted at the time of redemption; but in any event no earlier than the first anniversary of the date of issuance. The exercise price per Common Share of one Series B Warrant is the greater of \$5.00 and 120% of VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. The Series A Warrants are redeemable by the Company and have a seven-year term from their date of issuance, while the Series B Warrants are non-redeemable and have a ten-year term from their date of issuance. This structure allows us to raise capital without subjecting us to burdensome restrictive covenants and other negative consequences associated with incurring high yield additional debt. There can be no assurance that the Rights Offering will be successful.

We are distributing Subscription Rights to holders of our Common Shares, at no charge, at the rate of one Subscription Right for each Common Share owned as of August 9, 2013. Four Subscription Rights are required to purchase one Unit at the subscription price of \$4.00 per Unit, subject to delivery of the required documents and payment of the subscription price before the Rights Offering expires. Upon the closing of the Rights Offering, the Units will immediately separate into the Common Shares and the Warrants and will trade separately. The Units are not themselves tradable, nor will they be listed on any stock exchange.

If the Rights Offering is fully subscribed, we expect to receive net proceeds from the Rights Offering of approximately \$12.5 million, after deducting fees and expenses. We intend to use the proceeds to repay a portion of the Notes, which mature February 1, 2014 and carry an annual interest rate of 7.5%. Taking into account the expected net proceeds to be raised from the Rights Offering along with our current cash resources, as of the closing of the Rights Offering we would not have the liquidity necessary to satisfy completely the repayment obligation of the Notes. We intend to generate the remaining proceeds needed to repay the Notes by raising additional capital or selling assets. For additional information, please refer to "Use of Proceeds."

If we are unable to raise sufficient funds in the Rights Offering or in an alternative financing on acceptable terms, if at all, we may need to implement additional cost reduction measures and explore other sources to fund our longer term business needs and repay our Notes. Our failure to do so could result, among other things, in a cross default under our debt covenants, increased regulatory demands, loss of our customers and a loss of your entire investment. Our operating performance may also be affected by risks and uncertainties, which may affect our short and long-term liquidity. For further information on these risks and uncertainties, please see "Risk Factors."

Basic Subscription Privilege

Four Subscription Rights entitle you to purchase one Unit at the subscription price of \$4.00 per Unit, subject to delivery of the required documents and payment of the subscription price before the Rights Offering expires. Each Unit consists of one Common Share, one Series A Warrant and one Series B Warrant. The exercise price per Common Share of each Series A Warrant is the greater of \$4.50 and 120% of the VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. Each Series A Warrant is redeemable

by the Company and has a term of seven-years from its date of issuance. The Company may redeem the Series A Warrants at a price of \$0.25 per Warrant if, and only if, the closing price of the Common Shares equals or exceeds \$6.00 per Common Share for twenty consecutive trading days on the NYSE or such other market or exchange as the Common Shares of the Company trade or are quoted at the time of redemption; but in any event no earlier than the first anniversary of the date of issuance. The exercise price per Common Share of each Series B Warrant is the greater of \$5.00 and

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120% of VWAP over the twenty trading day period on the NYSE ending on such trading day prior to the issuance date of the warrant. Each Series B Warrant is non-redeemable and has a term of ten-years from its date of issuance. Subject to applicable securities laws, (i) the Series A Warrants may be exercised at any time starting on the first day of the thirty-seventh month after the date of issuance until any time before 5:00 p.m. (Eastern time) on or before the seventh anniversary after the date of issuance and (ii) the Series B Warrants may be exercised at any time starting on the first day of the thirty-seventh month after the date of issuance until any time before 5:00 p.m. (Eastern time) on or before the tenth anniversary after the date of issuance.

You may exercise all or a portion of your basic subscription privilege or you may choose not to exercise any basic subscription privilege at all. In addition, you may purchase Subscription Rights from others and exercise all or a portion of those Subscription Rights or you may seek to sell all or a portion of your Subscription Rights. The Common Shares to be issued in connection with the Rights Offering have been approved by the NYSE for listing, subject to official notice. The Subscription Rights have been cleared for an unpriced quotation on the OTC Bulletin Board by FINRA, and we intend to request that the Warrants trade on the OTC, however, we cannot provide you any assurances as to the liquidity of the trading market for the Subscription Rights or the Warrants. The Subscription Rights will cease trading on the OTC at 12:00 p.m.(Eastern time) on September 6, 2013. The TSX has also conditionally approved the listing of the Warrants on the TSX. Listing of the Warrants on the TSX is subject to the Company fulfilling all of the listing requirements of the TSX, including distribution of the Warrants to a minimum number of public security holders. There is currently no market through which the Warrants may be sold and purchasers may not be able to resell the Warrants.

We will not issue or pay cash in place of fractional Units. Instead, we will round down any Units to the nearest whole Unit.

Over-subscription Privilege

If any holders of Subscription Rights (including holders who acquired Subscription Rights by purchasing Subscription Rights from others) do not exercise their basic subscription privilege in full, then holders of Subscription Rights who have exercised their basic subscription privilege in full (including in respect of Subscription Rights purchased from others) will be entitled to exercise an over-subscription privilege, subject to certain limitations and subject to allotment, to purchase a portion of the number of Units, if any, that are not purchased by our other shareholders or their transferees through the exercise of their basic subscription privilege at the same subscription price of \$4.00 per Unit. The maximum number of Units that a holder may purchase through the over-subscription privilege is five Units for each Unit that a holder purchases through the basic subscription privilege. The possibility of fractional Units resulting from the exercise of the over-subscription privilege will be eliminated by rounding down to the nearest whole Unit, with the total subscription payment being adjusted accordingly. Any excess subscription payments received by the subscription agent will be returned as soon as practicable, without interest or penalty, following the expiration of the Rights Offering. You have to exercise your basic subscription privilege in full in order to exercise your over-subscription privilege. You should indicate on your Subscription Rights certificate, or the form provided by your nominee, how many additional Units you would like to purchase pursuant to your over-subscription privilege. The maximum number of Units that can be purchased through the over-subscription privilege is five Units for each Unit that investors could purchase through the basic subscription privilege.

If sufficient Units are available, we will seek to honor your over-subscription request in full. If, however, over-subscription requests exceed the number of Units available, we will allocate the available Units pro rata based on the total number of Units you request pursuant to the over-subscription privilege in proportion to the total number of over-subscription requests from all holders as of the expiration date of the Rights Offering. Fractional Units resulting from the exercise of the over-subscription privilege will be eliminated by rounding down to the nearest whole Unit.

In order to properly exercise your over-subscription privilege, you must deliver the subscription payment related to your over-subscription privilege prior to the expiration of the Rights Offering. Because we will not know the total number of available Units prior to the expiration of the Rights Offering, if you wish to maximize the number of Units you purchase pursuant to your over-subscription privilege, you will need to deliver payment in an amount equal to the aggregate subscription price for the maximum number of Units that may be available to you (i.e., for the maximum

number of Units available to you, assuming you exercise all of your basic subscription privilege in full and are allotted the full amount of your over-subscription request).

We can provide no assurances that you will actually be entitled to exercise your over-subscription privilege in full at the expiration of the Rights Offering. We will not be able to satisfy any orders for Units pursuant to the over-subscription privilege if all of our shareholders exercise their basic subscription privilege in full, and we will only honor an over-subscription privilege to the extent sufficient Units are available following the exercise of Subscription Rights pursuant to the basic subscription privileges.

To the extent the aggregate subscription price of the actual number of unsubscribed Units available to you pursuant to the over-subscription privilege is less than the amount you actually paid in connection with your exercise of the over-subscription privilege, you will be allocated only the number of unsubscribed Units available to you, and any excess subscription payments will be returned to you by the subscription agent, without interest or penalty, as soon as practicable after expiration of the Rights Offering.

To the extent that the amount you actually paid in connection with the exercise of the over-subscription privilege is less than the aggregate subscription price of the actual number of unsubscribed Units available to you pursuant to the over-subscription privilege, you will be allocated the number of unsubscribed Units for which you actually paid in connection with the over-subscription privilege and subject to the elimination of any fractional Units.

We will return to you any excess subscription payments, without interest or penalty, as soon as practicable after the over-subscription allocation is final.

Purchase Restrictions Including Restrictions Resulting from the Tax Plan

You may only purchase the number of whole Units, purchasable upon exercise of the basic subscription privilege, or purchased by you as a result of buying Subscription Rights, plus the maximum amount of over-subscription privilege Units available to you, if any. Accordingly, the number of Units that you may purchase in the Rights Offering is limited by the number of Common Shares you hold on the record date, by the number of Subscription Rights purchased by you as a result of buying Subscription Rights, and by the extent to which other shareholders exercise their Subscription Rights, which we cannot determine prior to completion of the Rights Offering. We reserve the right to reject any or all subscriptions not properly submitted or the acceptance of which would, in the opinion of our counsel, be unlawful.

As of March 31, 2013, we had net U.S. operating loss carryforwards totaling approximately \$827.4 million, as measured for U.S. federal income tax purposes. On September 28, 2010, we put in place the Tax Plan. Under the Tax Plan, upon (i) any person becoming an owner of 5% or more of the outstanding Common Shares of Kingsway Financial Services Inc. or (ii) an existing greater than 5% shareholder acquiring additional Common Shares (each of the persons described in clauses (i) and (ii), a "5% Shareholder"), without express approval of the Board, the Company will issue rights to purchase additional Common Shares to shareholders of the Company holding Common Shares as of the closing of such transaction (other than such 5% Shareholder), potentially resulting in dilution to such 5% Shareholder. If the total of your current beneficially owned Common Shares and the Common Shares you expect to receive by exercising the Subscription Rights (including Common Shares received by exercising Subscription Rights acquired by purchasing Subscription Rights from others) is greater than 650,000 beneficially owned Common Shares, you may need to request an exemption from the Board as described above and in the Tax Plan and the subscription materials provided to you to avoid such dilution. The Board reserves the right to review and approve the exemption requests up to three business days after the close of the Rights Offering period.

Participation of Directors, Executive Officers and Significant Shareholders

Our directors and executive officers who own Common Shares, as well as other significant shareholders, are permitted, but not required, to participate in this Rights Offering on the same terms and conditions applicable to all shareholders, including by purchasing rights from other holders and exercising those rights. Certain directors and executive officers of Kingsway, however, have indicated their current intention to participate in the Rights Offering in amounts at least

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equal to their basic subscription privileges. Nevertheless, each such director and executive officer reserves the right, in his sole discretion, not to participate in the Rights Offering.

Any director, executive officer or significant shareholder who subscribes for Units in the Rights Offering will pay \$4.00 per Unit, the same price paid by all other persons who exercise their Subscription Rights in the Rights Offering.

U.S. and Canadian Federal Income Tax Consequences

We intend to take the position that the distribution of Subscription Rights is a non-taxable distribution to holders of our Common Shares. This position, however, is not binding on the IRS, the CRA or the courts, and if this position is finally determined by the IRS, CRA or a court to be incorrect, the distribution of the Subscription Rights could be taxable to holders of our Common Shares. A holder of Common Shares will not recognize any gain or loss upon the exercise of Subscription Rights received in the Rights Offering. You should consult your tax advisor as to your particular tax consequences resulting from the Rights Offering. For a detailed discussion, see "Certain U.S. Federal Income Tax Considerations" and "Certain Canadian Federal Income Tax Considerations."

Amendment and Extension; Cancellation

We may amend the terms of the Rights Offering. Our Board may decide to extend the Rights Offering for additional periods, although it does not currently intend to do so. We also reserve the right to withdraw the Rights Offering at any time prior to the expiration date and for any reason. If the Rights Offering is cancelled, all subscription payments received by the subscription agent will be returned, without interest or penalty, as soon as practicable to those persons who subscribed for Units in the Rights Offering.

Procedures for Exercising Rights

To exercise your Subscription Rights, you must take the following steps:

If you hold a Kingsway Subscription Rights certificate in your name and you wish to participate in the Rights Offering, you must properly complete and sign Form 1 of the Subscription Rights certificate for the basic subscription privilege, and if you wish to exercise a portion or all of your entitlement under the over-subscription privilege, Form 2 of the Subscription Rights certificate, and deliver the signed Subscription Rights certificate, together with payment of the purchase price, to the subscription agent before 5:00 p.m., Eastern time, on September 6, 2013 the expiration date of the Rights Offering, unless such date is extended by us or you have used the guaranteed delivery procedures described under "The Rights Offering - Guaranteed Delivery Procedures."

Please follow the delivery instructions on the Subscription Rights certificate. Do not deliver documents to Kingsway Financial Services Inc. You are solely responsible for completing delivery to the subscription agent of your subscription documents, Subscription Rights certificate and payment. You should allow sufficient time for delivery of your subscription materials to the subscription agent so that the subscription agent receives them by 5:00 p.m., Eastern time, on September 6, 2013, unless such date is extended by us or you have used the guaranteed delivery procedures described under "The Rights Offering - Guaranteed Delivery Procedures."

If you send a payment that is insufficient to exercise the number of Subscription Rights you requested to exercise, or if such number is not specified in the forms, the payment received will be applied to exercise your Subscription Rights to the fullest extent possible based on the amount of the payment received, subject to the availability of Units under the over-subscription privilege and the elimination of fractional Units. If your payment for the number of Subscription Rights you requested to exercise is greater than the amount you owe for your subscription, you will be deemed to have exercised your over-subscription privilege to purchase the maximum number of Units with your over-payment. Any excess subscription payments will be returned by the subscription agent, without interest or penalty, as soon as

practicable following the expiration of the Rights Offering period.

If you hold your Subscription Rights through a broker, dealer, custodian bank or other nominee, then your nominee is the record holder of the rights you own. The record holder must exercise the Subscription Rights on your behalf. If you wish to exercise Subscription Rights in the Rights Offering, you should contact your broker, dealer, custodian bank or nominee as soon as possible. You will not receive a Subscription Rights certificate from Kingsway. Please follow the instructions of your nominee. Your nominee may establish a submission deadline that may be before the expiration date of the Rights Offering.

Payments submitted to the subscription agent must be made in full in U.S. currency by:

• certified check drawn against a U.S. or Canadian bank payable to “Computershare Investor Services Inc. (acting as subscription agent for Kingsway Financial Services Inc.)”;

• bank draft (cashier's check) drawn against a U.S. or Canadian bank payable to “Computershare Investor Services Inc. (acting as subscription agent for Kingsway Financial Services Inc.)”; or

• U.S. or Canadian postal money order payable to “Computershare Investor Services Inc. (acting as subscription agent for Kingsway Financial Services Inc.)”.

To be effective, any payment related to the exercise of a Subscription Right must clear prior to the expiration of the Rights Offering.

Payment received after the expiration of the Rights Offering will not be honored, and the subscription agent will return your payment to you, without interest, as soon as practicable.

The subscription agent will be deemed to receive payment upon: