

REFINITIV

DELTA REPORT

10-Q

KFS - KINGSWAY FINANCIAL SERVIC

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 2021

■ CHANGES	377
■ DELETIONS	654
■ ADDITIONS	990

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarterly Period Ended

June September 30, 2023

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from ____ to ____

Commission File Number: 001-15204

Kingsway Financial Services Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

85-1792291

(I.R.S. Employer
Identification No.)

10 S. Riverside Plaza, Suite 1520, Chicago, IL 60606

(Address of principal executive offices and zip code)

1-312-766-2138

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	KFS	New York Stock Exchange

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The number of shares, including restricted common shares, outstanding of the registrant's common stock as of August 8, 2023 November 7, 2023 was 26,997,972 28,291,499.

KINGSWAY FINANCIAL SERVICES INC.

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KINGSWAY FINANCIAL SERVICES INC.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets

(in thousands, except share data)

	June 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
	(unaudited)	(unaudited)		
Assets				
Investments:				
Fixed maturities, at fair value (amortized cost of \$38,581 and \$40,127, respectively)	\$ 36,193	\$ 37,591		
Fixed maturities, at fair value (amortized cost of \$38,302 and \$40,127, respectively)			\$ 35,815	\$ 37,591
Equity investments, at fair value (cost of \$187 and \$187, respectively)	2,935	153	205	153
Limited liability investments	899	983	816	983
Limited liability investments, at fair value	3,688	17,059	3,599	17,059

Investments in private companies, at adjusted cost	790	790	854	790
Other investments, at cost which approximates fair value (net of allowance of \$95 and zero, respectively)	95	201		
Other investments, at cost which approximates fair value (net of allowance of \$116 and zero, respectively)		69	201	
Short-term investments, at cost which approximates fair value	158	157	160	157
Total investments	44,758	56,934	41,518	56,934
Cash and cash equivalents	14,162	64,168	20,183	64,168
Restricted cash	9,618	13,064	9,103	13,064
Accrued investment income	877	1,195	944	1,195
Service fee receivable, net of allowance for credit losses of \$259 and \$147, respectively	10,071	10,304		
Service fee receivable, net of allowance for credit losses of \$307 and \$147, respectively		9,426	10,304	
Other receivables, net of allowance of \$8 and \$8, respectively	1,337	3,720	1,035	3,720
Deferred contract costs	13,792	13,257	13,892	13,257
Income taxes recoverable	216	—	406	—
Property and equipment, net of accumulated depreciation of \$988 and \$1,041, respectively	640	773		
Property and equipment, net of accumulated depreciation of \$1,062 and \$1,041, respectively		639	773	
Right-of-use asset	927	911	840	911
Goodwill	45,488	45,498	46,399	45,498
Intangible assets, net of accumulated amortization of \$25,056 and \$22,228, respectively	30,271	33,099		
Intangible assets, net of accumulated amortization of \$26,480 and \$22,228, respectively		30,817	33,099	
Other assets	3,732	23,249	3,368	23,249
Assets held for sale	19,455	19,478	19,474	19,478
Total Assets	\$ 195,344	\$ 285,650	\$ 198,044	\$ 285,650
Liabilities and Shareholders' Equity				
Liabilities:				
Accrued expenses and other liabilities	\$ 26,674	\$ 55,801	\$ 24,830	\$ 55,801
Income taxes payable	—	945	—	945
Deferred service fees	82,833	82,713	82,314	82,713
Bank loans	29,501	34,281	28,312	34,281
Subordinated debt, at fair value	12,544	67,811	12,624	67,811
Lease liability	1,260	1,217	1,170	1,217
Net deferred income tax liabilities	4,288	4,176	4,456	4,176
Liabilities held for sale	16,324	16,585	16,210	16,585
Total Liabilities	173,424	263,529	169,916	263,529
Redeemable Class A preferred stock, no par value; 1,000,000 authorized; zero and 149,733 issued and outstanding at June 30, 2023 and December 31, 2022, respectively; redemption amount of zero and \$6,013 at June 30, 2023 and December 31, 2022, respectively	—	6,013		
Redeemable Class A preferred stock, no par value; 1,000,000 authorized; zero and 149,733 issued and outstanding at September 30, 2023 and December 31, 2022, respectively; redemption amount of zero and \$6,013 at September 30, 2023 and December 31, 2022, respectively			—	6,013
Shareholders' Equity:				
Common stock, no par value; 50,000,000 authorized; 25,685,302 and 23,437,530 issued at June 30, 2023 and December 31, 2022, respectively; and 25,431,552 and 23,190,080 outstanding at June 30, 2023 and December 31, 2022, respectively	—	—	—	—
Common stock, no par value; 50,000,000 authorized; 27,761,129 and 23,437,530 issued at September 30, 2023 and December 31, 2022, respectively; and 27,413,983 and 23,190,080 outstanding at September 30, 2023 and December 31, 2022, respectively			—	—
Additional paid-in capital	371,118	359,985	379,192	359,985
Treasury stock, at cost; 253,750 and 247,450 outstanding at June 30, 2023 and December 31, 2022, respectively	(543)	(492)		

Treasury stock, at cost; 347,146 and 247,450 outstanding at September 30, 2023 and December 31, 2022, respectively			(1,294)	(492)
Accumulated deficit	(344,025)	(370,427)	(345,051)	(370,427)
Accumulated other comprehensive (loss) income	(1,258)	26,605	(1,270)	26,605
Shareholders' equity attributable to common shareholders	25,292	15,671	31,577	15,671
Noncontrolling interests in consolidated subsidiaries	(3,372)	437	(3,449)	437
Total Shareholders' Equity	21,920	16,108	28,128	16,108
Total Liabilities, Class A preferred stock and Shareholders' Equity	\$ 195,344	\$ 285,650	\$ 198,044	\$ 285,650

See accompanying notes to unaudited consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Operations

(in thousands, except per share data)

(Unaudited)

	Three months ended June 30,				Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Revenues:								
Service fee and commission revenue	\$ 26,197	\$ 23,590	\$ 52,586	\$ 46,046	\$ 24,790	\$ 22,396	\$ 77,376	\$ 68,442
Total revenues	26,197	23,590	52,586	46,046	24,790	22,396	77,376	68,442
Operating expenses:								
Claims authorized on vehicle service agreements	6,219	5,345	11,629	10,528	5,880	5,243	17,509	15,771
Commissions	2,567	1,997	5,087	3,260	2,573	2,277	7,660	5,537
Cost of services sold	7,148	4,187	14,895	8,715	6,226	4,043	21,121	12,758
General and administrative expenses	9,870	10,533	19,694	22,773	10,319	9,721	30,013	32,494
Disposal of subsidiary transaction expenses					—	5,408	—	5,408
Total operating expenses	25,804	22,062	51,305	45,276	24,998	26,692	76,303	71,968
Operating income	393	1,528	1,281	770				
Operating (loss) income					(208)	(4,296)	1,073	(3,526)
Other revenues (expenses), net:								
Net investment income	330	465	1,068	1,084	351	463	1,419	1,547
Net realized gains	123	184	333	238	206	797	539	1,035
Gain (loss) on change in fair value of equity investments	1,707	(38)	2,782	(48)				
Gain (loss) on change in fair value of limited liability investments, at fair value	4	46	(126)	173				
Net gain (loss) on equity investments					592	(5)	3,374	(53)
Gain on change in fair value of limited liability investments, at fair value					320	195	194	368
Net change in unrealized gain on private company investments					63	—	63	—
Gain on change in fair value of real estate investments					—	1,488	—	1,488
Impairment losses	(95)	—	(95)	—	(71)	—	(166)	—
Loss on change in fair value of derivative asset option contracts	—	—	(1,366)	—				
Non-operating other expense	(1,191)	(879)	(1,710)	(658)				
Gain (loss) on change in fair value of derivative asset option contracts					—	13,498	(1,366)	13,498
Non-operating other revenue (expense)					156	238	(1,554)	(420)

Interest expense	(1,086)	(1,704)	(4,058)	(3,068)	(1,061)	(2,139)	(5,119)	(5,207)
Amortization of intangible assets	(1,410)	(1,442)	(2,828)	(2,884)	(1,424)	(1,358)	(4,252)	(4,242)
Loss on change in fair value of debt	(339)	(1,330)	(30)	(3,198)	(165)	(1,794)	(195)	(4,992)
Gain on disposal of subsidiary					342	37,917	342	37,917
Gain on extinguishment of debt	—	—	31,616	—	—	—	31,616	—
Total other (expenses) revenue, net	(1,957)	(4,698)	25,586	(8,361)	(691)	49,300	24,895	40,939
(Loss) income from continuing operations before income tax expense (benefit)	(1,564)	(3,170)	26,867	(7,591)				
Income tax expense (benefit)	213	(19)	912	(441)				
(Loss) income from continuing operations before income tax (benefit) expense					(899)	45,004	25,968	37,413
Income tax (benefit) expense					(102)	6,061	810	5,620
(Loss) income from continuing operations	(1,777)	(3,151)	25,955	(7,150)	(797)	38,943	25,158	31,793
Income from discontinued operations, net of taxes	110	786	217	2,281	122	830	339	3,111
Loss on disposal of discontinued operations, net of taxes					—	(2,500)	—	(2,500)
Net (loss) income	(1,667)	(2,365)	26,172	(4,869)	(675)	37,273	25,497	32,404
Less: Net (loss) income from continuing operations attributable to noncontrolling interests in consolidated subsidiaries	(227)	180	(230)	107				
Less: Net income (loss) from continuing operations attributable to noncontrolling interests in consolidated subsidiaries					351	(1,191)	121	(1,084)
Less: Net income from discontinued operations attributable to noncontrolling interests in consolidated subsidiaries	—	123	—	345	—	124	—	469
Less: Dividends on preferred stock	5	79	74	157	—	77	74	234
Net (loss) income attributable to common shareholders	\$ (1,445)	\$ (2,747)	\$ 26,328	\$ (5,478)	\$ (1,026)	\$ 38,263	\$ 25,302	\$ 32,785
Net (loss) income from continuing operations attributable to common shareholders	\$ (1,555)	\$ (3,410)	\$ 26,111	\$ (7,414)	\$ (1,148)	\$ 40,057	\$ 24,963	\$ 32,643
Net income from discontinued operations attributable to common shareholders	110	663	217	1,936				
Net income (loss) from discontinued operations attributable to common shareholders					122	(1,794)	339	142
Net (loss) income attributable to common shareholders	\$ (1,445)	\$ (2,747)	\$ 26,328	\$ (5,478)	\$ (1,026)	\$ 38,263	\$ 25,302	\$ 32,785
Basic (loss) earnings per share attributable to common shareholders:								
Continuing operations	\$ (0.06)	\$ (0.15)	\$ 1.06	\$ (0.32)	\$ (0.04)	\$ 1.75	\$ 0.99	\$ 1.42
Discontinued operations	\$ —	\$ 0.03	\$ 0.01	\$ 0.08	\$ —	\$ (0.08)	\$ 0.01	\$ 0.01
Basic (loss) earnings per share - net (loss) income attributable to common shareholders	\$ (0.06)	\$ (0.12)	\$ 1.07	\$ (0.24)	\$ (0.04)	\$ 1.67	\$ 1.00	\$ 1.43
Diluted (loss) earnings per share attributable to common shareholders:								
Continuing operations	\$ (0.06)	\$ (0.15)	\$ 0.97	\$ (0.32)	\$ (0.04)	\$ 1.56	\$ 0.96	\$ 1.31
Discontinued operations	\$ —	\$ 0.03	\$ 0.01	\$ 0.08	\$ —	\$ (0.07)	\$ 0.01	\$ 0.01
Diluted (loss) earnings per share - net (loss) income attributable to common shareholders	\$ (0.06)	\$ (0.12)	\$ 0.98	\$ (0.24)	\$ (0.04)	\$ 1.49	\$ 0.97	\$ 1.32
Weighted-average shares outstanding (in '000s):								
Basic:	25,295	22,883	24,681	22,883	26,239	22,960	25,206	22,909
Diluted:	25,295	22,883	26,850	22,883	26,239	25,716	25,941	25,055

See accompanying notes to unaudited consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Comprehensive (Loss) Comprehensive Income

(in thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Net (loss) income	\$ (1,667)	\$ (2,365)	\$ 26,172	\$ (4,869)	\$ (675)	\$ 37,273	\$ 25,497	\$ 32,404
Other comprehensive (loss) income, net of taxes(1):								
Unrealized gains (losses) on available-for-sale investments:								
Unrealized (losses) gains on available-for-sale investments:								
Unrealized (losses) gains arising during the period	(243)	(535)	199	(1,702)	(34)	(861)	165	(2,563)
Reclassification adjustment for amounts included in net (loss) income	(34)	6	(56)	7	(66)	3	(122)	10
Change in fair value of debt attributable to instrument-specific credit risk:								
Unrealized (losses) gains arising during the period	(397)	5,930	(824)	6,889				
Unrealized gains (losses) arising during the period					84	(3,226)	(740)	3,663
Reclassification adjustment for amounts included in net (loss) income	—	—	(27,177)	—	—	—	(27,177)	—
Other comprehensive (loss) income, net of taxes(1):	(674)	5,401	(27,858)	5,194	(16)	(4,084)	(27,874)	1,110
Comprehensive (loss) income	(2,341)	3,036	(1,686)	325	(691)	33,189	(2,377)	33,514
Less: comprehensive (loss) income attributable to noncontrolling interests in consolidated subsidiaries	(237)	301	(225)	408				
Less: comprehensive income (loss) attributable to noncontrolling interests in consolidated subsidiaries					347	(1,094)	122	(686)
Comprehensive (loss) income attributable to common shareholders	\$ (2,104)	\$ 2,735	\$ (1,461)	\$ (83)	\$ (1,038)	\$ 34,283	\$ (2,499)	\$ 34,200

(1) Net of income tax (benefit) expense (benefit) of \$0 for the three and six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022.

See accompanying notes to unaudited consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Shareholders' Equity

(in thousands, except share data)

	Three Months Ended June 30, 2023							Additional		
	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Shareholders' Equity Attributable to Common Shareholders	Noncontrolling Interests in Consolidated Subsidiaries	Total Shareholders' Equity	Common Stock	Paid-in Capital
	Shares	Amount							Shares	Amount
Balance, March 31, 2023	25,197,251	\$ —	\$ 371,356	\$ (492)	\$ (342,585)	\$ (594)	\$ 27,685	\$ (3,135)	24,550	

Conversion of redeemable Class A preferred stock to common stock	187,500	—	1,223	—	—	—	1,223	—	1,223		
Balance, June 30, 2023										25,431,552	\$ — \$ 371,118
Vesting of restricted stock awards, net of share settlements for tax withholdings										56,107	— —
Exercise of Series B warrants	53,101	—	266	—	—	—	266	—	266	2,019,720	— 10,098
Repurchases of Series B warrants	—	—	(2,006)	—	—	—	(2,006)	—	(2,006)	—	— (2,025)
Net loss	—	—	—	—	(1,440)	—	(1,440)	(227)	(1,667)		
Preferred stock dividends	—	—	(5)	—	—	—	(5)	—	(5)		
Net (loss) income										—	— —
Distributions to noncontrolling interest holders										—	— —
Repurchases of common stock	(6,300)	—	—	(51)	—	—	(51)	—	(51)	(93,396)	— —
Other comprehensive loss	—	—	—	—	—	(664)	(664)	(10)	(674)	—	— —
Stock-based compensation	—	—	284	—	—	—	284	—	284		
Balance, June 30, 2023	25,431,552	\$ — \$ 371,118	\$ (543)	\$ (344,025)	\$ (1,258)	\$ 25,292	\$ (3,372)	\$ 21,920			
Stock-based compensation, net of tax withholdings related to net share settlements										— —	1
Balance, September 30, 2023										27,413,983	\$ — \$ 379,192

Three Months Ended June 30, 2022

	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Shareholders' Equity Attributable to Common Shareholders	Noncontrolling Interests in Consolidated Subsidiaries	Total Shareholders' Equity	Common Stock		Additional Paid-in Capital
	Shares	Amount								Shares	Amount	
Balance, March 31, 2022	22,882,614	\$ —	\$ 359,346	\$ (492)	\$ (397,802)	\$ 30,614	\$ (8,334)	\$ 13,635	\$ 5,301			
Net (loss) income	—	—	—	—	(2,668)	—	(2,668)	303	(2,365)			
Balance, June 30, 2022										22,882,614	\$ —	\$ 359,536
Vesting of restricted stock awards, net of share settlements for tax withholdings										56,194	—	—
Conversion of redeemable Class A preferred stock to common stock										125,000	—	788
Exercise of Series B warrants										8,054	—	40
Net income (loss)										—	—	—
Preferred stock dividends	—	—	(79)	—	—	—	(79)	—	(79)	—	—	(77)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	(244)	(244)	—	—	—
Deconsolidation of noncontrolling interest										—	—	—
Other comprehensive income (loss)	—	—	—	—	—	5,403	5,403	(2)	5,401	—	—	—
Stock-based compensation	—	—	269	—	—	—	269	—	269			
Balance, June 30, 2022	22,882,614	\$ —	\$ 359,536	\$ (492)	\$ (400,470)	\$ 36,017	\$ (5,409)	\$ 13,692	\$ 8,283			
Redemption of equity awards related to disposal of subsidiary										—	—	(1,056)

Stock-based compensation, net of tax withholdings related to net share settlements	—	—	(28)
<hr/>			
Balance, September 30, 2022	23,071,862	\$ —	\$ 359,203

KINGSWAY FINANCIAL SERVICES INC.

		Six Months Ended June 30, 2023									Additional Common Stock Paid-in Capital	
		Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Shareholders' Equity Attributable to Common Shareholders	Noncontrolling Interests in Consolidated Subsidiaries	Total Shareholders' Equity		
		Shares	Amount								Shares	Amount
Balance, December 31, 2022		23,190,080	\$ —	\$ 359,985	\$ (492)	\$ (370,427)	\$ 26,605	\$ 15,671	\$ 437	\$ 16,108	23,190,080	\$ — \$ 359,985
Vesting of restricted stock awards, net of share settlements for tax withholdings											56,107	— —
Conversion of redeemable Class A preferred stock to common stock	935,831	—	6,086	—	—	—	—	6,086	—	6,086	935,831	— 6,086
Exercise of Series B warrants	1,311,941	—	6,560	—	—	—	—	6,560	—	6,560	3,331,661	— 16,658
Repurchases of Series B warrants	—	—	(2,006)	—	—	—	—	(2,006)	—	(2,006)	—	— (4,031)
Net income (loss)	—	—	—	—	26,402	—	—	26,402	(230)	26,172	—	—
Net income	—	—	—	—	—	—	—	—	—	—	—	—
Preferred stock dividends	—	—	(74)	—	—	—	—	(74)	—	(74)	—	— (74)
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	—	(3,584)	(3,584)	—	—

Repurchases of common stock	(6,300)	—	—	(51)	—	—	(51)	—	(51)	(99,696)	—	—
Other comprehensive (loss) income	—	—	—	—	—	(27,863)	(27,863)	5	(27,858)	—	—	—
Stock-based compensation	—	—	567	—	—	—	567	—	567	—	—	—
Balance, June 30, 2023	25,431,552	\$	—	\$ 371,118	\$ (543)	\$ (344,025)	\$ (1,258)	\$ 25,292	\$ (3,372)	\$ 21,920	—	—
Stock-based compensation, net of tax withholdings related to net share settlements	—	—	—	—	—	—	—	—	—	—	—	568
Balance, September 30, 2023	—	—	—	—	—	—	—	—	—	27,413,983	\$	— \$ 379,192

	Six Months Ended June 30, 2022								Additional Common Stock			Additional Paid-in Capital		
	Common Stock		Additional Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Shareholders' Equity Attributable to Common Shareholders	Noncontrolling Interests in Consolidated Subsidiaries						
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance, December 31, 2021	22,882,614	\$ —	\$ 359,138	\$ (492)	\$ (395,149)	\$ 30,779	\$ (5,724)	\$ 13,981	\$ 8,257	\$ 22,882,614	\$ —	\$ 359,138	—	—
Net (loss) income	—	—	—	—	(5,321)	—	(5,321)	—	452	—	(4,869)	—	—	—
Vesting of restricted stock awards, net of share settlements for tax withholdings	—	—	—	—	—	—	—	—	—	56,194	—	—	—	—
Conversion of redeemable Class A preferred stock to common stock	—	—	—	—	—	—	—	—	—	125,000	—	788	—	—
Exercise of Series B warrants	—	—	—	—	—	—	—	—	—	8,054	—	40	—	—
Net income (loss)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Preferred stock dividends	—	—	(157)	—	—	—	(157)	—	(157)	—	—	(234)	—	—

Distributions to noncontrolling interest holders	—	—	—	—	—	—	(697)	(697)	—	—	—
Deconsolidation of noncontrolling interest									—	—	—
Other comprehensive income (loss)	—	—	—	—	—	5,238	5,238	(44)	5,194	—	—
Stock-based compensation	—	—	555	—	—	—	555	—	555	—	—
Balance, June 30, 2022	22,882,614	\$	—	\$ 359,536	\$ (492)	\$ (400,470)	\$ 36,017	\$ (5,409)	\$ 13,692	\$ 8,283	
Redemption of equity awards related to disposal of subsidiary									—	—	(1,056)
Stock-based compensation, net of tax withholdings related to net share settlements									—	—	527
Balance, September 30, 2022									23,071,862	\$ —	\$ 359,203

See accompanying notes to unaudited consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

	Consolidated Statements of Cash Flows			
	(in thousands)			
	(Unaudited)			
		Six months ended June 30, 2023	Six months ended June 30, 2022	Nine months ended September 30, 2023
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ 26,172	\$ (4,869)		
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:				
Net income			\$ 25,497	\$ 32,404
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Income from discontinued operations, net of taxes	(217)	(2,281)	(339)	(3,111)
Loss on disposal of discontinued operations, net of taxes			—	2,500
Equity in net loss (income) of limited liability investments	33	(287)	41	(275)
Depreciation and amortization expense	2,974	3,023	4,466	4,443

Stock-based compensation expense	567	628	953	3,604
Net realized gains	(333)	(238)	(539)	(1,035)
(Gain) loss on change in fair value of equity investments	(2,782)	48	(3,374)	53
Loss (gain) on change in fair value of limited liability investments, at fair value	126	(173)		
Gain on change in fair value of limited liability investments, at fair value			(194)	(368)
Net change in unrealized gain on private company investments			(63)	—
Gain on change in fair value of real estate investments			—	(1,488)
Loss on change in fair value of debt	30	3,198	195	4,992
Loss (gain) on change in fair value of derivatives	1,488	(276)	1,565	(13,854)
Loss on change in fair value of contingent consideration	65	1,502	65	1,519
Deferred income taxes	112	(693)	(100)	2,697
Impairment losses	95	—	166	—
Amortization of fixed maturities premiums and discounts	19	141	20	197
Gain on disposal of subsidiary			(342)	(37,917)
Gain on extinguishment of debt	(31,616)	—	(31,616)	—
Changes in operating assets and liabilities:				
Service fee receivable, net	233	(1,828)	1,203	(563)
Other receivables, net	1,655	1,780	2,084	2,036
Deferred contract costs	(535)	(1,687)	(635)	(2,135)
Other assets	483	(188)	871	(2,172)
Deferred service fees	120	2,104	(399)	(4,789)
Other, net	(7,268)	4,416	(9,085)	18,112
Cash (used in) provided by operating activities - continuing operations	(8,579)	4,320	(9,560)	4,850
Cash provided by operating activities - discontinued operations	280	1,926	426	4,493
Net cash (used in) provided by operating activities	(8,299)	6,246	(9,134)	9,343
Investing activities:				
Proceeds from sales and maturities of fixed maturities	4,121	4,906	6,416	6,792
Proceeds from sales of equity investments			3,321	—
Purchases of fixed maturities	(2,596)	(8,111)	(4,612)	(10,630)
Net proceeds from limited liability investments	154	973	180	1,531
Net proceeds from limited liability investments, at fair value	13,461	211	14,061	461
Net proceeds from investments in private companies	—	62	27	245
Net proceeds from other investments and short-term investments	13	34	16	52
Net proceeds from disposal of subsidiary			147	35,158
Acquisition of business, net of cash acquired	—	(83)	(2,766)	(83)
Net purchases of property and equipment	(14)	(177)	(80)	43
Cash provided by (used in) investing activities - continuing operations	15,139	(2,185)		
Cash provided by investing activities - continuing operations			16,710	33,569
Cash used in investing activities - discontinued operations		(11)	—	(11)
Net cash provided by (used in) investing activities	15,128	(2,185)		
Net cash provided by investing activities			16,699	33,569
Financing activities:				
Proceeds from exercise of warrants	6,560	—	16,658	40
Cash paid for repurchase of warrants	(1,633)	—	(4,031)	—
Cash paid for repurchase of common stock	(51)	—	(802)	—
Distributions to noncontrolling interest holders	(3,584)	(697)	(4,008)	(991)
Taxes paid related to net share settlements of restricted stock awards			(384)	(297)
Principal payments on bank loans	(4,827)	(3,952)	(6,052)	(5,028)
Purchase of subordinated debt	(56,452)	—	(56,452)	—
Payment of debt issuance costs	(25)	—	(25)	—
Principal payments on notes payable	—	(245)	—	(371)
Cash used in financing activities - continuing operations	(60,012)	(4,894)	(55,096)	(6,647)
Cash used in financing activities - discontinued operations	(303)	(2,870)	(431)	(4,359)

Net cash used in financing activities	(60,315)	(7,764)	(55,527)	(11,006)
Net decrease in cash and cash equivalents and restricted cash from continuing operations	(53,452)	(2,759)		
Net (decrease) increase in cash and cash equivalents and restricted cash from continuing operations			(47,946)	31,772
Cash and cash equivalents and restricted cash at beginning of period	77,802	29,899	77,802	29,899
Less: cash and cash equivalents and restricted cash of discontinued operations	570	2,558	570	2,558
Cash and cash equivalents and restricted cash of continuing operations at beginning of period	77,232	27,341	77,232	27,341
Cash and cash equivalents and restricted cash of continuing operations at end of period	\$ 23,780	\$ 24,582	\$ 29,286	\$ 59,113

See accompanying notes to unaudited consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

June September 30, 2023

NOTE 1 BUSINESS

Kingsway Financial Services Inc. (the "Company" or "Kingsway") was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. Effective December 31, 2018, the Company changed its jurisdiction of incorporation from the province of Ontario, Canada, to the State of Delaware. Kingsway is a holding company with operating subsidiaries located in the United States. The Company owns or controls subsidiaries primarily in the extended warranty and business services industries.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements of the Company. In the opinion of management, all adjustments necessary for a fair presentation have been included and are of a normal recurring nature. Interim results are not necessarily indicative of the results that may be expected for the year.

The accompanying unaudited consolidated interim financial statements and footnotes should be read in conjunction with the audited consolidated financial statements and footnotes included within our Annual Report on Form 10-K ("2022 Annual Report") for the year ended December 31, 2022.

The unaudited consolidated interim financial statements include the accounts of the Company and its subsidiaries, as well as certain variable interest entities as further described in Note 6, "Variable Interest Entities," to the consolidated financial statements in the 2022 Annual Report. All material intercompany transactions and balances have been eliminated in consolidation.

The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenues and expenses, and the related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Estimates and their underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recorded in the accounting period in which they are determined.

The critical accounting estimates and assumptions in the accompanying unaudited consolidated interim financial statements include, but are not limited to, revenue recognition; valuation of fixed maturities and equity investments; impairment assessment of investments; valuation of limited liability investments, at fair value; valuation of deferred income taxes; accounting for business combinations and asset acquisitions; valuation and impairment assessment of intangible assets; goodwill recoverability; deferred contract costs; fair value assumptions for subordinated debt obligations; fair value assumptions for subsidiary stock-based compensation awards; fair value assumptions for derivative financial instruments; and contingent consideration.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as noted below, there have been no material changes to our significant accounting policies as reported in our 2022 Annual Report.

The following two accounting policies, Investments and Service Fee Receivables, have been updated effective January 1, 2023 to include additional disclosure as a result of the Company's adoption of Accounting Standards Update ("ASU") 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as

further described in Note 4, "Recently Issued Accounting **Standards**".**Standards**."

Investments - Impairments

When an available-for-sale fixed maturity investment is impaired, it is evaluated to determine whether there is an intent to sell the investment before recovery of amortized cost or whether a credit loss exists.

For fixed maturity investments that the Company intends to sell or for which it is more likely than not that the Company will be required to sell before an anticipated recovery of value, the full amount of the impairment is recognized as an impairment loss in the consolidated statements of operations. The investment's amortized cost is written down to its fair value and is not adjusted for any subsequent recoveries.

For fixed maturity investments that the Company does not intend to sell or for which it is more likely than not that the Company will not be required to sell before an anticipated recovery of value, the Company evaluates whether a decline in fair value below the amortized cost basis has occurred from a credit loss or other non-credit related factors.

Considerations in the credit loss assessment include (1) extent to which the fair value has been less than amortized cost, (2) conditions related to the investment, an industry, or a geographic area, (3) payment structure of the investment and the likelihood of the issuer's ability to make contractual cash flows, (4) defaults or other collectability concerns related to the issuer, (5) changes in the ratings assigned by a rating agency and (6) other credit enhancements that affect the investment's expected performance.

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KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements (Unaudited)
June **September** 30, 2023

If a credit loss exists, an allowance is established, which is equal to the difference between the present value of cash flows expected to be collected and the amortized cost basis. The expected allowance for credit losses is limited by the amount that the fair value is less than the amortized cost basis and is adjusted in subsequent periods for any additional expected credit losses or subsequent recoveries. Changes in the allowance are reported as impairment losses in the consolidated statements of operations. The amortized cost basis of the investment is not adjusted for the expected allowance for credit loss. The impairment related to other non-credit related factors is reported in other comprehensive (loss) income.

The Company reports accrued investment income separately for available-for-sale fixed maturity investments and has made a policy election to not to measure an allowance for credit losses on accrued investment income. Accrued investment income is written off against net investment income at the time the issuer of the bond defaults or is expected to default on interest payments.

Service Fee Receivables

Service fee receivable includes balances due and uncollected from customers. Service fee receivable is reported net of an estimated allowance for credit losses. The Company recognizes credit losses based on a forward-looking current expected credit losses. The Company estimates expected credit losses based upon its assessment of various factors, including historical collection experience, the age of service fee receivable balances, credit quality of its customers, current economic conditions, management's experience, reasonable and supportable forecasts of future economic conditions, and other factors that may affect its ability to collect from customers. Expected credit losses are recorded as general and administrative expenses in the consolidated statements of operations. Amounts are written off against the allowance when determined to be uncollectible. Write-offs are applied as a reduction to the allowance for credit losses and any recoveries of previous write-offs are netted against bad debt expense in the period recovered.

NOTE 4 RECENTLY ISSUED ACCOUNTING STANDARDS

(a) Adoption of New Accounting Standards:

Effective January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 replaces the current incurred loss model used to measure impairment losses with an expected loss model for trade, reinsurance, and other receivables as well as financial instruments measured at amortized cost. ASU 2016-13 requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected by means of an allowance for credit losses that runs through net (loss) income. For available-for-sale fixed maturities carried at fair value, estimated credit losses will continue to be measured at the present value of expected cash flows, however, the other than temporary impairment concept has been eliminated. Under the previous guidance, estimated credit impairments resulted in a write down of amortized cost. Under the new guidance, estimated credit losses are recognized through an allowance and reversals of the allowance are permitted if the estimate of credit losses declines. For available-for-sale fixed maturities where there is an intent to sell, impairment will continue to result in a write down of amortized cost.

The Company adopted ASU 2016-13 using a modified retrospective method. Prior period amounts have not been adjusted and continue to be reported in accordance with the previous accounting guidance. A prospective transition approach is required for available-for-sale fixed maturity investments that have recognized an other-than-temporary impairment write down prior to the effective date. The adoption of ASU 2016-13 resulted in no cumulative-effect adjustment to accumulated deficit at January 1, 2023.

(b) Accounting Standards Not Yet Adopted:

In March 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-02 *Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. This guidance is effective for public business entities for fiscal years including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted in any interim period. The Company does not expect the adoption of ASU 2023-02 to have an impact on its consolidated financial statements.

NOTE 5 ACQUISITIONS, DISPOSAL AND DISCONTINUED OPERATIONS

(a) Business Combinations

Systems Products International, Inc.

On September 7, 2023, the Company acquired 100% of the outstanding equity interests of Systems Products International, Inc. ("SPI") for aggregate cash consideration of \$2.8 million, less certain escrowed amounts for purposes of indemnification claims and working capital adjustments. SPI, based in Miami, Florida, is a vertical market software company, created exclusively to serve the management needs of all types of shared-ownership properties. As further discussed in Note 20, "Segmented Information," SPI is included in the Kingsway Search Xcelerator segment. This acquisition was the Company's fourth acquisition under its novel CEO Accelerator program and its first in the vertical market software space and further expands the Company's portfolio of businesses with recurring revenue and low capital intensity.

This acquisition was accounted for as a business combination using the acquisition method of accounting. The purchase price was provisionally allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition and are subject to adjustment during a measurement period subsequent to the acquisition date, not to exceed one year as permitted under U.S. GAAP. The Company expects to complete its purchase price allocation during the fourth quarter of 2023. These estimates, allocations and calculations are subject to change as we obtain further information; therefore, the final fair values of the assets acquired and liabilities assumed could change from the estimates included in these consolidated financial statements. Based upon a preliminary analysis of SPI, the Company would expect to record a contract asset. Any such adjustment would be made against the preliminary goodwill amount shown in the table below.

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KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2023

Refer to Note 8, "Intangible Assets," for further disclosure of the intangible assets related to this acquisition. The goodwill of \$0.9 million represents the premium paid over the fair value of the net tangible and intangible assets acquired, which the Company paid to grow its portfolio of companies and acquire an assembled workforce. The goodwill is not deductible for tax purposes.

The following table summarizes the preliminary estimated allocation of the SPI assets acquired and liabilities assumed at the date of acquisition:

(in thousands)

	September 7, 2023
Cash and cash equivalents	\$ 121
Restricted cash	6
Service fee receivable	325
Goodwill	911
Intangible asset subject to amortization - customer relationships	1,200
Intangible asset subject to amortization - developed technology	600
Intangible asset not subject to amortization - trade name	170
Other assets	24
Total assets	\$ 3,357
Accrued expenses and other liabilities	\$ 177
Net deferred income tax liabilities	380
Total liabilities	\$ 557

Purchase price

\$ 2,800

The consolidated statements of operations include the earnings of SPI from the date of acquisition. From the date of acquisition through September 30, 2023, SPI earned revenue of \$0.2 million and had net income of \$0.3 million. During the three and nine months ended September 30, 2023, the Company incurred expenses related to the acquisition of SPI of \$0.2 million, which are included in general and administrative expenses in the consolidated statements of operations. The proforma effects of the SPI acquisition are not material to the Company's consolidated statements of operations for the three and nine months ended September 30, 2023 and September 30, 2022.

CSuite Financial Partners, LLC

On November 1, 2022, the Company acquired 100% of the outstanding equity interests of CSuite Financial Partners, LLC ("CSuite"). CSuite, based in Manhattan Beach, California, is a national financial executive services firm providing financial management leadership to companies in every industry, regardless of size, throughout the United States. As further discussed in Note 20, "Segmented Information," CSuite is included in the Kingsway Search Xcelerator segment. This acquisition was the Company's second acquisition under its novel CEO Accelerator program and further expands the Company's portfolio of businesses with recurring revenue and low capital intensity.

The Company acquired CSuite for aggregate cash consideration of approximately \$8.5 million, less certain escrowed amounts for purposes of indemnification claims. The final purchase price was subject to a working capital true-up of less than \$0.1 million that was settled during the first quarter of 2023. The Company will also pay additional contingent consideration, only to the extent earned, in an aggregate amount of up to \$3.6 million, which is subject to certain conditions, including the successful achievement of certain financial metrics for CSuite during the three-year period commencing on the first full calendar month following the acquisition date. The estimated fair value of the contingent consideration obligation at ~~June~~ September 30, 2023 and December 31, 2022 was zero.

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KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2023

This acquisition was accounted for as a business combination using the acquisition method of accounting. The purchase price was provisionally allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition and were subject to adjustment during a measurement period subsequent to the acquisition date, not to exceed one-year as permitted under U.S. GAAP. During the first quarter of 2023, the Company finalized its fair value analysis of the assets acquired and liabilities assumed with the assistance of a third party. No measurement period adjustments were recorded as a result of finalizing the fair value analysis.

Secure Nursing Service, Inc.

On November 18, 2022, the Company acquired substantially all of the assets and assumed certain specified liabilities of Secure Nursing Service, Inc. ("SNS") for aggregate cash consideration of \$11.5 million, less certain escrowed amounts for purposes of indemnification claims and working capital adjustments. SNS, based in Los Angeles, California, employs highly skilled and professional per diem and travel Registered Nurses, Licensed Vocational Nurses, Certified Nurse Assistants and Allied Healthcare Professionals with multiple years of acute care hospital experience. SNS places these healthcare professionals in both per diem assignments, and in short-term and long-term travel assignments in a variety of hospitals in southern California. As further discussed in Note 20, "Segmented Information," SNS is included in the Kingsway Search Xcelerator segment. This acquisition was the Company's third acquisition under its novel CEO Accelerator program and further expands the Company's portfolio of businesses with recurring revenue and low capital intensity.

This acquisition was accounted for as a business combination using the acquisition method of accounting. The purchase price was provisionally allocated to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition and were subject to adjustment during a measurement period subsequent to the acquisition date, not to exceed one-year as permitted under U.S. GAAP. During the first quarter of 2023, the Company finalized its fair value analysis of the assets acquired and liabilities assumed with the assistance of a third party. No measurement period adjustments were recorded as a result of finalizing the fair value analysis.

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KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2023

(b) Disposal

Professional Warranty Service Corporation

On July 29, 2022, Professional Warranty Services LLC ("PWS LLC"), a subsidiary of the Company entered into an Equity Purchase Agreement (the "Agreement") with Professional Warranty Service Corporation ("PWSC"), an 80% majority-owned, indirect subsidiary of the Company, Tyler Gordy, the president of PWSC and a 20% owner of PWSC ("Gordy") and PCF Insurance Services of the West, LLC ("Buyer"), pursuant to which PWS LLC and Gordy sold PWSC to Buyer.

To the extent the EBITDA of PWSC (as defined in the Agreement) for the one-year period following the sale transaction exceeds 103% of the EBITDA at the closing of the sale transaction (the "Closing EBITDA"), PWS LLC and Gordy will also be entitled to receive an earnout payment in an amount equal to five times the EBITDA in excess of 103% of Closing EBITDA. The Company does not have access to the information needed to reasonably estimate has estimated the potential earnout payment and accordingly any gain related to the earnout payment will be recorded in the period the consideration is determined to be realizable. zero as of September 30, 2023.

The sale of PWSC did not represent a strategic shift that would have a major effect on the Company's operations or financial results; therefore, PWSC is not presented as a discontinued operation. The earnings of PWSC, which was included in the Extended Warranty segment, are included in the unaudited interim consolidated statements of operations for the three and ~~six~~ nine months ended ~~June~~ September 30, 2022, through the July 29, 2022 disposal date. The assets, liabilities and equity (including the non-controlling interest) of PWSC were deconsolidated effective July 29, 2022.

The sale of PWSC represents the disposal of a significant subsidiary of the Company, which had contributions to Extended Warranty service fee and commission revenue of ~~\$2.1 million~~ \$0.7 million and ~~\$4.2 million~~ \$4.9 million for the three and ~~six~~ nine months ended ~~June~~ September 30, 2022, respectively. Additionally, PWSC had pre-tax income of \$0.4 million and pre-tax loss of \$0.3 million \$5.2 million and \$5.5 million for the three and ~~six~~ nine months ended ~~June~~ September 30, 2022, respectively. For the three and ~~six~~ nine months ended ~~June~~ September 30, 2022, pre-tax income of \$0.3 million and pre-tax loss of \$0.2 million, \$4.1 million and \$4.4 million, respectively, was attributable to the controlling interest.

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KINGSWAY FINANCIAL SERVICES INC.

During the three and nine months ended September 30, 2023, the Company recorded an additional gain on disposal of PWSC of \$0.3 million related to working capital adjustments and release of escrowed amounts withheld for purposes of indemnification claims.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2023

(c) Discontinued Operations

Leased Real Estate Segment

The Company's subsidiaries, VA Lafayette, LLC ("VA Lafayette") and CMC Industries Inc. ("CMC"), which includes CMC's subsidiaries Texas Rail Terminal LLC and TRT Leaseco, LLC ("TRT"), comprised the Company's entire Leased Real Estate segment prior to the fourth quarter of 2022. Each of CMC, through indirect wholly owned subsidiary, TRT, and VA Lafayette own a single asset, which is real estate property. As further described below, on December 29, 2022, TRT sold its assets and at December 31, 2022, VA Lafayette was classified as held for sale.

In accordance with ASU No. 2014-08, *Reporting of Discontinued Operations and Disclosures of Disposals of Components of an Entity*, a disposal is categorized as a discontinued operation if the disposal group is a component of an entity or group of components that meets the held for sale criteria, is disposed of by sale, or is disposed of other than by sale, and represents a strategic shift that has or will have a major effect on an entity's operations and financial results.

Leased Real Estate is a component of Kingsway since its operations and cash flows can be clearly distinguished, both operationally and for financial reporting purposes, from the rest of the reporting entity. A component of an entity may consist of multiple disposal groups and does not need to be disposed of in a single transaction. The disposal of the Leased Real Estate segment represents a strategic shift that will have a major effect on the Company's operations and financial results, as the disposal of the Leased Real Estate assets was in excess of 20% of the entity's total assets. As a result, the assets, liabilities, operating results and cash flows related to Leased Real Estate have been classified as discontinued operations in the consolidated financial statements for all periods presented.

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KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

September 30, 2023

Sale of CMC Real Property

CMC owned, through its indirect wholly owned subsidiary, TRT, a parcel of real property consisting of approximately 192 acres located in the State of Texas (the "Real Property"), which was subject to a long-term triple net lease agreement. The Real Property was also subject to two mortgages (the "Mortgages").

On December 22, 2022, TRT entered into a Purchase and Sale Agreement (the "CMC Agreement") with BNSF Dayton LLC ("Purchaser"), pursuant to which TRT agreed to sell to the Purchaser the Real Property. TRT was also the landlord and an affiliate of the Purchaser was the current tenant under the long-term triple net lease over the Real Property. Under the terms of the CMC Agreement, at the closing on December 29, 2022, TRT assigned, and the Purchaser assumed, the rights and obligations of the landlord under the existing long-term triple net lease.

As discussed above, CMC and TRT are part of the Leased Real Estate disposal group. The sale of the Leased Real Estate's assets represents a strategic shift that will have a major effect on the Company's operations and financial results. As a result, CMC and its subsidiaries, have been classified as a discontinued operation and the results of their operations are reported separately for all periods presented.

VA Lafayette

During the fourth quarter of 2022, the Company began executing a plan to sell its subsidiary, VA Lafayette. VA Lafayette owns the LA Real Property, that is subject to a long-term lease and the LA Mortgage.

As discussed above, VA Lafayette is part of the Leased Real Estate disposal group. In conjunction with the sale of the CMC Real Property, the sale of the Leased Real Estate's assets represents a strategic shift that will have a major effect on the Company's operations and financial results. As a result, VA Lafayette has been classified as a discontinued operation and the results of its operations are reported separately for all periods presented. The assets and liabilities of VA Lafayette are presented as held for sale in the consolidated balance sheets at **June September 30, 2023** and December 31, 2022.

Summary financial information for Leased Real Estate included in income from discontinued operations, net of taxes in the unaudited consolidated statements of operations for the three and **six nine** months ended **June September 30, 2023** and **June September 30, 2022** is presented below:

(in thousands)	Three months ended June 30,				Three months ended September 30,		Nine months ended September 30,	
	2023		2022		2023		2022	
	2023	2022	2023	2022	2023	2022	2023	2022
Income from discontinued operations, net of taxes:								
Revenues:								
Rental revenue	\$ 311	\$ 3,633	\$ 630	\$ 7,300	\$ 311	\$ 3,633	\$ 941	\$ 10,933
Total revenues	311	3,633	630	7,300	311	3,633	941	10,933
Expenses:								
Cost of services sold	54	59	101	103	46	48	147	151
General and administrative expenses	59	1,062	136	1,437	56	1,042	192	2,479
Leased real estate segment interest expense	91	1,663	182	3,354	90	1,651	272	5,005
Non-operating other revenue	(3)	(2)	(6)	(5)	(3)	(3)	(9)	(8)
Amortization of intangible assets	—	52	—	104	—	52	—	156
Total expenses	201	2,834	413	4,993	189	2,790	602	7,783
Income from discontinued operations before income tax expense	110	799	217	2,307	122	843	339	3,150
Income tax expense	—	13	—	26	—	13	—	39
Income from discontinued operations, net of taxes	\$ 110	\$ 786	\$ 217	\$ 2,281	\$ 122	\$ 830	\$ 339	\$ 3,111

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KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2023

For the three months ended **June September 30, 2023** and **June September 30, 2022**, pre-tax income from discontinued operations of \$0.1 million and **\$0.6 million, \$0.7 million**, respectively, was attributable to the controlling interest (**\$0.2 0.3** million and **\$1.9 million \$2.5 million** for the **six nine** months ended **June September 30, 2023** and **June September 30, 2022**, respectively).

The carrying amounts of the major classes of assets and liabilities of Leased Real Estate presented as held for sale at **June September 30, 2023** and December 31, 2022 are as follows:

(in thousands)	June 30, 2023	December 31, 2022	September	December
			30, 2023	31, 2022
Assets				
Cash and cash equivalents	\$ 536	\$ 570	\$ 555	\$ 570

Property and equipment, net	16,171	16,160	16,171	16,160
Intangible assets, net	2,748	2,748	2,748	2,748
Assets held for sale	\$ 19,455	\$ 19,478	\$ 19,474	\$ 19,478
Liabilities				
Accrued expenses and other liabilities	\$ 652	\$ 473	\$ 734	\$ 473
Notes payable	15,672	16,112	15,476	16,112
Liabilities held for sale	\$ 16,324	\$ 16,585	\$ 16,210	\$ 16,585

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KINGSWAY FINANCIAL SERVICES INC.

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Mendota Insurance Company, Mendakota Insurance Company and Mendakota Casualty Company

As part of the October 18, 2018 transaction to sell Mendota Insurance Company, Mendakota Insurance Company and Mendakota Casualty Company (collectively "Mendota"), the Company will indemnify the buyer for any loss and loss adjustment expenses with respect to open claims in excess of Mendota's carried unpaid loss and loss adjustment expenses at June 30, 2018 related to the open claims. The maximum obligation to the Company with respect to the open claims was \$2.5 million. Per the purchase agreement, a security interest on the Company's equity interest in its consolidated subsidiary, Net Lease Investment Grade Portfolio LLC ("Net Lease"), as well as any distributions to the Company from Net Lease, was to be collateral for the Company's payment of obligations with respect to the open claims.

During the third quarter of 2021, the purchasers of Mendota and the Company agreed to release the Company's equity interest in Net Lease as collateral and allow Net Lease to make distributions to the Company. In exchange, the Company agreed to deposit \$2.0 million into an escrow account and advance \$0.5 million to the purchaser of Mendota to satisfy the Company's payment obligation with respect to the open claims.

During the third quarter of 2022, the buyer provided to the Company an analysis of the claims development that indicated that the Company's potential exposure with respect to the open claims was at the maximum obligation amount. Previous communications from the buyer noted no such development, and the buyer was not obligated to provide development information to the Company until the first quarter of 2023. As a result of the newly provided information, the Company recorded a liability of \$2.5 million at September 30, 2022, which is included in accrued expenses and other liabilities in the consolidated balance sheet at December 31, 2022 and loss on disposal of discontinued operations, net of taxes in the unaudited consolidated statement of operations for the three and nine months ended September 30, 2022. During the first quarter of 2023, the \$2.0 million that had been previously deposited into an escrow account was released and remitted to the buyer to satisfy the Company's payment with respect to the open claims. The Company has no remaining exposure with respect to the open claims.

NOTE 6 INVESTMENTS

The amortized cost, gross unrealized gains and losses included in accumulated other comprehensive (loss) income, and estimated fair value of the Company's available-for-sale investments at June September 30, 2023 and December 31, 2022 are summarized in the tables shown below:

	June 30, 2023					September 30, 2023				
	Amortized Cost	Gross Unrealized Gains		Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains		Gross Unrealized Losses	Estimated Fair Value
Fixed maturities:										
U.S. government, government agencies and authorities	\$ 14,780	\$ —	\$ 635	\$ 14,145	\$ 13,500	\$ —	\$ 596	\$ 12,904		
States, municipalities and political subdivisions	3,224	—	155	3,069	2,982	—	162	2,820		
Mortgage-backed	8,682	—	640	8,042	9,363	—	732	8,631		
Asset-backed	1,435	—	68	1,367	1,410	—	60	1,350		
Corporate	10,460	2	892	9,570	11,047	—	937	10,110		
Total fixed maturities	\$ 38,581	\$ 2	\$ 2,390	\$ 36,193	\$ 38,302	\$ —	\$ 2,487	\$ 35,815		

	December 31, 2022				
	Amortized Cost	Gross Unrealized Gains		Gross Unrealized Losses	Estimated Fair Value
Fixed maturities:					
U.S. government, government agencies and authorities	\$ 15,797	\$ —	\$ 717	\$ 15,080	

States, municipalities and political subdivisions	2,390	—	158	2,232
Mortgage-backed	9,058	1	647	8,412
Asset-backed	1,682	—	72	1,610
Corporate	11,200	1	944	10,257
Total fixed maturities	\$ 40,127	\$ 2	\$ 2,538	\$ 37,591

The table below summarizes the Company's fixed maturities at **June** **September** 30, 2023 by contractual maturity periods. Actual results may differ as issuers may have the right to call or prepay obligations, with or without penalties, prior to the contractual maturity of these obligations.

(in thousands)	June 30, 2023		September 30, 2023	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 6,899	\$ 6,797	\$ 6,273	\$ 6,175
Due after one year through five years	25,865	24,212	25,670	23,991
Due after five years through ten years	1,368	1,214	1,363	1,213
Due after ten years	4,449	3,970	4,996	4,436
Total	\$ 38,581	\$ 36,193	\$ 38,302	\$ 35,815

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The following tables highlight the aggregate unrealized loss position, by security type, of available-for-sale investments in unrealized loss positions where no credit loss allowance had been established as of **June** **September** 30, 2023 and December 31, 2022. The tables segregate the holdings based on the period of time the investments have been continuously held in unrealized loss positions.

(in thousands)	June 30, 2023						September 30, 2023					
	Less than 12 Months		Greater than 12 Months		Total		Less than 12 Months		Greater than 12 Months		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Fixed maturities:												
U.S. government, government agencies and authorities	\$ 4,081	\$ 62	\$ 10,064	\$ 573	\$ 14,145	\$ 635	\$ 3,911	\$ 55	\$ 8,993	\$ 541	\$ 12,904	\$ 596
States, municipalities and political subdivisions	838	19	2,031	136	2,869	155	400	6	2,320	156	2,720	162
Mortgage-backed	1,328	24	6,714	616	8,042	640	1,421	36	7,210	696	8,631	732
Asset-backed	302	5	1,065	63	1,367	68	61	1	1,192	59	1,253	60
Corporate	1,732	47	7,604	845	9,336	892	1,205	25	8,880	912	10,085	937
Total fixed maturities	\$ 8,281	\$ 157	\$ 27,478	\$ 2,233	\$ 35,759	\$ 2,390	\$ 6,998	\$ 123	\$ 28,595	\$ 2,364	\$ 35,593	\$ 2,487

	December 31, 2022									
	Less than 12 Months					Greater than 12 Months			Total	
	Estimated Fair Value		Unrealized Loss		Estimated Fair Value		Unrealized Loss		Estimated Fair Value	
Fixed maturities:										
U.S. government, government agencies and authorities	\$ 4,543	\$ 126	\$ 10,537	\$ 591	\$ 15,080	\$ 717				
States, municipalities and political subdivisions	1,040	73	937	85	1,977	158				
Mortgage-backed	2,248	93	5,756	554	8,004	647				
Asset-backed	1,251	39	299	33	1,550	72				
Corporate	3,244	155	6,760	789	10,004	944				
Total fixed maturities	\$ 12,326	\$ 486	\$ 24,289	\$ 2,052	\$ 36,615	\$ 2,538				

At June September 30, 2023, there are approximately 205 209 individual available-for-sale investments that were in unrealized loss positions, for which an allowance for credit losses had not been recorded. The Company did not have the intent to sell these investments, and it was not more likely than not that the Company would be required to sell these investments before recovery of its amortized cost. The Company evaluated these investments for credit losses at June September 30, 2023. The Company considers many factors in evaluating whether the unrealized losses were credit related including, but not limited to, the extent to which the fair value has been less than amortized cost, conditions related to the security, industry, or geographic area, payment structure of the investment and the likelihood of the issuer's ability to make contractual cashflows, defaults or other collectability concerns related to the issuer, changes in the ratings assigned by a rating agency, and other credit enhancements that affect the investment's expected performance. The Company determined that the unrealized losses on the fixed maturity investments were due to non-credit related factors at June September 30, 2023.

At December 31, 2022, there are approximately 208 individual available-for-sale investments that were in unrealized loss positions. Prior to the adoption of ASU 2016-13, the Company performed an analysis of the individual investments to determine if declines in market value were other-than-temporary. See the "Significant Accounting Policies and Critical Estimates" section of Management's Discussion and Analysis of Financial Condition included in the 2022 Annual Report for further information regarding the Company's detailed analysis and factors considered in establishing an other-than-temporary impairment on an investment. The Company reviewed currently available information regarding investments with estimated fair values less than their carrying amounts and believes these unrealized losses are not other-than-temporary and are primarily due to temporary market and sector-related factors rather than to issuer-specific factors. The Company did not have the intent to sell these investments, and it was not more likely than not that the Company would be required to sell those investments before recovery of its amortized cost.

The Company did not record any write-downs for impairment related to available-for-sale fixed maturity investments for the three and six nine months ended June September 30, 2023 and June September 30, 2022.

The Company does not have any exposure to subprime mortgage-backed investments.

Limited liability investments include investments in limited liability companies and limited partnerships. The Company's interests in these investments are not deemed minor and, therefore, are accounted for under the equity method of accounting. The most recently available financial statements are used in applying the equity method. The difference between the end of the reporting period of the limited liability entities and that of the Company is no more than three months. As of June September 30, 2023 and December 31, 2022, the carrying value of limited liability investments totaled \$0.9 \$0.8 million and \$1.0 million, respectively. The Company recorded impairments related to limited liability investments of \$0.1 million during the three and ninemonths ended September 30, 2023(zero for the three and nine months ended September 30, 2022), which are included in impairment losses in the consolidated statements of operations. Income or loss from limited liability investments is recognized based on the Company's share of the earnings of the limited liability entities and is included in net investment income in the consolidated statements of operations. At June September 30, 2023, the Company had no unfunded commitments related to limited liability investments.

Limited liability investments, at fair value represents the underlying investments of the Company's consolidated entities Net Lease Investment Grade Portfolio, LLC ("Net Lease") and Argo Holdings Fund I, LLC ("Argo Holdings"). As of June September 30, 2023 and December 31, 2022, the carrying value of the Company's limited liability investments, at fair value was \$3.7 \$3.6 million and \$17.1 million, respectively. The Company recorded impairments related to limited liability investments, at fair value of zero and \$0.1 million

during each of the three and **six** **nine** months ended **June** **September** 30, 2023, respectively (zero and less than \$0.1 million for the three and **six** **nine** months ended **June** **September** 30, 2022), which are included in gain (loss) on change in fair value of limited liability investments, at fair value in the consolidated statements of operations. At **June** **September** 30, 2023, the Company had no unfunded commitments to fund limited liability investments, at fair value.

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The Company consolidates the financial statements of Net Lease on a three-month lag. Net Lease owned investments in limited liability companies that held investment properties. During the fourth quarter of 2022, one of Net Lease's limited liability companies refinanced their existing debt. Debt proceeds of \$5.2 million were distributed to Net Lease, which decreased Net Lease's investment in the limited liability company, which the Company recorded during the first quarter of 2023. During the first quarter of 2023, Net Lease sold its final investment property for \$15.8 million. Net Lease received net proceeds of \$8.1 million after the repayment of debt at the limited liability company and transaction expenses. Given the three-month reporting lag discussed above, the Company recorded this transaction in its second quarter 2023 financial statements. As a result of the sale and subsequent distribution of the net proceeds, the carrying value of Net Lease's investments in limited liability companies is zero at **June** **September** 30, 2023.

Investments in private companies consist of convertible preferred stocks and notes in privately owned companies and investments in limited liability companies in which the Company's interests are deemed minor. The Company's investments in private companies do not have readily determinable fair values. The Company has elected to record investments in private companies at cost, adjusted for observable price changes and impairments. As of **June** **September** 30, 2023 and December 31, 2022, the carrying value of the Company's investments in private companies totaled **\$0.8 million**, **\$0.9 million** and **\$0.8 million**, respectively. For each of the three and **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022, the Company did not record any recorded adjustments of **\$0.1 million** and **zero**, respectively, to increase the fair value of its certain investments in private companies for observable price **changes**, which are included in unrealized gain on private company investments in the consolidated statements of operations.

The Company performs a quarterly impairment analysis of its investments in private companies. As a result of the analysis performed, the Company did not record any impairments related to investments in private companies for the three and **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022.

Net investment income for the three and **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022 is comprised as follows:

(in thousands)	Three months ended June 30,				Six months ended June 30,				Three months ended September		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Investment income:												
Interest from fixed maturities	\$ 243	\$ 117	\$ 472	\$ 210	\$ 264	\$ 153	\$ 736	\$ 363				
Dividends	14	33	74	64	11	42	85	106				
Income (loss) from limited liability investments	1	52	(33)	287								
(Loss) income from limited liability investments					(8)	(12)	(41)	275				
Income from limited liability investments, at fair value	—	4	—	4	—	—	—	4				
Income from real estate investments	—	200	—	400	—	200	—	600				
Other	102	87	622	170	106	110	728	280				
Gross investment income	360	493	1,135	1,135	373	493	1,508	1,628				
Investment expenses	(30)	(28)	(67)	(51)	(22)	(30)	(89)	(81)				
Net investment income	\$ 330	\$ 465	\$ 1,068	\$ 1,084	\$ 351	\$ 463	\$ 1,419	\$ 1,547				

Gross realized gains and losses on available-for-sale investments for the three and **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022 are comprised as follows:

(in thousands)	Three months ended June 30,				Six months ended June 30,				Three months ended September		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022

	2023	2022	2023	2022	2023	2022	2023	2022
Gross realized gains	\$ —	\$ —	\$ 2	\$ 1	\$ 7	\$ —	\$ 9	\$ 1
Gross realized losses	—	(16)	—	(21)	(7)	(2)	(7)	(23)
Net	\$ —	\$ (16)	\$ 2	\$ (20)	\$ —	\$ (2)	\$ 2	\$ (22)

Gain Net gain (loss) on change in fair value of equity investments for the three and **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022 is comprised as follows:

(in thousands)	Three months ended June 30,				Six months ended June 30,		Three months ended	Nine months ended
	2023	2022	2023	2022	2023	2022	September 30,	September 30,
Net gains recognized on equity investments sold during the period	\$ —	\$ —	\$ —	\$ —	\$ 3,322	\$ —	\$ 3,322	\$ —
Change in unrealized gains (losses) on equity investments held at end of the period	1,707	(38)	2,782	(48)				
Gain (loss) on change in fair value of equity investments	\$ 1,707	\$ (38)	\$ 2,782	\$ (48)				
Change in net unrealized (losses) gains recognized on equity investments held at end of the period					(2,730)	(5)	52	(53)
Net gain (loss) on equity investments					\$ 592	\$ (5)	\$ 3,374	\$ (53)

Prior to the second quarter of 2023, the Company held 400,000 warrants in Limbach Holdings, Inc. ("Limbach"). During the first quarter of 2023, the underlying common stock price of Limbach increased, resulting in an increase in the fair value of the warrants held at March 31, 2023. During the second quarter of 2023, the Company completed a cashless exercise of its Limbach warrants and received 110,036 shares of Limbach common stock. The change in fair value for During the **second** **third** quarter of 2023, is a result the Company sold all of its Limbach common shares. The Company recorded total gains related to Limbach of \$3.3 million during the increased common stock price of Limbach as of **June** **nine** months ended **September** 30, 2023.

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NOTE 7 GOODWILL

The following table summarizes the goodwill activity for the **six** **nine** months ended **June** **September** 30, 2023:

(in thousands)	Extended Warranty	Kingsway Search Xcelerator	Corporate	Total	Extended Warranty	Kingsway Search Xcelerator	Corporate	Total
Balance, December 31, 2022	\$ 31,153	\$ 13,613	\$ 732	\$ 45,498	\$ 31,153	\$ 13,613	\$ 732	\$ 45,498
Acquisition	—	—	—	—	—	911	—	911
Measurement period adjustment	—	(10)	—	(10)	—	(10)	—	(10)
Balance, June 30, 2023	\$ 31,153	\$ 13,603	\$ 732	\$ 45,488	\$ 31,153	\$ 14,514	\$ 732	\$ 46,399
Balance, September 30, 2023								

As further discussed in Note 5, "Acquisitions, Disposal and Discontinued Operations," during the third quarter of 2023 the Company recorded goodwill of \$0.9 million related to the acquisition of SPI on September 7, 2023. The goodwill related to this acquisition is provisional and subject to adjustment during the measurement period. The Company expects to complete its purchase price allocation during the fourth quarter of 2023. The estimates, allocations and calculations recorded at September 30, 2023 are subject to change as we obtain further information; therefore, the final fair values of the assets acquired and liabilities assumed may not agree with the estimates included in these consolidated financial statements.

As further discussed in Note 5, "Acquisitions, Disposal and Discontinued Operations," during the first quarter of 2023 the Company settled the working capital true-up, related to the acquisition of CSuite, that decreased goodwill by less than \$0.1 million.

Goodwill is assessed for impairment annually as of November 30, or more frequently if events or circumstances indicate that the carrying value may not be recoverable. Although the Company believes its estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both. No impairment charges were recorded during the three and **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022.

NOTE 8 INTANGIBLE ASSETS

Intangible assets at **June** **September** 30, 2023 and December 31, 2022 are comprised as follows:

(in thousands)	June 30, 2023			September 30, 2023		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization:						
Database	\$ 4,918	\$ 4,918	\$ —	\$ 4,918	\$ 4,918	\$ —
Vehicle service agreements in-force	3,680	3,680	—	3,680	3,680	—
Customer relationships	32,442	16,458	15,984	33,642	17,875	15,767
Developed technology				600	7	593
Intangible assets not subject to amortization:						
Trade names	14,287	—	14,287	14,457	—	14,457
Total	\$ 55,327	\$ 25,056	\$ 30,271	\$ 57,297	\$ 26,480	\$ 30,817

(in thousands)	December 31, 2022		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets subject to amortization:			
Database	\$ 4,918	\$ 4,918	\$ —
Vehicle service agreements in-force	3,680	3,680	—
Customer relationships	32,442	13,630	18,812
Intangible assets not subject to amortization:			
Trade names	14,287	—	14,287
Total	\$ 55,327	\$ 22,228	\$ 33,099

As further discussed in Note 5, "Acquisitions, Disposal and Discontinued Operations," during the third quarter of 2023, the Company recorded \$2.0 million of separately identifiable intangible assets, related to acquired customer relationships, developed technology and trade name, as part of the acquisition of SPI on September 7, 2023. The customer relationships intangible asset of \$1.2 million and the developed technology intangible asset of \$0.6 million are being amortized over twelve and ten years, respectively, based on the pattern in which the economic benefits of the intangible asset are expected to be consumed. The trade name intangible asset of \$0.2 million is deemed to have indefinite useful life and is not amortized. The intangible assets related to this acquisition are provisional and subject to adjustment during the measurement period. The Company expects to complete its purchase price during the fourth quarter of 2023. The estimates, allocations and calculations recorded at September 30, 2023 are subject to change as we obtain further information; therefore, the final fair values of the assets acquired and liabilities assumed may not agree with the estimates included in these consolidated financial statements.

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The Company's **other** intangible assets with definite useful lives are amortized either based on the patterns in which the economic benefits of the intangible assets are expected to be consumed or using the straight-line method over their estimated useful lives, which range from 7 to 15 years. Amortization of intangible assets was \$1.4 million for each of the three months ended **June** **September** 30, 2023 and **June** **September** 30, 2022 (\$**2.8** **4.3** million and \$**2.9** **4.2** million for the **nine** **six** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022, respectively).

The trade names intangible assets have indefinite useful lives and are not amortized. No impairment charges were recorded during the three and **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022.

Indefinite-lived intangible assets consist of trade names, which are assessed for impairment annually as of November 30, or more frequently if events or circumstances indicate that the carrying value may not be recoverable. The Company may perform its impairment test for any indefinite-lived intangible asset through a qualitative assessment or elect to proceed directly to a quantitative impairment test, however, the Company may resume a qualitative assessment in any subsequent period if facts and circumstances permit.

As of November 30, 2022, the Company conducted its annual qualitative assessment. As a result, the Company determined that certain trade names should be further examined under a quantitative approach. Based on the results of the quantitative approach, the estimated fair values of the trade names exceeded their respective carrying values; therefore, the Company did not record any impairment. However, the Company notes that certain of its indefinite-lived intangible assets are sensitive to changes in interest rates and a continued increase in rates could cause certain assets to become impaired.

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NOTE 9 PROPERTY AND EQUIPMENT

Property and equipment at **June** **September** 30, 2023 and December 31, 2022 are comprised as follows:

(in thousands)	June 30, 2023			September 30, 2023		
	Cost	Accumulated Depreciation	Carrying Value	Cost	Accumulated Depreciation	Carrying Value
Leasehold improvements	418	183	235	418	205	213
Furniture and equipment	278	230	48	281	240	41
Computer hardware	932	575	357	1,002	617	385
Total	\$ 1,628	\$ 988	\$ 640	\$ 1,701	\$ 1,062	\$ 639

(in thousands)	December 31, 2022		
	Cost	Accumulated Depreciation	Carrying Value
Leasehold improvements	485	206	279
Furniture and equipment	375	319	56
Computer hardware	954	516	438
Total	\$ 1,814	\$ 1,041	\$ 773

For each of the three months ended **June** **September** 30, 2023 and **June** **September** 30, 2022, depreciation expense on property and equipment of \$0.1 million (**\$0.1** **\$0.2** million and **\$0.2** million for each of the **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022, respectively), is included in general and administrative expenses in the unaudited consolidated statements of operations.

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KINGSWAY FINANCIAL SERVICES INC.
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NOTE 10 DERIVATIVES

(a) Interest rate swap

On April 1, 2021, the Company entered into an interest rate swap agreement with CIBC Bank USA to convert the variable London interbank offered interest rate for three-month U.S. dollar deposits ("LIBOR") interest rate on a portion of its 2020 KWH Loan (as defined below in Note 11, "Debt,") to a fixed interest rate of 1.18%. On September 15, 2022, the

interest rate swap agreement was amended to convert from a variable Secured Overnight Financing Rate ("SOFR") to a fixed interest rate of 1.103%. The interest rate swap had an initial notional amount of \$11.9 million and matures on February 29, 2024.

The purpose of this interest rate swap, which is not designated as a cash flow hedge, is to reduce the Company's exposure to variability in cash flows from interest payments attributable to fluctuations in the variable interest rate associated with the 2020 KWH Loan. The Company has not elected hedge accounting for the interest rate swap. The interest rate swap is recorded in the consolidated balance sheets at fair value with changes in fair value recorded in the consolidated statements of operations.

The notional amount of the interest rate swap contract is \$7.7 million at June September 30, 2023. At June September 30, 2023 and December 31, 2022, the fair value of the interest rate swap contract was an asset of \$0.2 million \$0.1 million and \$0.3 million, respectively, which is included in other receivables in the consolidated balance sheets. During the three and six nine months ended June September 30, 2023, the Company recognized a loss of less than \$0.1 million and \$0.1 million \$0.2 million, respectively (a gain of \$0.1 million and \$0.3 million for the three and six nine months ended June September 30, 2022, respectively), related to the change in fair value of the interest rate swap, which is included in interest expense in the unaudited consolidated statements of operations and within cash flows from operating activities in the unaudited consolidated statements of cash flows. Net cash receipts of \$0.1 million and \$0.2 million were made to the Company during the three and six nine months ended June September 30, 2023, respectively and net (net cash payments) receipts of less than \$0.1 million were made by the Company during each of the three and six nine months ended June September 30, 2022, to settle a portion of the liabilities related to the interest rate swap agreement. These net cash receipts and payments are reflected as cash inflows or outflows in the unaudited consolidated statements of cash flows within net cash (used in) provided by operating activities.

(b) Trust preferred debt repurchase options

On August 2, 2022, the Company entered into an agreement with a holder of four of the trust preferred debt instruments ("TruPs") that gave the Company the option to repurchase up to 100% of the holder's principal and deferred interest for a purchase price equal to 63.75% of the outstanding principal and deferred interest ("August Option"). Originally, the agreement called for a repurchase at 63%, which escalated to 63.75% once the September 26, 2022 agreement (described below) was signed. The Company agreed that any repurchase made would be for no less than 50% of the TruPs held by the holder.

Until the earlier of (i) the date that all four of the preferred debt instruments have been repurchased and (ii) the nine month anniversary of the agreement ("May Termination Date"), all interest on the four preferred debt instruments continued to accrue. However, with respect to TruPs that were repurchased prior to the May Termination Date, the amount of interest accrued during the term of the agreement was treated as an offset and reduced the repurchase price for such TruPs. The Company had no obligation to pay any such accrued interest with respect to any of the TruPs that were repurchased prior to the May Termination Date.

The Company paid approximately \$2.0 million to the holder for this option and the Company had until the May Termination Date to execute the repurchases. Given the Company repurchased an amount equal to or greater than \$30.0 million, the \$2.0 million paid was applied to the repurchases.

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On September 20, 2022, the Company entered into an additional agreement with the same party to the August 2, 2022 agreement that gave the Company the option to repurchase up to 100% of the holder's principal and deferred interest for 63.75% of the outstanding principal and deferred interest relating to a portion of a fifth TruPs held ("September 20 Option"). The September 20, 2022 agreement was subject to the same terms and conditions as the August 2, 2022 agreement and no additional consideration was paid.

On September 26, 2022, the Company entered into an agreement with a holder of a portion of one of the TruPs that gave the Company the option to repurchase up to 100% of the holder's principal and deferred interest for a purchase price equal to 63% of the outstanding principal and deferred interest ("September 26 Option").

Until the earlier of (i) the date that all of the preferred debt instrument has been repurchased and (ii) the May Termination Date, all interest on the preferred debt instrument continued to accrue. However, with respect to TruPs that were repurchased prior to the May Termination Date, the amount of interest accrued during the term of the agreement was treated as an offset and reduce the repurchase price for such TruPs. The Company had no obligation to pay any such accrued interest with respect to the TruPs that were repurchased prior to the May Termination Date.

The Company paid approximately \$0.3 million to the holder for this option and the Company had until the May Termination Date to execute the repurchase. Given the Company repurchased the TruPs, the \$0.3 million paid was applied to the repurchases.

In February 2023, the Company entered into amendments to the repurchase agreements described above that gave the Company an additional discount on the total repurchase price if the Company effected a 100% repurchase on or before March 15, 2023. On March 2, 2023, the Company gave notice to the holders of its intent to exercise its options to

repurchase 100% of the principal. On March 22, 2023, the Company completed the repurchases. See Note 11, "Debt," for further discussion.

The August Option, September 20 Option and September 26 Options (collectively "the TruPs Options") are derivative contracts. The Company's accounting policies do not apply hedge accounting treatment to derivative instruments. The TruPs options are recorded in the consolidated balance sheet at December 31, 2022 at fair value with changes in fair value recorded in the unaudited consolidated statements of operations. See Note 21, "Fair Value of Financial Instruments," for further discussion.

At December 31, 2022, the fair value of the TruPs Options contracts was \$19.0 million, which is included in other assets in the consolidated balance sheet. During the **six** **nine** months ended **June** **September** 30, 2023, the Company recognized a loss on change in fair value of the TruPs Options contracts of \$1.4 million, which is included in loss on change in fair value of derivative asset option contracts in the unaudited consolidated statement of operations and as an adjustment to calculate cash flows (used in) provided by operating activities in the unaudited consolidated statement of cash flows. Cash payments of \$56.5 million were made to repurchase the TruPs during the **six** **nine** months ended **June** **September** 30, 2023 with respect to the TruPs Options contracts.

NOTE 11 DEBT

Debt consists of the following instruments at **June** **September** 30, 2023 and December 31, 2022:

(in thousands)	June 30, 2023				December 31, 2022				September 30, 2023				December 31, 2022			
	Principal	Carrying Value	Fair Value	Principal	Carrying Value	Fair Value	Principal	Carrying Value	Fair Value	Principal	Carrying Value	Fair Value	Principal	Carrying Value	Fair Value	
Bank loan:																
2021 Ravix Loan	\$ 5,000	\$ 5,000	\$ 5,107	\$ 5,300	\$ 5,300	\$ 5,460	\$ 4,850	\$ 4,850	\$ 4,949	\$ 5,300	\$ 5,300	\$ 5,460				
2022 Ravix Loan	5,650	5,474	5,665	5,950	5,754	6,245	5,075	4,908	5,274	5,950	5,754	6,245				
SNS Loan	6,500	6,413	6,519	6,850	6,755	6,921	6,000	5,917	6,236	6,850	6,755	6,921				
2020 KWH Loan	12,831	12,614	13,117	16,708	16,472	16,819	12,831	12,637	12,974	16,708	16,472	16,819				
Total bank loans	29,981	29,501	30,408	34,808	34,281	35,445	28,756	28,312	29,433	34,808	34,281	35,445				
Subordinated debt	15,000	12,544	12,544	90,500	67,811	67,811	15,000	12,624	12,624	90,500	67,811	67,811				
Total	\$ 44,981	\$ 42,045	\$ 42,952	\$ 125,308	\$ 102,092	\$ 103,256	\$ 43,756	\$ 40,936	\$ 42,057	\$ 125,308	\$ 102,092	\$ 103,256				

Subordinated debt mentioned above consists of the following trust preferred debt instrument at **June** **September** 30, 2023:

Issuer	Principal (in thousands)	Issue date	Interest	Redemption date
Kingsway DE Statutory Trust III	\$ 15,000	5/22/2003	annual interest rate equal to LIBOR, plus 4.20% payable quarterly	5/22/2033

Subordinated debt mentioned above consists of the following trust preferred debt instruments at December 31, 2022:

Issuer	Principal (in thousands)	Issue date	Interest	Redemption date
Kingsway CT Statutory Trust I	\$ 15,000	12/4/2002	annual interest rate equal to LIBOR, plus 4.00% payable quarterly	12/4/2032
Kingsway CT Statutory Trust II	\$ 17,500	5/15/2003	annual interest rate equal to LIBOR, plus 4.10% payable quarterly	5/15/2033
Kingsway CT Statutory Trust III	\$ 20,000	10/29/2003	annual interest rate equal to LIBOR, plus 3.95% payable quarterly	10/29/2033
Kingsway DE Statutory Trust III	\$ 15,000	5/22/2003	annual interest rate equal to LIBOR, plus 4.20% payable quarterly	5/22/2033
Kingsway DE Statutory Trust IV	\$ 10,000	9/30/2003	annual interest rate equal to LIBOR, plus 3.85% payable quarterly	9/30/2033
Kingsway DE Statutory Trust VI	\$ 13,000	12/16/2003	annual interest rate equal to LIBOR, plus 4.00% payable quarterly	1/8/2034

(a) Bank loans:

Ravix

As part of the acquisition of Ravix on October 1, 2021, Ravix became a wholly owned subsidiary of Ravix Acquisition LLC ("Ravix LLC"), and together they borrowed from a bank a principal amount of \$6.0 million in the form of a term loan, and established a \$1.0 million revolver to finance the acquisition of Ravix (together, the "2021 Ravix Loan"). The 2021 Ravix Loan has an annual interest rate equal to the greater of the Prime Rate plus 0.5%, or 3.75%. At June September 30, 2023, the interest rate was 8.75% 9.00%. The term loan matures on October 1, 2027 and the revolver was scheduled to mature on October 1, 2023 (see discussion below related to the 2022 Ravix Loan). The Company also recorded as a discount to the carrying value of the 2021 Ravix Loan issuance costs of \$0.2 million specifically related to the 2021 Ravix Loan. The 2021 Ravix Loan is carried in the consolidated balance sheets at its unpaid principal balance.

Subsequent to the acquisition of CSuite on November 1, 2022, CSuite became a wholly owned subsidiary of Ravix LLC. As a result of the acquisition of CSuite, on November 16, 2022, the 2021 Ravix Loan was amended to: (1) include CSuite as a borrower; (2) borrow an additional principal amount of \$6.0 million in the form of a supplemental term loan (the "2022 Ravix Loan"); and (3) amend the maturity date and interest rate of the \$1.0 million revolver (the "2022 Revolver"). The 2022 Ravix Loan requires monthly payments of principal and interest. The 2022 Ravix Loan matures on November 16, 2028 and has an annual interest rate equal to the Prime Rate plus 0.75%. At June September 30, 2023, the interest rate was 9.00% 9.25%. The 2022 Revolver matures on November 16, 2024 and has an annual interest rate equal to the Prime Rate plus 0.50%. At June September 30, 2023 and December 31, 2022, the balance of the 2022 Revolver was zero.

The Company also recorded as a discount to the carrying value of the 2022 Ravix Loan issuance costs of \$0.1 million specifically related to the 2022 Ravix Loan. The 2022 Ravix Loan is carried in the consolidated balance sheets at its amortized cost, which reflects the monthly pay-down of principal as well as the amortization of the debt discount and issuance costs using the effective interest rate method.

The 2022 Ravix Loan and the 2021 Ravix Loan were not deemed to be substantially different; therefore, the 2022 Ravix Loan is accounted for as a modification of the 2021 Ravix Loan and a new effective interest rate was determined based on the carrying amount of the 2021 Ravix Loan. The issuance costs related to the 2022 Ravix Loan, along with the existing unamortized issuance costs from the 2021 Ravix Loan, are being amortized over the remaining term of the 2022 Ravix Loan using the effective interest rate.

The fair values of the 2021 Ravix Loan and the 2022 Ravix Loan disclosed in the table above is derived from quoted market prices of B and BB minus rated industrial bonds with similar maturities and is categorized within Level 2 of the fair value hierarchy. The 2021 Ravix Loan and the 2022 Ravix Loan are secured by certain of the equity interests and assets of Ravix and CSuite.

The 2021 Ravix Loan and the 2022 Ravix Loan contains a number of covenants, including, but not limited to, a leverage ratio and a fixed charge ratio, all of which are as defined in and calculated pursuant to the 2021 Ravix Loan and 2022 Ravix Loan that, among other things, restrict Ravix and CSuite's ability to incur additional indebtedness, create liens, make dividends and distributions, engage in mergers, acquisitions and consolidations, make certain payments and investments and dispose of certain assets.

SNS

As part of the asset acquisition of SNS on November 18, 2022, the Company formed Secure Nursing Service LLC, who became a wholly owned subsidiary of Pegasus Acquirer Holdings LLC ("Pegasus LLC"), and together they borrowed from a bank a principal amount of \$6.5 million in the form of a term loan, and established a \$1.0 million revolver to finance the acquisition of SNS (together, the "SNS Loan"). The SNS Loan has an annual interest rate equal to the greater of the Prime Rate plus 0.5%, or 5.00%. At June September 30, 2023, the interest rate was 8.75% 9.00%. Monthly principal payments on the term loan begin on November 15, 2023. The revolver matures on November 18, 2023 and the term loan matures on November 18, 2028. During 2022, SNS borrowed under the revolver. During the second quarter of 2023, SNS repaid the amount borrowed under the revolver. During the third quarter of 2023, SNS made an early principal payment on the term loan. The carrying values at June September 30, 2023 and December 31, 2022 for the SNS Loan includes \$5.9 million and \$6.4 million, respectively, related to the term loan and zero and \$0.4 million, respectively, related to the revolver.

The Company also recorded as a discount to the carrying value of the SNS Loan issuance costs of \$0.1 million specifically related to the SNS Loan. The SNS Loan is carried in the consolidated balance sheet at its amortized cost, which reflects principal payments as well as the amortization of the debt discount and issuance costs using the effective interest rate method. The fair value of the SNS Loan disclosed in the table above is derived from quoted market prices of B and BB minus rated industrial bonds with similar maturities and is categorized within Level 2 of the fair value hierarchy. The SNS Loan is secured by certain of the equity interests and assets of SNS.

The SNS Loan contains a number of covenants, including, but not limited to, a leverage ratio and a fixed charge ratio and limits on annual capital expenditures, all of which are as defined in and calculated pursuant to the SNS Loan that, among other things, restrict SNS's ability to incur additional indebtedness, create liens, make dividends and distributions, engage in mergers, acquisitions and consolidations, make certain payments and investments and dispose of certain assets.

In 2019, the Company formed Kingsway Warranty Holdings LLC ("KWH"), whose subsidiaries include IWS Acquisition Corporation ("IWS"), Geminus Holdings Company, Inc. ("Geminus") and Trinity Warranty Solutions LLC ("Trinity"). As part of the acquisition of PWI on December 1, 2020, PWI became a wholly owned subsidiary of KWH, which borrowed a principal amount of \$25.7 million from a bank, consisting of a \$24.7 million term loan and a \$1.0 million revolving credit facility (the "2020 KWH Loan"). The proceeds from the 2020 KWH Loan were used to partially fund the acquisition of PWI and to fully repay the prior outstanding loan at KWH, which occurred on December 1, 2020.

The 2020 KWH Loan had an annual interest rate equal to LIBOR, having a floor of 0.75%, plus 2.75%. During the second quarter of 2022, the 2020 KWH Loan was amended to change the annual interest rate to be equal to SOFR, having a floor of 0.75%, plus spreads ranging from 2.62% to 3.12%. At ~~June~~ September 30, 2023, the interest rate was ~~8.01%~~ 8.20%. The 2020 KWH Loan matures on December 1, 2025. The carrying values at ~~June~~ September 30, 2023 and December 31, 2022 includes \$12.1 million and \$16.0 million, respectively, related to the term loan and \$0.5 million and \$0.5 million, respectively, related to revolver.

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The Company also recorded as a discount to the carrying value of the 2020 KWH Loan issuance costs of \$0.4 million specifically related to the 2020 KWH Loan. The 2020 KWH Loan is carried in the consolidated balance sheets at its amortized cost, which reflects the quarterly pay-down of principal as well as the amortization of the debt discount and issuance costs using the effective interest rate method. The fair value of the 2020 KWH Loan disclosed in the table above is derived from quoted market prices of BB and BB minus rated industrial bonds with similar maturities and is categorized within Level 2 of the fair value hierarchy. The 2020 KWH Loan is secured by certain of the equity interests and assets of KWH and its subsidiaries.

The 2020 KWH Loan contains a number of covenants, including, but not limited to, a leverage ratio, a fixed charge ratio and limits on annual capital expenditures, all of which are as defined in and calculated pursuant to the 2020 KWH Loan that, among other things, restrict KWH's ability to incur additional indebtedness, create liens, make dividends and distributions, engage in mergers, acquisitions and consolidations, make certain payments and investments and dispose of certain assets.

On February 28, 2023, KWH entered into a second amendment to the 2020 KWH Loan (the "KWH DDTL") that provides for an additional delayed draw term loan in the principal amount of up to \$10.0 million, with a maturity date of December 1, 2025. All or any portion of the KWH DDTL, subject to a \$2.0 million minimum draw amount, may be requested at any time through February 27, 2024. The proceeds are evidenced by an intercompany loan and guarantee between KAI and KWH. The principal amount shall be repaid in quarterly installments in an amount equal to 3.75% of the original amount of the drawn DDTL. Proceeds from certain assets dispositions, as defined, may be required to be used to repay outstanding draws under the DDTL. The KWH DDTL also increases the senior cash flow leverage ratio maximum permissible for certain periods. The Company did not draw down on the KWH DDTL during the ~~six~~ nine months ended ~~June~~ September 30, 2023.

(b) Subordinated debt:

Between December 4, 2002 and December 16, 2003, six subsidiary trusts of the Company issued \$90.5 million of 30-year capital securities to third-parties in separate private transactions. In each instance, a corresponding floating rate junior subordinated deferrable interest debenture was then issued by KAI to the trust in exchange for the proceeds from the private sale. The floating rate debentures ~~bear~~ bore interest at the rate of LIBOR, plus spreads ranging from 3.85% to 4.20%. ~~Effective July 3, 2023, the index used for determining the interest rate for the floating rate debentures was converted from LIBOR to CME Term SOFR.~~ The Company has the right to call each of these securities at par value any time after five years from their issuance until their maturity.

The subordinated debt, or TruPs, is carried in the consolidated balance sheets at fair value. See Note 21, "Fair Value of Financial Instruments," for further discussion of the subordinated debt. The portion of the change in fair value of subordinated debt related to the instrument-specific credit risk is recognized in other comprehensive (loss) income.

In February 2023, the Company entered into amendments to the trust preferred option repurchase agreements described in Note 10, "Derivatives," that would give the Company an additional discount on the total repurchase price of the TruPs if the Company effected a 100% repurchase on or before March 15, 2023. On March 2, 2023, the Company gave notice to the holders of five of its TruPs that it intended to exercise its options to repurchase 100% of the principal. On March 22, 2023, the Company completed the repurchases of the five TruPs using available funds from working capital to fund the repurchases. The total amount paid for the five TruPs was \$56.5 million, which included a credit for the \$2.3 million that the Company previously paid at the time of entering into the trust preferred option repurchase agreements. As a result, the Company repurchased \$75.5 million of TruPs principal and \$23.0 million of deferred interest payable. The Company recognized a gain of \$31.6 million, which is included in gain on extinguishment of debt in the unaudited consolidated statement of operations for the ~~six~~ nine months ended ~~June~~ September 30, 2023. At ~~June~~ September 30, 2023, the Company had \$15.0 million of principal outstanding related to the remaining trust preferred debt instrument.

The ~~\$55.3~~ \$55.2 million decrease in the Company's subordinated debt between December 31, 2022 and ~~June~~ September 30, 2023 is attributed to the following:

- A decrease of \$56.1 million as a result of the repurchase of trust preferred debt during the first quarter of 2023;
- A decrease of \$0.3 million related to the change in fair value of the repurchased trust preferred debt instruments between December 31, 2022 and the repurchase dates; and
- An increase of \$1.1 million related to the change in fair value of the remaining trust preferred debt instrument between December 31, 2022 and June September 30, 2023.

Of the \$0.8 million increase in fair value of the Company's subordinated debt between December 31, 2022 and June September 30, 2023, \$0.7 million is reported as increase in fair value of debt attributable to instrument-specific credit risk in the Company's unaudited consolidated statements of comprehensive (loss) income and less than \$0.1 million is reported as loss on change in fair value of debt in the Company's unaudited consolidated statement of operations.

The unaudited consolidated statements of comprehensive (loss) income for the six nine months ended June September 30, 2023 also includes a reclassification adjustment of \$27.2 million from accumulated other comprehensive income to gain on extinguishment of debt related to the instrument-specific credit risk related to the repurchased TruPs.

During the third quarter of 2018, the Company gave notice to its Trust Preferred trustees of its intention to exercise its voluntary right to defer interest payments for up to 20 quarters, pursuant to the contractual terms of its outstanding Trust Preferred indentures, which permit interest deferral. This action does not constitute a default under the Company's Trust Preferred indentures or any of its other debt indentures. In order to execute the TruPs repurchases described above, on March 13, 2023, the Company paid \$5.0 million to the remaining Trust Preferred trustee to be used by the trustee to pay the interest which the Company had been deferring since the third quarter of 2018. At June September 30, 2023 and December 31, 2022, deferred interest payable of zero and \$25.5 million, respectively, is included in accrued expenses and other liabilities in the consolidated balance sheet.

The agreement governing the remaining subordinated debt contains a number of covenants that, among other things, restrict the Company's ability to incur additional indebtedness, make dividends and distributions, and make certain payments in respect of the Company's outstanding securities.

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NOTE 12 LEASES

The Company has operating leases for office space that include fixed base rent payments, as well as variable rent payments to reimburse the landlord for operating expenses and taxes. The Company's variable lease payments do not depend on a published index or rate, and therefore, are expensed as incurred. The Company includes only fixed payments for lease components in the measurement of the right-of-use asset and lease liability. There are no residual value guarantees.

Operating lease costs and variable lease costs included in general and administrative expenses for the three months ended June September 30, 2023 were \$0.1 million and less than \$0.1 million, respectively (\$0.2 million and \$0.1 million, respectively, for the six nine months ended June September 30, 2023). Operating lease costs and variable lease costs included in general and administrative expenses for the three months ended June September 30, 2022 were \$0.2 million and less than \$0.1 million, respectively (\$0.5 million and \$0.1 million, respectively, for the six nine months ended June September 30, 2022). Short-term lease costs included in general and administrative expenses for each of the three months ended June September 30, 2023 and June September 30, 2022 were less than \$0.1 million and zero, respectively (\$0.1 million and less than zero \$0.1 million for the six nine months ended June September 30, 2023 and June September 30, 2022, respectively).

The annual maturities of lease liabilities as of June September 30, 2023 were as follows:

(in thousands)	Lease Commitments	Lease Commitments
2023	\$ 233	\$ 124
2024	442	442
2025	283	283
2026	220	220
2027	162	162
2028 and thereafter	79	79

Total undiscounted lease payments	1,419	1,310
Imputed interest	159	140
Total lease liabilities	\$ 1,260	\$ 1,170

The weighted-average remaining lease term for our operating leases was 3.81 3.66 years as of June September 30, 2023. The weighted average weighted-average discount rate of our operating leases was 5.94% 5.99% as of June September 30, 2023. Cash paid for amounts included in the measurement of lease liabilities was \$0.2 \$0.3 million and \$0.5 \$0.6 million for the six nine months ended June September 30, 2023 and June September 30, 2022, respectively.

NOTE 13 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from contracts with customers relates to the Extended Warranty and Kingsway Search Xcelerator segments and includes: vehicle service agreement fees, guaranteed asset protection products ("GAP") commissions, maintenance support service fees, warranty product commissions, homebuilder warranty service fees, homebuilder warranty commissions and business services consulting revenue. Revenue is based on terms of various agreements with credit unions, consumers, businesses and homebuilders. Customers either pay in full at the inception of a warranty contract, commission product sale, or when consulting services are billed, or on terms subject to the Company's customary credit reviews.

The following table disaggregates revenues from contracts with customers by revenue type:

(in thousands)	IWS, Geminus and PWI	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,		
		2023	2022	2023	2022	2023	2022	2023	2022	
Vehicle service agreement fees and GAP commissions	IWS, Geminus and PWI	\$ 15,034	\$ 14,832	\$ 29,869	\$ 28,135	IWS, Geminus and PWI	\$ 14,897	\$ 15,046	\$ 44,766	\$ 43,181
Maintenance support service fees	Trinity	930	1,394	1,884	3,192	Trinity	1,320	1,555	3,204	4,747
Warranty product commissions	Trinity	1,079	1,096	1,961	2,228	Trinity	1,037	1,264	2,998	3,492
Homebuilder warranty service fees	PWSC (a)	—	1,911	—	3,727	PWSC (a)	—	621	—	4,348
Homebuilder warranty commissions	PWSC (a)	—	211	—	448	PWSC (a)	—	92	—	540
Business services consulting fees	Ravix, Csuite and SNS	9,154	4,146	18,872	8,316	Ravix, Csuite and SNS	7,364	3,818	26,236	12,134
Other service fees							172	—	172	—
Service fee and commission revenue		\$ 26,197	\$ 23,590	\$ 52,586	\$ 46,046		\$ 24,790	\$ 22,396	\$ 77,376	\$ 68,442

(a) The Company disposed of PWSC on July 29, 2022

Vehicle service agreement fees include the fees collected to cover the costs of future automobile mechanical breakdown claims and the associated administration of those claims. Vehicle service agreement fees are earned over the duration of the vehicle service agreement contracts as the single performance obligation is satisfied. Vehicle service agreement fees are initially recorded as deferred service fees with revenues recognized over the term of the contract based on the proportion of expected claims to total overall claims to be incurred over the life of the contract. The Company believes this reasonably represents the transfer of services to the vehicle service contract holder over the warranty term. The Company compares the remaining deferred service fees balance to the estimated amount of expected future claims under the vehicle service agreement contracts and records an additional accrual if the deferred service fees balance is less than expected future claims costs.

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In certain jurisdictions the Company is required to refund to a customer a pro-rata share of the vehicle service agreement fees if a customer cancels the agreement prior to the end of the term. Depending on the jurisdiction, the Company may be entitled to deduct from the refund a cancellation fee and/or amounts for claims incurred prior to cancellation. While refunds vary depending on the term and type of product offered, historically refunds have averaged 9% to 13% of the original amount of the vehicle service agreement fee. Revenues recorded by the Company are net of variable consideration related to refunds and the associated refund liability is included in accrued expenses and other liabilities. The Company estimates refunds based on the actual historical refund rates by warranty type taking into consideration current observable refund trends in estimating the expected amount of future customer refunds to be paid at each reporting period.

Maintenance support service fees include the service fees collected to administer equipment breakdown and maintenance support services and are earned as services are rendered.

Warranty product commissions include the commissions from the sale of warranty contracts for certain new and used heating, ventilation, air conditioning ("HVAC"), standby generator, commercial LED lighting and commercial refrigeration equipment. The Company acts as an agent on behalf of the third-party insurance companies that underwrite and guaranty these warranty contracts. The Company does not guaranty the performance underlying the warranty contracts it sells. Warranty product commissions are earned at the time of the warranty product sales.

Homebuilder warranty service fees in 2022 include fees collected from the sale of warranties issued by new homebuilders. The Company received a single warranty service fee as its transaction price at the time it entered into a written contract with each of its builder customers. Each contract contained two separate performance obligations - warranty administrative services and other warranty services. Warranty administrative services include enrolling each home sold by the builder into the program and the warranty administrative system and delivering the warranty product. Other warranty services include answering builder or homeowner questions regarding the home warranty and dispute resolution services.

Homebuilder warranty commissions in 2022 include commissions from the sale of warranty contracts for those builders who have requested and receive insurance backing of their warranty obligations. The Company acted as an agent on behalf of the third-party insurance company that underwrites and guaranties these warranty contracts. Homebuilder warranty commissions were earned on the certification date, which is typically the date of the closing of the sale of the home to the buyer. The Company also earned fees to manage remediation or repair services related to claims on insurance-backed warranty obligations, which were earned when the claims are closed.

Kingsway Search Xcelerator **Business services** consulting revenue includes the revenue from providing outsourced finance and human resources consulting services, as well as healthcare professional staffing services. The Company invoices for services revenue based on contracted rates. Revenue is earned as services are provided.

The Company's revenue recognition policies are further described in Note 2(p), "Summary of Significant Accounting Policies - Revenue recognition," to the consolidated financial statements in the 2022 Annual Report.

During the first quarter of 2022, IWS recorded a net charge of \$0.9 million relating to a change in estimate in accounting for deferred revenue and deferred contract costs associated with vehicle service agreement fees, resulting in an increase to deferred service fees of \$1.1 million and an increase in deferred contract costs of \$0.2 million.

Service fee receivables

Receivables from contracts with customers are reported as service fee receivable, net in the consolidated balance sheets and at **June** **September** 30, 2023 and December 31, 2022 were **\$10.1** **9.4** million and \$10.3 million, respectively. The decrease in receivables from contracts with customers is primarily due to the timing difference between the Company's satisfaction of performance obligations and customer payments.

Service fee receivable is reported net of an estimated allowance for credit losses. During **each** of the **three** and **six** **nine** months ended **June** **September** 30, 2023, the Company recorded an increase to its allowance for credit losses of \$0.1 million **and** **\$0.2** million, respectively. Service fee receivables that are deemed to be uncollectible are written off against the allowance for credit losses when identified. There was no material write-off of service fee receivable that was deemed to be uncollectible during the **three** and **six** **nine** months ended **June** **September** 30, 2023.

Deferred service fees

The Company records deferred service fees resulting from contracts with customers when payment is received in advance of satisfying the performance obligations. Changes in deferred service fees for the **six** **nine** months ended **June** **September** 30, 2023 were as follows:

(in thousands)	Six Months Ended June 30, 2023	Nine Months Ended September 30, 2023
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Balance, December 31, 2022		\$ 82,713	\$ 82,713
Deferral of revenue		29,819	43,891
Recognition of deferred service fees		(29,699)	(44,290)
Balance, June 30, 2023		\$ 82,833	
Balance, September 30, 2023			\$ 82,314

The increase decrease in deferred service fees between December 31, 2022 and June September 30, 2023 is primarily due to deferred service fees recognized in excess of additions to deferred service fees in excess of deferred service fees recognized during the six nine months ended June September 30, 2023.

The Company expects to recognize within one year as service fee and commission revenue approximately 50.5% 47.3% of the deferred service fees as of June September 30, 2023. Approximately \$24.5 32.9 million and \$24.8 32.6 million of service fee and commission revenue recognized during the six nine months ended June September 30, 2023 and June September 30, 2022 was included in deferred service fees as of December 31, 2022 and December 31, 2021, respectively.

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Deferred contract costs

Deferred contract costs represent the deferral of incremental costs to obtain or fulfill a contract with a customer. Incremental costs to obtain a contract with a customer primarily include sales commissions. The Company capitalizes costs incurred to fulfill a contract if the costs are identifiable, generate or enhance resources used to satisfy future performance obligations and are expected to be recovered. Costs to fulfill a contract include labor costs for set-up activities directly related to the acquisition of vehicle service agreements. Contract costs are deferred and amortized over the expected customer relationship period consistent with the pattern in which the related revenues are earned. Amortization of incremental costs to obtain a contract and costs to fulfill a contract with a customer are recorded in commissions and general and administrative expenses, respectively, in the unaudited consolidated statements of operations. No impairment charges related to deferred contract costs were recorded during the three and six nine months ended June September 30, 2023 and June September 30, 2022.

The deferred contract costs balances and related amortization expense for the three months ended June September 30, 2023 and June September 30, 2022 are comprised as follows:

(in thousands)	Three months ended June 30, 2023			Three months ended June 30, 2022			Three months ended September 30, 2023			Three months ended September 30, 2022		
	Costs to Obtain a Contract	Costs to Fulfill a Contract	Total	Costs to Obtain a Contract	Costs to Fulfill a Contract	Total	Costs to Obtain a Contract	Costs to Fulfill a Contract	Total	Costs to Obtain a Contract	Costs to Fulfill a Contract	Total
	Balance at March 31, net	\$ 13,401	\$ 83	\$ 13,484	\$ 11,875	\$ 80	\$ 11,955	\$ 13,709	\$ 83	\$ 13,792	\$ 12,535	\$ 82
Balance at June 30, net	2,484	6	2,490	2,491	5	2,496	2,473	6	2,479	2,389	5	2,394
Additions	(2,176)	(6)	(2,182)	(1,831)	(3)	(1,834)	(2,373)	(6)	(2,379)	(1,943)	(3)	(1,946)
Balance at June 30, net	\$ 13,709	\$ 83	\$ 13,792	\$ 12,535	\$ 82	\$ 12,617	\$ 13,809	\$ 83	\$ 13,892	\$ 12,981	\$ 84	\$ 13,065
Balance at September 30, net												

The deferred contract costs balances and related amortization expense for the six nine months ended June September 30, 2023 and June September 30, 2022 are comprised as follows:

(in thousands)	Six months ended June 30, 2023			Six months ended June 30, 2022			Nine months ended September 30, 2023			Nine months ended September 30, 2022		
	Costs to Obtain a Contract	Costs to Fulfill a Contract	Total	Costs to Obtain a Contract	Costs to Fulfill a Contract	Total	Costs to Obtain a Contract	Costs to Fulfill a Contract	Total	Costs to Obtain a Contract	Costs to Fulfill a Contract	Total
	Balance at March 31, net	\$ 13,401	\$ 83	\$ 13,484	\$ 11,875	\$ 80	\$ 11,955	\$ 13,709	\$ 83	\$ 13,792	\$ 12,535	\$ 82
Balance at June 30, net	2,484	6	2,490	2,491	5	2,496	2,473	6	2,479	2,389	5	2,394
Additions	(2,176)	(6)	(2,182)	(1,831)	(3)	(1,834)	(2,373)	(6)	(2,379)	(1,943)	(3)	(1,946)
Balance at June 30, net	\$ 13,709	\$ 83	\$ 13,792	\$ 12,535	\$ 82	\$ 12,617	\$ 13,809	\$ 83	\$ 13,892	\$ 12,981	\$ 84	\$ 13,065
Balance at September 30, net												

Balance at December 31, net	\$ 13,174	\$ 83	\$ 13,257	\$ 10,850	\$ 80	\$ 10,930	\$ 13,174	\$ 83	\$ 13,257	\$ 10,850	\$ 80	\$ 10,930
Additions	4,820	13	4,833	4,844	11	4,855	7,293	19	7,312	7,233	16	7,249
Amortization	(4,285)	(13)	(4,298)	(3,159)	(9)	(3,168)	(6,658)	(19)	(6,677)	(5,102)	(12)	(5,114)
Balance at June 30, net	\$ 13,709	\$ 83	\$ 13,792	\$ 12,535	\$ 82	\$ 12,617						
Balance at September 30, net							\$ 13,809	\$ 83	\$ 13,892	\$ 12,981	\$ 84	\$ 13,065

NOTE 14 INCOME TAXES

Income tax (benefit) expense (benefit) for the three and **six** nine months ended **June** **September** 30, 2023 and **June** **September** 30, 2022 varies from the amount that would result by applying the applicable U.S. federal corporate income tax rate of 21% to (loss) income from continuing operations before income tax expense (benefit) expense. The following table summarizes the differences:

(in thousands)	Three months ended June 30,				Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Income tax (benefit) expense at U.S. statutory income tax rate	\$ (338)	\$ (666)	\$ 5,643	\$ (1,594)						
Income tax expense (benefit) at U.S. statutory income tax rate					\$ (187)	\$ 9,450	\$ 5,456	\$ 7,856		
Valuation allowance	240	176	(5,664)	469	(212)	(9,609)	(5,876)	(9,140)		
Non-deductible compensation	37	21	66	68	166	695	232	763		
Investment income	65	(8)	83	(11)	(54)	(161)	29	(172)		
State income tax	121	150	610	195	80	2,488	690	2,683		
Indefinite life intangibles	59	53	139	107	59	(78)	198	29		
Disposition of subsidiary					18	3,267	18	3,267		
Contingent consideration	14	250	14	315	—	4	14	319		
Other	15	5	21	10	28	5	49	15		
Income tax expense (benefit)	\$ 213	\$ (19)	\$ 912	\$ (441)						
Income tax expense					\$ (102)	\$ 6,061	\$ 810	\$ 5,620		

The Company maintains a valuation allowance for its gross deferred tax assets at **June** **September** 30, 2023 and December 31, 2022. The Company's operations have generated substantial operating losses in prior years. These losses can be available to reduce income taxes that might otherwise be incurred on future taxable income; however, it is uncertain whether the Company will generate the taxable income necessary to utilize these losses or other reversing temporary differences. This uncertainty has caused management to place a full valuation allowance on its **June** **September** 30, 2023 and December 31, 2022 net deferred tax asset, excluding the deferred income tax liability amounts set forth in the paragraph below which were determined to not reverse and offset existing deferred tax assets. For each of the three months ended **June** **September** 30, 2023 and **June** **September** 30, 2022, the Company released into income zero and \$0.3 million respectively (zero \$0.3 million and \$0.8 million for the **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022, respectively), of its valuation allowance associated with business interest expense carryforwards with an indefinite life and deferred tax liabilities from acquisitions.

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KINGSWAY FINANCIAL SERVICES INC.
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June **September** 30, 2023

The Company carries net deferred income tax liabilities of \$4.34.5 million and \$4.2 million at **June** **September** 30, 2023 and December 31, 2022, respectively, that consists of:

- \$3.94.0 million and \$3.8 million of deferred income tax liabilities related to indefinite lived intangible assets; and
- \$0.40.5 million and \$0.4 million of deferred state income tax liabilities.

As of **June** **September** 30, 2023 and December 31, 2022, the Company carried a liability for unrecognized tax benefits of zero. The Company classifies interest and penalty accruals, if any, related to unrecognized tax benefits as income tax expense. The Company recorded income tax expense of zero and less than \$0.1 million related to interest and penalty accruals for the three months ended **June** **September** 30, 2023 and **June** **September** 30, 2022, respectively (zero and \$0.1 million for the **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022, respectively).

NOTE 15 (LOSS) EARNINGS PER SHARE

The following table sets forth the reconciliation of numerators and denominators for the basic and diluted (loss) earnings per share computation for the three and **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022:

(in thousands, except per share data)	Three months ended June 30,				Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Numerator:								
(Loss) income from continuing operations	\$ (1,777)	\$ (3,151)	\$ 25,955	\$ (7,150)	\$ (797)	\$ 38,943	\$ 25,158	\$ 31,793
Plus (less): net loss (income) from continuing operations attributable to noncontrolling interests	227	(180)	230	(107)				
(Less) plus: net (income) loss from continuing operations attributable to noncontrolling interests					(351)	1,191	(121)	1,084
Less: dividends on preferred stock	(5)	(79)	(74)	(157)	—	(77)	(74)	(234)
Numerator used in calculating basic (loss) earnings per share from continuing operations attributable to common shareholders	\$ (1,555)	\$ (3,410)	\$ 26,111	\$ (7,414)	\$ (1,148)	\$ 40,057	\$ 24,963	\$ 32,643
Adjustment to add-back dividends on preferred stock	—	—	74	—	—	77	74	234
Adjustment for proportionate interest in Ravix and SNS's earnings attributable to common stock	—	—	(91)	—				
Adjustment for proportionate interest in Ravix, SNS and SPI's earnings attributable to common stock					—	(23)	(77)	51
Numerator used in calculating diluted (loss) earnings per share from continuing operations attributable to common shareholders	\$ (1,555)	\$ (3,410)	\$ 26,094	\$ (7,414)	\$ (1,148)	\$ 40,111	\$ 24,960	\$ 32,928
Income from discontinued operations	110	786	217	2,281				
Income (loss) from discontinued operations					122	(1,670)	339	611
Less: net income from discontinued operations attributable to noncontrolling interests	—	(123)	—	(345)	—	(124)	—	(469)
Numerator used in calculating diluted (loss) earnings per share - net (loss) income attributable to common shareholders	\$ (1,445)	\$ (2,747)	\$ 26,311	\$ (5,478)	\$ (1,026)	\$ 38,317	\$ 25,299	\$ 33,070
Denominator:								
Weighted average basic shares								
Weighted average common shares outstanding	25,295	22,883	24,681	22,883				
Weighted average diluted shares								
Weighted average common shares outstanding	25,295	22,883	24,681	22,883				
Weighted-average basic shares								
Weighted-average common shares outstanding					26,239	22,960	25,206	22,909
Weighted-average diluted shares								
Weighted-average common shares outstanding					26,239	22,960	25,206	22,909
Effect of potentially dilutive securities (a)								
Unvested restricted stock awards	—	—	812	—	—	641	735	560
Warrants	—	—	1,357	—	—	1,179	—	650
Convertible preferred stock	—	—	—	—	—	936	—	936
Total weighted average diluted shares	25,295	22,883	26,850	22,883				
Total weighted-average diluted shares					26,239	25,716	25,941	25,055

Basic (loss) earnings attributable to common shareholders:											
Continuing operations	\$ (0.06)	\$ (0.15)	\$ 1.06	\$ (0.32)	\$ (0.04)	\$ 1.75	\$ 0.99	\$ 1.42			
Discontinued operations	\$ —	\$ 0.03	\$ 0.01	\$ 0.08	\$ —	\$ (0.08)	\$ 0.01	\$ 0.01			
Basic (loss) earnings per share - net (loss) income attributable to common shareholders:	\$ (0.06)	\$ (0.12)	\$ 1.07	\$ (0.24)	\$ (0.04)	\$ 1.67	\$ 1.00	\$ 1.43			
Diluted (loss) earnings attributable to common shareholders:											
Continuing operations	\$ (0.06)	\$ (0.15)	\$ 0.97	\$ (0.32)	\$ (0.04)	\$ 1.56	\$ 0.96	\$ 1.31			
Discontinued operations	\$ —	\$ 0.03	\$ 0.01	\$ 0.08	\$ —	\$ (0.07)	\$ 0.01	\$ 0.01			
Diluted (loss) earnings per share - net (loss) income attributable to common shareholders	\$ (0.06)	\$ (0.12)	\$ 0.98	\$ (0.24)	\$ (0.04)	\$ 1.49	\$ 0.97	\$ 1.32			

(a) Potentially dilutive securities consist of unvested restricted stock awards and warrants, calculated using the treasury stock method, and convertible preferred stock, using the if-converted method. Because the Company is reporting a loss from continuing operations attributable to common shareholders for the three months ended **June** **September** 30, 2023 and the three and six months ended **June** 30, 2022, all potentially dilutive securities outstanding were excluded from the calculation of diluted loss from continuing operations per share since their inclusion would have been anti-dilutive.

Basic (loss) earnings per share excludes dilution and is computed by dividing (loss) income attributable to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted (loss) earnings per share is calculated using weighted-average diluted shares. Weighted-average diluted shares is calculated by adding the effect of potentially dilutive securities to weighted-average common shares outstanding. Potentially dilutive securities are excluded from the diluted (loss) earnings per share computation in loss periods and when the applicable exercise price is greater than the market price on the period end date as their effect would be anti-dilutive.

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The following weighted-average potentially dilutive securities are not included in the diluted (loss) earnings per share calculations above because they would have had an antidilutive effect on the (loss) earnings per share:

	Three months ended June 30,				Three months ended September 30,		Nine months ended September 30,	
	2023		2022		2023	2022	2023	2022
	2023	2022	2023	2022	2023	2022	2023	2022
Unvested restricted stock awards	1,146,947	1,252,754	335,540	1,252,754	1,046,947	511,740	—	592,162
Warrants	3,152,795	4,573,765	1,795,743	4,573,765	—	—	—	—
Convertible preferred stock	—	1,060,831	—	1,060,831	—	—	—	—
Total	4,299,742	6,887,350	2,131,283	6,887,350	1,046,947	511,740	—	592,162

NOTE 16 STOCK-BASED COMPENSATION

(a) Restricted Stock Awards of the Company

Under the 2013 Equity Incentive Plan, the Company granted 500,000 restricted common stock awards to an officer on September 5, 2018 (the "2018 Restricted Stock Award"). The 2018 Restricted Stock Award shall become fully vested and the restriction period shall lapse as of March 28, 2024 subject to the officer's continued employment through the vesting date. The 2018 Restricted Stock Award is amortized on a straight-line basis over the requisite service period. The grant-date fair value of the 2018 Restricted Stock Award was determined using the closing price of Kingsway common stock on the date of grant. Total unamortized compensation expense related to unvested 2018 Restricted Stock Award at **June** **September** 30, 2023 was **\$0.3** **\$0.2** million.

Under the 2020 Equity Incentive Plan, the Company has granted restricted common stock awards to certain officers of the Company (the "2020 Plan Restricted Stock Awards"). The 2020 Plan Restricted Stock Awards vest according to a graded vesting schedule and shall become fully vested subject to the officers' continued employment through the applicable vesting dates. The 2020 Plan Restricted Stock Awards are amortized on a straight-line basis over the requisite service periods. The grant-date fair values of the 2020 Plan Restricted Stock Awards were determined using the closing price of Kingsway common stock on the date of grant. During the **six** **nine** months ended **June** **September** 30,

2023, no 100,000 shares of the 2020 Plan Restricted Stock Awards became fully vested. Total unamortized compensation expense related to unvested 2020 Plan Restricted Stock Awards at June September 30, 2023 was \$2.625 million.

The following table summarizes the activity related to unvested 2020 Plan Restricted Stock Awards and 2018 Restricted Stock Award (collectively "Restricted Stock Awards") for the six nine months ended June September 30, 2023:

	Number of Restricted Stock Awards	Weighted-Average Grant Date Fair Value (per Share)	Number of	Weighted-Average
			Restricted	Grant Date Fair
			Stock Awards	Value (per Share)
Unvested at December 31, 2022	1,146,947	\$ 5.19	1,146,947	\$ 5.19
Granted	—	—	—	—
Vested	—	—	(56,107)	4.65
Cancelled for Tax Withholding	—	—	(43,893)	4.65
Unvested at June 30, 2023	1,146,947	\$ 5.19		
Unvested at September 30, 2023			1,046,947	\$ 5.24

The unvested balance at June September 30, 2023 in the table above is comprised of 546,947 shares of the 2021 2020 Restricted Stock Awards and 500,000 shares of the 2018 Restricted Stock Award.

Stock-based compensation expense related to the Restricted Stock Awards was \$0.2 million and \$0.2 million for each of the three months ended June September 30, 2023 and June September 30, 2022, respectively (\$0.07 million and \$0.5 million for each of the six nine months ended June September 30, 2023 and June September 30, 2022, respectively).

(b) Restricted Stock Awards of PWSC

PWSC granted 1,000 restricted Class B common stock awards ("2018 PWSC RSA") to an officer of PWSC pursuant to an agreement dated September 7, 2018. The 2018 PWSC RSA contained both a service and a performance condition that affected vesting. On December 18, 2020, the 2018 PWSC RSA was amended to modify the vesting terms related to the service and performance condition ("Modified PWSC RSA").

PWSC granted 250 restricted Class B common stock awards to an officer of PWSC pursuant to an agreement dated December 18, 2020 ("2020 PWSC RSA"). The 2020 PWSC RSA contained both a service and a performance condition that affected vesting.

As discussed in Note 5, "Acquisitions, Disposal and Discontinued Operations," the Company sold PWSC on July 29, 2022; therefore, there are no outstanding Modified PWSC RSA and 2020 PWSC RSA reported in the consolidated balance sheet at June September 30, 2023 and December 31, 2022.

The service condition for the Modified PWSC RSA and the 2020 PWSC RSA vested according to a graded vesting schedule. The performance condition was based on the internal rate of return of PWSC. The grant-date fair value of the Modified PWSC RSA and the 2020 PWSC RSA were estimated using an internal valuation model.

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KINGSWAY FINANCIAL SERVICES INC.

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On February 20, 2022, both the service condition and performance condition of the Modified PWSC RSA and 2020 PWSC RSA became fully vested. At June September 30, 2023 and December 31, 2022, there were zero unvested shares of both the Modified PWSC RSA and 2020 PWSC RSA.

Stock-based compensation expense related to the Restricted Stock Awards of PWSC was less than \$0.1 million and \$0.128 million for the three and six months ended June September 30, 2022, respectively.

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Notes to Consolidated Financial Statements (Unaudited)

(c) Restricted Common Unit Awards of Ravix

Ravix LLC granted 199,000 restricted Class B common unit awards to an officer of Ravix pursuant to an agreement dated October 1, 2021 ("2021 Ravix RUA"). The 2021 Ravix RUA vests based on service and the achievement of criteria based on the internal rate of return ("IRR") of Ravix.

The grant-date fair value of the 2021 Ravix RUA was estimated using the Black-Scholes option pricing model, using the following assumptions: expected term of four years, expected volatility of 75%, expected dividend yield of zero, and risk-free interest rate of 0.93%.

On October 1, 2021, 83,333 shares, units, representing one half of the service condition for the 2021 Ravix RUA, became fully vested. The remainder of the service condition vests according to a graded vesting schedule and shall become fully vested subject to the officer's continued employment through the applicable vesting dates.

On November 1, 2022, the Company modified the inputs related to the IRR portion of the 2021 Ravix RUA to be based on the combined internal rate of return of Ravix and CSuite. The modified portion of the awards was probable of vesting both immediately before and after the modification. As a result, the fair value of the award that is subject to the IRR was measured at the modification date and compared to the fair value of the modified portion of the award immediately prior to the modification, with the difference resulting in incremental compensation expense of less than \$0.1 million. The incremental fair value was estimated using the Monte Carlo simulation model, using the following assumptions at the modification date: expected term of 2.92 years, expected volatility of 72% and risk-free interest rate of 4.44%; and the following assumptions prior to the modification: expected term of 2.92 years, expected volatility of 58% and risk-free interest rate of 4.44%.

During the six nine months ended June September 30, 2023, 10,417 shares 15,625 units of the 2021 Ravix RUA became fully vested. At June September 30, 2023 and December 31, 2022, there were 80,944 75,736 and 91,361 unvested shares units of the 2021 Ravix RUA with a weighted-average grant date fair value of \$3.08 per share. Class B common unit. Total unamortized compensation expense related to unvested 2021 Ravix RUA at June September 30, 2023 was \$0.2 million.

Stock-based compensation expense related to the 2021 Ravix RUA was less than \$0.1 million for each of the three months ended June September 30, 2023 and June September 30, 2022 (\$0.1 million and less than \$0.1 million for each of the six nine months ended June September 30, 2023 and June September 30, 2022, respectively).

(d) Restricted Common Unit Awards of SNS

Pegasus LLC granted 75,000 restricted Class B common unit awards to an officer of SNS pursuant to an agreement dated November 18, 2022 ("SNS RUA"). The SNS RUA vests based on service and the achievement of criteria based on the IRR of SNS.

The grant-date fair value of the SNS RUA was estimated using the Monte Carlo simulation model, using the following assumptions: expected term of four years, expected volatility of 85% and risk-free interest rate of 4.09%.

On November 18, 2022, 25,000 shares, units, representing one half of the service condition for the SNS RUA, became fully vested. The remainder of the service condition vests according to a graded vesting schedule and shall become fully vested subject to the officer's continued employment through the applicable vesting dates.

During the six nine months ended June September 30, 2023, no shares units of the SNS RUA vested. At June September 30, 2023 and December 31, 2022, there were 50,000 unvested shares units of the SNS RUA with a weighted-average grant date fair value of \$5.95 per share. Class B common unit. Total unamortized compensation expense related to unvested SNS RUA at June September 30, 2023 was \$0.2 million.

Stock-based compensation expense related to the SNS RUA was less than \$0.1 million and zero for the three months ended June September 30, 2023 and June September 30, 2022, respectively (less than \$0.1 million and zero for the six nine months ended June September 30, 2023 and June September 30, 2022, respectively).

(e) Restricted Common Unit Awards of SPI

Vertical Market Solutions LLC, a subsidiary of the Company, granted 199,000 restricted Class B common unit awards to an officer of SPI pursuant to an agreement dated September 7, 2023 ("SPI RUA"). The SPI RUA vests based on service and the achievement of criteria based on the IRR of SPI.

The grant-date fair value of the SPI RUA was estimated using the Monte Carlo simulation model, using the following assumptions: expected term of five years, expected volatility of 59% and risk-free interest rate of 4.29%.

On September 7, 2023, 83,333 units, representing one half of the service condition for the SPI RUA, became fully vested. The remainder of the service condition vests according to a graded vesting schedule and shall become fully vested subject to the officer's continued employment through the applicable vesting dates.

At September 30, 2023, there were 115,667 unvested units of the SPI RUA with a weighted-average grant date fair value of \$1.11 per Class B common unit. Total unamortized compensation expense related to unvested SPI RUA at September 30, 2023 was \$0.1 million.

Stock-based compensation expense related to the SPI RUA was \$0.1 million for each of the three and nine months ended September 30, 2023.

NOTE 17 REDEEMABLE CLASS A PREFERRED STOCK

On March 1, 2023, the Company notified the holders of its outstanding Class A Preferred Shares ("Preferred Shares") of its intention to redeem all the outstanding Preferred Shares on March 15, 2023 (the "Anticipated Redemption Date"). The Preferred Shares were convertible into shares of the Company's common stock at the discretion of the holders. Prior to the Anticipated Redemption Date, the Company had received notice from all of the holders of the Preferred Shares of their intention to convert their shares.

There were zero and 149,733 shares of Preferred Shares outstanding at ~~June~~ September 30, 2023 and December 31, 2022, respectively. Each Preferred Share was convertible into 6.25 common shares at a conversion price of \$4.00 per common share any time at the option of the holder prior to the redemption date. During the ~~three and six~~ nine months ended ~~June~~ September 30, 2023, 30,000 and 149,733 Preferred Shares respectively, were converted into 187,500 and 935,831 common shares, respectively, at the conversion price of \$4.00 per common share, or \$0.7 million and \$3.7 million, respectively, at the option of the holders.

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NOTE 18 SHAREHOLDERS' EQUITY

As described in Note 17, "Redeemable Class A Preferred Stock", during the ~~three and six~~ nine months ended ~~June~~ September 30, 2023, 30,000 and 149,733 Preferred Shares respectively, were converted into 187,500 and 935,831 common shares, respectively, shares. As a result, during the ~~three and six~~ nine months ended ~~June~~ September 30, 2023, \$1.2 million and \$6.1 million respectively, was reclassified from redeemable Class A preferred stock to additional paid-in capital on the consolidated balance sheets sheet.

On March 21, 2023, the Company's Board of Directors approved a security repurchase program under which the Company is authorized to repurchase up to \$10.0 million of its currently issued and outstanding securities through March 22, 2024. The timing and amount of any repurchases are determined based on market and economic conditions, share price and other factors, and the program may be terminated, modified or suspended at any time at the Company's discretion. During the ~~three and nine~~ months ended ~~June~~ September 30, 2023, the Company repurchased, in the aggregate, 564,970 628,587 and 1,193,557 shares, respectively, of common stock and warrants to purchase common stock for an aggregate purchase price of approximately \$2.1 million \$2.8 million and \$4.8 million, respectively, including fees and commissions. The repurchased common stock will be held as treasury stock at cost and has been removed from common shares outstanding as of ~~June~~ September 30, 2023.

At June 30, 2023, the The Company previously had 2,594,125 warrants outstanding that expire on September 15, 2023. The Prior to the expiration thereof, the warrants are recorded in shareholders' equity and entitle each subscriber to purchase one common share of Kingsway at an exercise price of \$5.00 for each warrant. During the ~~three and six~~ nine months ended ~~June~~ September 30, 2023, warrants to purchase 53,101 2,019,720 and 1,311,941 3,331,661 shares of common stock, respectively, were exercised, resulting in cash proceeds of \$0.3 \$10.1 million and \$6.6 16.7 million, respectively. Any warrants there were not exercised prior to the expiration date became null and void on the expiration date.

NOTE 19 ACCUMULATED OTHER COMPREHENSIVE INCOME

The tables below detail the change in the balance of each component of accumulated other comprehensive (loss) income, net of tax, for the ~~three and six~~ nine months ended ~~June~~ September 30, 2023 and ~~June~~ September 30, 2022 as relates to shareholders' equity attributable to common shareholders on the consolidated balance sheets.

(in thousands)	Three months ended June 30, 2023				Three months ended September 30, 2023			
	Unrealized	Foreign	Change in Fair Value of Debt Attributable	Total	Unrealized	Foreign	Change in Fair Value of Debt Attributable	Total
	Losses on	Currency	Attributable	Accumulated Other	Losses on	Currency	Attributable	Accumulated Other
	Available-for-Sale	Translation	to Instrument-Specific	Comprehensive	Available-for-Sale	Translation	Instrument-Specific	Comprehensive
	Investments	Adjustments	Credit Risk	Loss	Investments	Adjustments	Credit Risk	Loss

Balance at March 31, 2023	\$ (2,059)	\$ (3,286)	\$ 4,751	\$ (594)	\$ (2,326)	\$ (3,286)	\$ 4,354	\$ (1,258)
Balance at June 30, 2023								
Other comprehensive loss arising during the period	(233)	—	(397)	(630)				
Other comprehensive (loss) income arising during the period					(30)	—	84	54
Amounts reclassified from accumulated other comprehensive loss	(34)	—	—	(34)	(66)	—	—	(66)
Net current-period other comprehensive loss	(267)	—	(397)	(664)				
Net current-period other comprehensive (loss) income					(96)	—	84	(12)
Balance at June 30, 2023	\$ (2,326)	\$ (3,286)	\$ 4,354	\$ (1,258)				
Balance at September 30, 2023					\$ (2,422)	\$ (3,286)	\$ 4,438	\$ (1,270)

(in thousands)	Three months ended June 30, 2022				Three months ended September 30, 2022			
	Unrealized Gains (Losses) on Available-for-Sale Investments	Foreign Currency Translation Adjustments	Change in Fair Value of Debt Attributable to Instrument-Specific Credit Risk	Total Accumulated Other Comprehensive Income	Unrealized Gains (Losses) on Available-for-Sale Investments	Foreign Currency Translation Adjustments	Change in Fair Value of Debt Attributable to Instrument-Specific Credit Risk	Total Accumulated Other Comprehensive Income
Balance at March 31, 2022	\$ (1,344)	\$ (3,286)	\$ 35,244	\$ 30,614				
Balance at June 30, 2022					\$ (1,871)	\$ (3,286)	\$ 41,174	\$ 36,017
Other comprehensive (loss) income arising during the period	(533)	—	5,930	5,397				
Other comprehensive loss arising during the period					(834)	—	(3,226)	(4,060)
Amounts reclassified from accumulated other comprehensive income	6	—	—	6	3	—	—	3
Net current-period other comprehensive (loss) income	(527)	—	5,930	5,403				
Net current-period other comprehensive loss					(831)	—	(3,226)	(4,057)
Balance at June 30, 2022	\$ (1,871)	\$ (3,286)	\$ 41,174	\$ 36,017				
Balance at September 30, 2022					\$ (2,702)	\$ (3,286)	\$ 37,948	\$ 31,960

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(in thousands)		Six months ended June 30, 2023					Nine months ended September 30, 2023				
		Unrealized Gains	Foreign	Change in Fair Value	Total	Unrealized Gains	Foreign	Change in Fair Value	Total		
	(Losses) on	Currency	of Debt Attributable	Accumulated Other	(Losses) on	Currency	of Debt Attributable	Accumulated Other			
	Available-for-Sale Investments	Translation	to Instrument-Specific	Comprehensive	Available-for-Sale Investments	Translation	to Instrument-Specific	Comprehensive			
		Adjustments	Credit Risk	Income (Loss)		Adjustments	Credit Risk	Income (Loss)			
Balance at January 1, 2023		\$ (2,464)	\$ (3,286)	\$ 32,355	\$ 26,605	\$ (2,464)	\$ (3,286)	\$ 32,355	\$ 26,605		
Other comprehensive income (loss) arising during the period		194	—	(824)	(630)	164	—	(740)	(576)		
Amounts reclassified from accumulated other comprehensive income (loss)		(56)	—	(27,177)	(27,233)	(122)	—	(27,177)	(27,299)		
Net current-period other comprehensive income (loss)		138	—	(28,001)	(27,863)	42	—	(27,917)	(27,875)		
Balance at June 30, 2023		\$ (2,326)	\$ (3,286)	\$ 4,354	\$ (1,258)						
Balance at September 30, 2023						\$ (2,422)	\$ (3,286)	\$ 4,438	\$ (1,270)		
(in thousands)		Six months ended June 30, 2022					Nine months ended September 30, 2022				
		Unrealized Gains	Foreign	Change in Fair Value	Total	Unrealized Gains	Foreign	Change in Fair Value	Total		
	(Losses) on	Currency	of Debt Attributable	Accumulated Other	(Losses) on	Currency	of Debt Attributable	Accumulated Other			
	Available-for-Sale Investments	Translation	to Instrument-Specific	Comprehensive	Available-for-Sale Investments	Translation	to Instrument-Specific	Comprehensive			
		Adjustments	Credit Risk	Income		Adjustments	Credit Risk	Income			
Balance at January 1, 2022		\$ (220)	\$ (3,286)	\$ 34,285	\$ 30,779	\$ (220)	\$ (3,286)	\$ 34,285	\$ 30,779		
Other comprehensive (loss) income arising during the period		(1,658)	—	6,889	5,231	(2,492)	—	3,663	1,171		
Amounts reclassified from accumulated other comprehensive income		7	—	—	7	10	—	—	10		
Net current-period other comprehensive (loss) income		(1,651)	—	6,889	5,238	(2,482)	—	3,663	1,181		
Balance at June 30, 2022		\$ (1,871)	\$ (3,286)	\$ 41,174	\$ 36,017						
Balance at September 30, 2022						\$ (2,702)	\$ (3,286)	\$ 37,948	\$ 31,960		

It should be noted that the unaudited consolidated statements of comprehensive (loss) income present the components of other comprehensive (loss) income, net of tax, only for the three and **six** nine months ended **June** **September** 30, 2023 and **June** **September** 30, 2022 and inclusive of the components attributable to noncontrolling interests in consolidated subsidiaries.

Components of accumulated other comprehensive (loss) income were reclassified to the following lines of the unaudited consolidated statements of operations for the three and **six** nine months ended **June** **September** 30, 2023 and **June** **September** 30, 2022:

(in thousands)	Three months ended June 30,				Six months ended June 30,				Three months ended September 30,		Nine months ended September 30,	
	2023		2022		2023		2022		2023		2022	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Reclassification of accumulated other comprehensive income from unrealized gains (losses) on available-for-sale investments to:												
Net realized gains	\$ 34	\$ (6)	\$ 56	\$ (7)	\$ 66	\$ (3)	\$ 122	\$ (10)				
Reclassification of accumulated other comprehensive income from change in fair value of debt attributable to instrument-specific credit risk to:												
Gain on extinguishment of debt	—	—	27,177	—	—	—	27,177	—				
(Loss) income from continuing operations before income tax expense (benefit)	34	(6)	27,233	(7)								
Income tax expense (benefit)	—	—	—	—								
Income (loss) from continuing operations, net of taxes	34	(6)	27,233	(7)								
(Loss) income from continuing operations before income tax (benefit) expense					66	(3)	27,299	(10)				
Income tax (benefit) expense					—	—	—	—				
(Loss) income from continuing operations, net of taxes					66	(3)	27,299	(10)				
Income from discontinued operations, net of taxes	—	—	—	—	—	—	—	—				
Net (loss) income	\$ 34	\$ (6)	\$ 27,233	\$ (7)	\$ 66	\$ (3)	\$ 27,299	\$ (10)				

As further discussed in Note 11, "Debt," during the first quarter of 2023, the Company completed the repurchases of five TruPs. The unaudited consolidated statements of comprehensive (loss) income for the **six** **nine** months ended **June** **September** 30, 2023 includes a reclassification adjustment of \$27.2 million from accumulated other comprehensive income to gain on extinguishment of debt related to the instrument-specific credit risk portion of the repurchased TruPs.

NOTE 20 SEGMENTED INFORMATION

The Company reports segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as a source of the Company's reportable operating segments. The Company conducts its business through the following two reportable segments: Extended Warranty and Kingsway Search Xcelerator.

Prior to the fourth quarter of 2022, the Company conducted its business through a third reportable segment, Leased Real Estate. Leased Real Estate included the following subsidiaries of the Company: CMC and VA Lafayette. As further discussed in Note 5, "Acquisitions, Disposal and Discontinued Operations," both CMC and VA Lafayette have been classified as discontinued operations and the results of their operations are reported separately for all periods presented. As such, the Leased Real Estate segment no longer exists and all segmented information has been restated to exclude the Leased Real Estate segment for all periods presented.

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Extended Warranty Segment

Extended Warranty includes the following subsidiaries of the Company: IWS, Geminus, PW I, PWSC and Trinity (collectively, "Extended Warranty"). As discussed in Note 5, "Acquisitions, Disposal and Discontinued Operations," the Company disposed of PWSC on July 29, 2022. The earnings of PWSC are included in the unaudited interim consolidated statements of operations and the segment disclosures through the disposal date.

IWS is a licensed motor vehicle service agreement company and is a provider of after-market vehicle protection services distributed by credit unions in 25 states and the District of Columbia to their members, with customers in all fifty states.

Geminus primarily sells vehicle service agreements to used car buyers across the United States, through its subsidiaries, Penn and Prime. Penn and Prime distribute these products in 42 states, and 42 states, respectively, via independent used car dealerships and franchised car dealerships.

PWI markets, sells and administers vehicle service agreements to used car buyers in all fifty states via independent used car and franchise network of approved automobile and motorcycle dealer partners. PWI's business model is supported by an internal sales and operations team and partners with American Auto Shield in three states with a "white label" agreement. PWI also has a "white label" agreement with a third-party that sells and administers a GAP product in certain states.

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

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

Kingsway Search Xcelerator Segment

Kingsway Search Xcelerator includes the Company's subsidiaries CSuite, Ravix, SNS and SPI.

CSuite provides financial executive services, for project and interim-staffing engagements, and search services for full-time placements for customers throughout the United States.

Ravix provides outsourced financial services and human resources consulting for short or long duration engagements for customers in several states.

SNS provides healthcare staffing services to acute healthcare facilities on a contract or per diem basis in the United States, primarily in California.

SPI provides software products created exclusively to serve the management needs of all types of shared-ownership properties throughout the United States, Mexico and the Caribbean.

Revenues and Operating Income by Reportable Segment

Results for the Company's reportable segments are based on the Company's internal financial reporting systems and are consistent with those followed in the preparation of the unaudited consolidated interim financial statements. The following tables provide financial data used by management. Segment assets are not allocated for management use and, therefore, are not included in the segment disclosures below.

Revenues by reportable segment reconciled to consolidated revenues for the three and six months ended June September 30, 2023 and June September 30, 2022 were:

(in thousands)	Three months ended June 30,				Six months ended June 30,				Three months ended September 30,		Nine months ended September 30,	
	2023		2022		2023		2022		2023	2022	2023	2022
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Revenues:												
Service fee and commission revenue - Extended Warranty	\$ 17,043	\$ 19,444	\$ 33,714	\$ 37,730	\$ 17,254	\$ 18,578	\$ 50,968	\$ 56,308				
Service fee and commission revenue - Kingsway Search Xcelerator	9,154	4,146	18,872	8,316	7,536	3,818	26,408	12,134				
Total revenues	\$ 26,197	\$ 23,590	\$ 52,586	\$ 46,046	\$ 24,790	\$ 22,396	\$ 77,376	\$ 68,442				

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The operating income by reportable segment in the following table is before income taxes and includes revenues and direct segment costs. Total segment operating income reconciled to the consolidated (loss) income from continuing operations for the three and six months ended June September 30, 2023 and June September 30, 2022 were:

(in thousands)	Three months ended June 30,		Six months ended June 30,		Three months ended September 30,		Nine months ended September 30,	
	2023		2022		2023		2022	
	2023	2022	2023	2022	2023	2022	2023	2022
Segment operating income:								
Extended Warranty	\$ 1,392	\$ 2,936	\$ 2,824	\$ 4,659	\$ 1,778	\$ 2,461	\$ 4,602	\$ 7,120
Kingsway Search Xcelerator	1,616	893	3,193	1,699	1,003	723	4,196	2,422
Total segment operating income	3,008	3,829	6,017	6,358	2,781	3,184	8,798	9,542
Net investment income	330	465	1,068	1,084	351	463	1,419	1,547
Net realized gains	123	184	333	238	206	797	539	1,035
Gain (loss) on change in fair value of equity investments	1,707	(38)	2,782	(48)				
Gain (loss) on change in fair value of limited liability investments, at fair value	4	46	(126)	173				
Net gain (loss) on equity investments					592	(5)	3,374	(53)
Gain on change in fair value of limited liability investments, at fair value					320	195	194	368
Net change in unrealized gain on private company investments					63	—	63	—
Gain on change in fair value of real estate investments					—	1,488	—	1,488
Impairment losses	(95)	—	(95)	—	(71)	—	(166)	—
Loss on change in fair value of derivative asset option contracts	—	—	(1,366)	—				
Gain (loss) on change in fair value of derivative asset option contracts					—	13,498	(1,366)	13,498
Interest expense	(1,086)	(1,704)	(4,058)	(3,068)	(1,061)	(2,139)	(5,119)	(5,207)
Other revenue and expenses not allocated to segments, net	(3,806)	(3,180)	(6,446)	(6,246)	(2,833)	(7,242)	(9,279)	(13,488)
Amortization of intangible assets	(1,410)	(1,442)	(2,828)	(2,884)	(1,424)	(1,358)	(4,252)	(4,242)
Loss on change in fair value of debt	(339)	(1,330)	(30)	(3,198)	(165)	(1,794)	(195)	(4,992)
Gain on disposal of subsidiary					342	37,917	342	37,917
Gain on extinguishment of debt	—	—	31,616	—	—	—	31,616	—
(Loss) income from continuing operations before income tax expense (benefit)	(1,564)	(3,170)	26,867	(7,591)				
Income tax expense (benefit)	213	(19)	912	(441)				
(Loss) income from continuing operations before income tax (benefit) expense					(899)	45,004	25,968	37,413
Income tax (benefit) expense					(102)	6,061	810	5,620
(Loss) income from continuing operations	\$ (1,777)	\$ (3,151)	\$ 25,955	\$ (7,150)	\$ (797)	\$ 38,943	\$ 25,158	\$ 31,793

NOTE 21 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best evidenced by quoted bid or ask price, as appropriate, in an active market. Where bid or ask prices are not available, such as in an illiquid or inactive market, the closing price of the most recent transaction of that instrument subject to appropriate adjustments as required is used. Where quoted market prices are not available, the quoted prices of similar financial instruments or valuation models with observable market-based inputs are used to estimate the fair value. These valuation models may use multiple observable market inputs, including observable interest rates, ~~foreign exchange~~ foreign-exchange rates, index levels, credit spreads, equity prices, counterparty credit quality, corresponding market volatility levels and option volatilities. Minimal management judgment is required for fair values calculated using quoted market prices or observable market inputs for models. Greater subjectivity is required when making valuation adjustments for financial instruments in inactive markets or when using models where observable parameters do not exist. Also, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. For the Company's financial instruments carried at cost or amortized cost, the book value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes, as it is the Company's intention to hold them until there is a recovery of fair value, which may be to maturity.

The Company employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The following fair value hierarchy is used in selecting inputs, with the highest priority given to Level 1:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are not observable.

The Company classifies its investments in fixed maturities as available-for-sale and reports these investments at fair value. The Company's equity investments, limited liability investments, at fair value, subordinated debt, derivative contracts (interest rate swap and trust preferred debt repurchase options) and contingent consideration are measured and reported at fair value.

Fixed maturities - Fair values of fixed maturities for which no active market exists are derived from quoted market prices of similar instruments or other third-party evidence. All classes of the Company's fixed maturities, primarily consisting of investments in US Treasury bills and government bonds; obligations of states, municipalities and political subdivisions; mortgage-backed securities; and corporate securities, are classified as Level 2. Level 2 is applied to valuations based upon quoted prices for similar assets in active markets; quoted prices for identical or similar assets in markets that are inactive; or valuations based on models where the significant inputs are observable or can be corroborated by observable market data.

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The Company engages a third-party vendor who utilizes third-party pricing sources and primarily employs a market approach to determine the fair values of our fixed maturities. The market approach includes primarily obtaining prices from independent third-party pricing services as well as, to a lesser extent, quotes from broker-dealers. Our third-party vendor also monitors market indicators, as well as industry and economic events, to ensure pricing is appropriate. All classes of our fixed maturities are valued using this technique. The Company has obtained an understanding of our third-party vendor's valuation methodologies and inputs. Fair values obtained from our third-party vendor are not adjusted by the Company.

The following is a description of the significant inputs, by asset class, used by the third-party pricing services to determine the fair values of our fixed maturities included in Level 2:

- U.S. government, government agencies and authorities are generally priced using the market approach. Inputs generally consist of trades of identical or similar securities, quoted prices in inactive markets and maturity.
- States, municipalities and political subdivisions are generally priced using the market approach. Inputs generally consist of trades of identical or similar securities, quoted prices in inactive markets, new issuances and credit spreads.
- Mortgage-backed and asset-backed securities are generally priced using the market approach. Inputs generally consist of trades of identical or similar securities, quoted prices in inactive markets, expected prepayments, expected credit default rates, delinquencies and issue specific information including, but not limited to, collateral type, seniority and vintage.
- Corporate securities are generally priced using the market approach using pricing vendors. Inputs generally consist of trades of identical or similar securities, quoted prices in inactive markets, issuer rating, benchmark yields, maturity and credit spreads.

Equity investments - Fair values of equity investments, including warrants, reflect quoted market values based on latest bid prices, where active markets exist, or models based on significant market observable inputs, where no active markets exist.

Limited liability investments, at fair value - Limited liability investments, at fair value, include the underlying investments of Net Lease and Argo Holdings. Prior to the second quarter of 2023, Net Lease owned investments in limited liability companies that held investment properties. Net Lease sold its final investment property during its first quarter of 2023, and as a result, the Net Lease's investment in its underlying investments is zero at June September 30, 2023. Argo Holdings makes investments in limited liability companies and limited partnerships that hold investments in search funds and private operating companies.

- The fair value of Net Lease's investments in limited liability companies was based upon the net asset values of the underlying investments in companies as a practical expedient to estimate fair value. The Company applied the net asset value practical expedient to Net Lease's limited liability investments on an investment-by-investment basis unless it was probable that the Company would sell a portion of an investment at an amount different from the net asset value of the investment. Investments that are measured at fair value using the net asset value practical expedient are not required to be classified using the fair value hierarchy.

- The fair value of Argo Holdings' limited liability investments that hold investments in search funds is based on the initial investment in the search funds. The fair value of Argo Holdings' limited liability investments that hold investments in private operating companies is valued using a market approach including valuation multiples applied to corresponding performance metrics, such as earnings before interest, tax, depreciation and amortization; revenue; or net earnings. The selected valuation multiples were estimated using multiples provided by the investees and review of those multiples in light of investor updates, performance reports, financial statements and other relevant information. These investments are categorized in Level 3 of the fair value hierarchy.

Subordinated debt - The fair value of the subordinated debt is calculated using a model based on significant market observable inputs and inputs developed by a third party. These inputs include credit spread assumptions developed by a third party and market observable swap rates. The subordinated debt is categorized in Level 2 of the fair value hierarchy.

Derivative contract - interest rate swap - As described in Note 10, "Derivatives," the Company entered into an interest rate swap agreement effective April 1, 2021 to convert the variable interest rate on a portion of the 2020 KWH Loan to a fixed interest rate. The interest rate swap contract is measured and reported at fair value and is included in other receivables in the consolidated balance sheets at **June September** 30, 2023 and December 31, 2022. The fair value of the interest rate swap contract is estimated using inputs which the Company obtains from the counterparty and is determined using a discounted cash flow analysis on the expected cash flows of the derivative. The discounted cash flow valuation technique reflects the contractual term of the derivative contract, including the period to maturity, and uses observable market based inputs, including quoted mid-market prices or third-party consensus pricing, interest rate curves and implied volatilities. The interest rate swap contract is categorized in Level 2 of the fair value hierarchy.

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Derivative contracts - trust preferred debt repurchase options - As described in Note 10, "Derivatives," the Company entered into three TruPs Options contracts during the third quarter of 2022. During the first quarter of 2023, the Company executed the TruPs Options contracts. The TruPs Options contracts **are were** measured and reported at fair value and are included in other assets in the consolidated balance sheet at December 31, 2022. The fair value of the TruPs Options contracts was estimated using the binomial lattice model. Key inputs in the valuation included credit spread assumptions, interest rate volatility, debt coupon interest rate and time to maturity. The TruPs Options contracts are categorized in Level 3 of the fair value hierarchy.

Contingent consideration - The consideration for the Company's acquisitions of Ravix and CSuite includes future payments to the former owners that are contingent upon the achievement of certain targets over future reporting periods. Liabilities for contingent consideration are measured and reported at fair value and are included in accrued expenses and other liabilities in the consolidated balance sheets. Contingent consideration liabilities are revalued each reporting period. Changes in the fair value of contingent consideration liabilities can result from changes to one or multiple inputs, including adjustments to the discount rates or changes in the assumed achievement or timing of any targets. Any changes in fair value are reported in the consolidated statements of operations as non-operating other expense. The contingent consideration liabilities are categorized in Level 3 of the fair value hierarchy.

- The fair value of Ravix's contingent consideration liability is estimated by applying the Monte Carlo simulation method to forecast achievement of gross profit which may result in up to \$4.5 million in total payments to the former owners of Ravix through October 2024. Key inputs in the valuation include forecasted gross profit, gross profit volatility, discount rate and discount term. The estimated fair value of the Ravix contingent consideration liability at **June September** 30, 2023 and December 31, 2022 was \$3.3 million and \$3.2 million, respectively.
- The fair value of CSuite's contingent consideration liability is estimated by applying the Monte Carlo simulation method to forecast achievement of gross revenue which may result in up to \$3.6 million in total payments to the former owners of CSuite through November 2025. Key inputs in the valuation include forecasted gross revenue, gross revenue volatility, discount rate and discount term. The estimated fair value of the CSuite contingent consideration liability at **June September** 30, 2023 and December 31, 2022 was zero.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The balances of the Company's financial assets and liabilities measured at fair value on a recurring basis by level within the fair value hierarchy as of **June September** 30, 2023 and December 31, 2022 are as follows. Certain investments in limited liability companies that are measured at fair value using the net asset value practical expedient are not required to be classified using the fair value hierarchy, but are presented in the following tables to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets:

(in thousands)	June 30, 2023	September 30, 2023
Fair Value Measurements at the End of the Reporting Period Using	Fair Value Measurements at the End of the Reporting Period Using	

	Quoted Prices in Active Markets for Identical Assets					Quoted Prices in Active Markets for Identical Assets				
	Significant Other Observable		Unobservable			Significant Other Observable		Unobservable		
	Inputs		Inputs		Measured at	Inputs		Inputs		Measured at
	Total	(Level 1)	(Level 2)	(Level 3)	Net Asset Value	Total	(Level 1)	(Level 2)	(Level 3)	Net Asset Value
Recurring fair value measurements:										
Assets:										
Fixed maturities:										
U.S. government, government agencies and authorities	\$ 14,145	\$ —	\$ 14,145	\$ —	\$ —	\$ 12,904	\$ —	\$ 12,904	\$ —	\$ —
States, municipalities and political subdivisions	3,069	—	3,069	—	—	2,820	—	2,820	—	—
Mortgage-backed	8,042	—	8,042	—	—	8,631	—	8,631	—	—
Asset-backed	1,367	—	1,367	—	—	1,350	—	1,350	—	—
Corporate	9,570	—	9,570	—	—	10,110	—	10,110	—	—
Total fixed maturities	36,193	—	36,193	—	—	35,815	—	35,815	—	—
Equity investments - common stock	2,935	2,935	—	—	—	205	205	—	—	—
Limited liability investments, at fair value	3,688	—	—	3,688	—	3,599	—	—	3,599	—
Derivative contract - interest rate swap	204	—	204	—	—	127	—	127	—	—
Total assets	\$ 43,020	\$ 2,935	\$ 36,397	\$ 3,688	\$ —	\$ 39,746	\$ 205	\$ 35,942	\$ 3,599	\$ —
Liabilities:										
Subordinated debt	\$ 12,544	\$ —	\$ 12,544	\$ —	—	\$ 12,624	\$ —	\$ 12,624	\$ —	\$ —
Contingent consideration	3,283	—	—	3,283	—	3,283	—	—	3,283	—
Total liabilities	\$ 15,827	\$ —	\$ 12,544	\$ 3,283	\$ —	\$ 15,907	\$ —	\$ 12,624	\$ 3,283	\$ —

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	Quoted Prices in Active Markets for Identical Assets					Quoted Prices in Active Markets for Identical Assets				
	Significant Other Observable		Unobservable			Significant Other Observable		Unobservable		
	Inputs		Inputs		Measured at	Inputs		Inputs		Measured at
	Total	(Level 1)	(Level 2)	(Level 3)	Net Asset Value	Total	(Level 1)	(Level 2)	(Level 3)	Net Asset Value
Recurring fair value measurements:										
Assets:										
Fixed maturities:										

U.S. government, government agencies and authorities	\$ 15,080	\$ —	\$ 15,080	\$ —	\$ —
States municipalities and political subdivisions	2,232	—	2,232	—	—
Mortgage-backed	8,412	—	8,412	—	—
Asset-backed	1,610	—	1,610	—	—
Corporate	10,257	—	10,257	—	—
Total fixed maturities	37,591	—	37,591	—	—
Equity investments - common stock	153	153	—	—	—
Limited liability investments, at fair value	17,059	—	—	3,196	13,863
Derivative contract - interest rate swap	326	—	326	—	—
Derivative contract - trust preferred debt repurchase options	19,034	—	—	19,034	—
Total assets	\$ 74,163	\$ 153	\$ 37,917	\$ 22,230	\$ 13,863
Liabilities:					
Subordinated debt	\$ 67,811	\$ —	\$ 67,811	\$ —	\$ —
Contingent consideration	3,218	—	—	3,218	—
Total liabilities	\$ 71,029	\$ —	\$ 67,811	\$ 3,218	\$ —

The following table provides a reconciliation of the fair value of recurring Level 3 fair value measurements for the three and **six** **nine** months ended **June** **September** 30, 2023 and **June** **September** 30, 2022:

(in thousands)	Three months ended June 30,				Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022	2023	2022	2023	2022
Assets:								
Limited liability investments, at fair value:								
Beginning balance	\$ 3,442	\$ 3,751	\$ 3,196	\$ 4,022	\$ 3,688	\$ 3,413	\$ 3,196	\$ 4,022
Contributions	—	—	35	—	—	—	35	—
Distributions received	(92)	(164)	(202)	(211)	(600)	(250)	(802)	(461)
Realized gains included in net (loss) income	106	164	216	197	191	250	407	447
Change in fair value of limited liability investments, at fair value included in net (loss) income	232	(338)	443	(595)	320	(198)	763	(793)
Ending balance	\$ 3,688	\$ 3,413	\$ 3,688	\$ 3,413	\$ 3,599	\$ 3,215	\$ 3,599	\$ 3,215
Unrealized losses (gains) on limited liability investments, at fair value held at end of period:								
Included in net (loss) income	\$ 232	\$ (338)	\$ 443	\$ (595)	\$ 320	\$ (198)	\$ 763	\$ (793)
Included in other comprehensive (loss) income	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Derivative - trust preferred debt repurchase options:								
Beginning balance	\$ —	\$ —	\$ 19,034	\$ —	\$ —	\$ —	\$ 19,034	\$ —
Purchase of options							\$ 2,304	\$ 2,304
Initial valuation of options included in net (loss) income							\$ 11,412	\$ 11,412
Exercise of options included in net (loss) income	—	—	(17,668)	—	—	—	(17,668)	—
Change in fair value of derivative assets included in net (loss) income	—	—	(1,366)	—	—	2,086	(1,366)	2,086
Ending balance	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 15,802	\$ —	\$ 15,802
Unrealized gains recognized on derivative assets held at end of period:								
Included in net (loss) income	\$ —	\$ —	\$ (1,366)	\$ —	\$ —	\$ 13,498	\$ (1,366)	\$ 13,498
Included in other comprehensive (loss) income	—	—	—	—	—	—	—	—
Ending balance - assets	\$ 3,688	\$ 3,413	\$ 3,688	\$ 3,413	\$ 3,599	\$ 19,017	\$ 3,599	\$ 19,017
Liabilities:								
Contingent consideration:								
Beginning balance	\$ 3,218	\$ 2,767	\$ 3,218	\$ 2,458	\$ 3,283	\$ 3,959	\$ 3,218	\$ 2,458

Change in fair value of contingent consideration included in net (loss) income	65	1,192	65	1,501	—	18	65	1,519
Ending balance	\$ 3,283	\$ 3,959	\$ 3,283	\$ 3,959	\$ 3,283	\$ 3,977	\$ 3,283	\$ 3,977
Unrealized gains recognized on contingent consideration liability held at end of period:								
Included in net (loss) income	\$ 65	\$ 1,192	\$ 65	\$ 1,501	\$ —	\$ 18	\$ 65	\$ 1,519
Included in other comprehensive (loss) income	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Ending balance - liabilities	\$ 3,283	\$ 3,959	\$ 3,283	\$ 3,959	\$ 3,283	\$ 3,977	\$ 3,283	\$ 3,977

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KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements (Unaudited)
June September 30, 2023

The following table summarizes the valuation techniques and significant unobservable inputs utilized in determining fair values for the Company's investments that are categorized as Level 3 at June September 30, 2023:

Categories	Fair Value	Valuation Techniques	Unobservable Inputs	Input Value(s)	Fair Value			
					(in thousands)	Valuation Techniques	Unobservable Inputs	Input Value(s)
Limited liability investments, at fair value	\$ 3,688	Market approach	Valuation multiples	1.0x - 9.0x	\$ 3,599	Market approach	Valuation multiples	1.0x - 9.0x
Contingent consideration	\$ 3,283	Option-based approach	income Discount rate	8.25%	\$ 3,283	Option-based income approach	Discount rate	8.25%
			Risk-free rate	4.30%			Risk-free rate	4.30%
			Expected volatility	13.00%			Expected volatility	13.00%

The following table summarizes the valuation techniques and significant unobservable inputs utilized in determining fair values for the Company's investments that are categorized as Level 3 at December 31, 2022:

Categories	Fair Value	Valuation Techniques	Unobservable Inputs	Input Value(s)	Fair Value			
					(in thousands)	Valuation Techniques	Unobservable Inputs	Input Value(s)
Limited liability investments, at fair value	\$ 3,196	Market approach	Valuation multiples	1.0x - 9.0x	\$ 3,196	Market approach	Valuation multiples	1.0x - 9.0x
Derivative - trust preferred debt repurchase options	\$ 19,034	Binomial lattice option approach	Credit spread	8.95 %	\$ 19,034	Binomial lattice option approach	Credit spread	8.95 %
			Interest rate volatility	2.3%			Interest rate volatility	2.3%
			Debt coupon interest rate	8.72%-8.87%			Debt coupon interest rate	8.72%-8.87%
			Time to maturity (in years)	10.4 - 10.59			Time to maturity (in years)	10.4 - 10.59
Contingent consideration	\$ 3,218	Option-based approach	income Discount rate	8.25%	\$ 3,218	Option-based income approach	Discount rate	8.25%

Risk-free rate	4.44%	Risk-free rate	4.44%
Expected volatility	13.0%	Expected volatility	13.0%

Investments Measured Using the Net Asset Value per Share Practical Expedient

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient at ~~June~~ September 30, 2023:

Category	Fair Value (in thousands)		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited liability investments, at fair value	\$	—	n/a	n/a	n/a

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient at December 31, 2022:

Category	Fair Value (in thousands)		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited liability investments, at fair value	\$	13,863	n/a	n/a	n/a

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KINGSWAY FINANCIAL SERVICES INC.
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2023

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis, including assets that are adjusted for observable price changes or written down to fair value as a result of an impairment. For the three and ~~six~~ nine months ended ~~June~~ September 30, 2023 and ~~June~~ September 30, 2022, the Company did not record any recorded adjustments to increase the fair value of its certain investments in private companies for observable price changes, changes of \$0.1 million and zero, respectively, which are included in net change in unrealized gain on private company investments in the unaudited consolidated statements of operations. The Company did not record any impairments related to investments in private companies for the three and ~~six~~ nine months ended ~~June~~ September 30, 2023 and ~~June~~ September 30, 2022. To determine the fair value of investments in these private companies, the Company considered rounds of financing and third-party transactions, discounted cash flow analyses and market-based information, including comparable transactions, trading multiples and changes in market outlook, among other factors. The Company has classified the fair value measurements of these investments in private companies as Level 3 because they involve significant unobservable inputs.

As further discussed in Note 5, "Acquisitions, Disposal and Discontinued Operations," the Company acquired SPI on September 7, 2023 and provisionally allocated the purchase price to the assets acquired and liabilities assumed. The fair values of intangible assets associated with the acquisition of SPI were determined to be Level 3 under the fair value hierarchy.

The following table summarizes the valuation techniques and significant unobservable inputs utilized in determining fair values for these Level 3 measurements:

Categories	Fair Value (in thousands)		Valuation Techniques	Unobservable Inputs	Input Value(s)
Customer relationships	\$	1,200	Multi-period excess earnings	Growth rate	3.0 %
				Attrition rate	5.0 %
				Discount rate	21.0 %
Developed technology	\$	600	Relief from royalty	Royalty rate	5.0 %
				Discount rate	19.0 %
Trade name	\$	170	Relief from royalty	Royalty rate	1.0 %
				Discount rate	19.0 %

NOTE 22 RELATED PARTIES

Related party transactions, including services provided to or received by the Company's subsidiaries, are measured in part by the amount of consideration paid or received as established and agreed by the parties. Except where disclosed elsewhere in these unaudited consolidated interim financial statements, the following is a summary of related party

relationships and transactions.

Argo Management Group, LLC

The Company acquired Argo Management Group, LLC ("Argo Management") in April 2016. Argo Management's primary business is to act as Managing Member of Argo Holdings. At June September 30, 2023 and December 31, 2022, each of the Company, John T. Fitzgerald ("Fitzgerald"), the Company's Chief Executive Officer and President, and certain of Fitzgerald's immediate family members owns equity interests in Argo Holdings, all of which interests were acquired prior to the Company's acquisition of Argo Management. Subject to certain limitations, Argo Holdings' governing documents require all individuals and entities owning an equity interest in Argo Holdings to fund upon request his/her/its pro rata share of any funding requirements of Argo Holdings up to an aggregate maximum amount equal to his/her/its total capital commitment (each request for funds being referred to as a "Capital Call"). Argo Holdings made no Capital Calls during the six nine months ended June September 30, 2023 and the year ended December 31, 2022.

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KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2023

NOTE 23 COMMITMENTS AND CONTINGENCIES

(a) Legal proceedings:

In May 2016, Aegis Security Insurance Company ("Aegis") filed a complaint for breach of contract and declaratory relief against the Company in the Eastern District of Pennsylvania alleging, among other things, that the Company breached a contractual obligation to indemnify Aegis for certain customs bond losses incurred by Aegis under the indemnity and hold harmless agreements provided by the Company to Aegis for certain customs bonds reinsured by Lincoln General Insurance Company ("Lincoln General") during the period of time that Lincoln General was a subsidiary of the Company. Lincoln General was placed into liquidation in November 2015 and Aegis subsequently invoked its rights to indemnify under the indemnity and hold harmless agreements. Effective January 20, 2020, Aegis and the Company entered into a Settlement Agreement with respect to such litigation pursuant to which the Company agreed to pay Aegis a one-time settlement amount of \$0.9 million, and to reimburse Aegis for 60% of future losses that Aegis may sustain in connection with such customs bonds, up to a maximum reimbursement amount of \$4.8 million. From 2020 through 2022, the Company made reimbursement payments to Aegis totaling \$1.0 million in connection with the Settlement Agreement. During the second three quarter of and nine months ended September 30, 2023, the Company made a reimbursement payment payments to Aegis of \$0.1 million and \$0.10.2 million, respectively, in connection with the Settlement Agreement, which is included in general and administrative expenses in the unaudited consolidated statement of operations for the three and six nine months ended June September 30, 2023. The Company's potential exposure under these agreements was not reasonably determinable at June September 30, 2023, and no liability has been recorded in the unaudited consolidated interim financial statements at June September 30, 2023.

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Notes to Consolidated Financial Statements (Unaudited)

September 30, 2023

(b) Guarantees:

Mendota

As part of the October 18, 2018 transaction to sell Mendota, the Company will indemnify the buyer for any loss and loss adjustment expenses with respect to open claims in excess of Mendota's carried unpaid loss and loss adjustment expenses at June 30, 2018 related to the open claims. The maximum obligation to the Company with respect to the open claims was \$2.5 million. Per the purchase agreement, a security interest on the Company's equity interest in its consolidated subsidiary, Net Lease, as well as any distributions to the Company from Net Lease, was to be collateral for the Company's payment of obligations with respect to the open claims.

During the third quarter of 2021, the purchasers of Mendota and the Company agreed to release the Company's equity interest in Net Lease as collateral and allow Net Lease to make distributions to the Company. In exchange, the Company agreed to deposit \$2.0 million into an escrow account and advance \$0.5 million to the purchaser of Mendota to satisfy the Company's payment obligation with respect to the open claims.

During the third quarter of 2022, the buyer provided to the Company an analysis of the claims development that indicated that the Company's potential exposure with respect to the open claims was at the maximum obligation amount. Previous communications from the buyer noted no such development and the buyer was not obligated to provide development information to the Company until the first quarter of 2023. As a result of the newly provided information, the Company recorded a liability of \$2.5 million, which is included in accrued expenses and other liabilities in the consolidated balance sheet at December 31, 2022. During the first quarter of 2023, the \$2.0 million that had been previously

deposited into an escrow account was released and remitted to the buyer to satisfy the Company's payment with respect to the open claims. The Company has no remaining exposure with respect to the open claims.

VA Lafayette

The LA Mortgage is nonrecourse indebtedness with respect to the assets of VA Lafayette, and the LA Mortgage is not, nor will it be, guaranteed by Kingsway or its affiliates unless VA Lafayette acts in bad-faith or commits intentional acts with respect to the LA Mortgage. The LA Mortgage is secured in part by a guaranty of recourse liabilities, whereby KAI, as guarantor, would become liable for the recourse liabilities if VA Lafayette, as borrower, violates certain terms of the loan agreement. Under the guarantee, the lender can recover losses from the guarantor for certain bad-faith or other intentional acts of the borrower, such as rents retained by the borrower in violation of the loan documents, fraud or intentional misrepresentation, changes to the lease without the lender's consent, willful misconduct, criminal acts and environmental losses sustained by lender. In addition, the guarantee provides that the LA Mortgage will be the full personal recourse obligation of the guarantor, for certain actions, such as prohibited transfers of the collateral or bankruptcy of the borrower.

(c) Collateral pledged and restricted cash:

Short-term investments with an estimated fair value of \$0.2 million at ~~June~~ September 30, 2023 and December 31, 2022, were on deposit with state regulatory authorities.

The Company also has restricted cash of ~~\$9.6~~ **9.1** million and \$13.1 million at ~~June~~ September 30, 2023 and December 31, 2022, respectively. Included in restricted cash are:

- ~~\$8.4~~ **8.2** million and \$7.6 million at ~~June~~ September 30, 2023 and December 31, 2022, respectively, held as deposits by IWS, Geminus, PWI, Ravix and CSuite;
- ~~\$0.5~~ **0.2** million and \$1.9 million at ~~June~~ September 30, 2023 and December 31, 2022, respectively, on deposit with state regulatory authorities; and
- \$0.7 million and \$3.5 million at ~~June~~ September 30, 2023 and December 31, 2022, respectively, pledged to third-parties as deposits or to collateralize liabilities. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's standard risk management controls.

NOTE 24 SUBSEQUENT EVENT EVENTS

For the period

On July 1 through August 7, October 23, 2023, there were 450,619 exercises the Company announced the signing of a definitive agreement to purchase 95% of the Company's outstanding warrants, shares of National Institute of Clinical Research, Inc. ("NICR"), a provider of clinical trial site management and recruitment services for a total of \$2.3 million. As of August 7, 2023, there were 2,143,506 nephrology, cardiometabolic, infectious diseases and gastroenterology. Under the terms of the Company's warrants outstanding, \$5.00 strike definitive purchase agreement and subject to the terms and conditions thereof, Kingsway will at the closing acquire 95% of the shares of NICR for approximately \$7.9 million. The remaining 5% will remain with the seller. The transaction, which is subject to certain closing conditions, is expected to close in the first quarter of 2024. The Company expects to fund the purchase price that expire with a mix of cash on hand and September 15, 2023, third-party financing.

On October 27, 2023, the Company announced the acquisition of Digital Diagnostics Imaging, Inc. ("DDI"), a provider of fully managed outsourced cardiac monitoring telemetry services for \$11.0 million in an all-cash transaction funded with \$5.4 million in cash on hand and \$5.6 million in debt financing.

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KINGSWAY FINANCIAL SERVICES INC.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Management's Discussion and Analysis includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 that are not historical facts, and involve risks and uncertainties that could cause actual results to differ materially from those expected and projected. Words such as "expects," "believes," "anticipates," "intends," "estimates," "seeks" and variations and similar words and expressions are intended to identify such forward-looking statements. Such forward-looking statements relate to future events or future performance, but reflect Kingsway management's current beliefs, based on information currently available. A number of factors could cause actual events, performance or results to differ materially from the events, performance and results discussed in the forward-looking statements. For information identifying important factors that could cause actual results to differ materially from those anticipated in the forward-looking statements, see Kingsway's securities filings, including its Annual Report on Form 10-K for the year ended December 31, 2022 ("2022 Annual Report"). The Company's securities filings can be accessed on the EDGAR section of the U.S. Securities and Exchange Commission's website at www.sec.gov, on the Canadian Securities Administrators' website at www.sedar.com or

through the Company's website at www.kingsway-financial.com. Except as expressly required by applicable securities law, the Company disclaims any intention or obligation to update or revise any forward-looking statements because of new information, future events or otherwise.

OVERVIEW

Kingsway is a Delaware holding company with operating subsidiaries located in the United States. The Company owns or controls subsidiaries primarily in the extended warranty and business services industries. Kingsway conducts its business through two reportable segments: Extended Warranty and Kingsway Search Xcelerator.

Prior to the fourth quarter of 2022, the Company conducted its business through a third reportable segment, Leased Real Estate. Leased Real Estate included the following subsidiaries of the Company: CMC Industries, Inc. ("CMC") and VA Lafayette, LLC ("VA Lafayette").

- CMC owned, through an indirect wholly owned subsidiary (the "Property Owner"), a parcel of real property consisting of approximately 192 acres located in the State of Texas (the "Real Property"), which is subject to a long-term triple net lease agreement. The Real Property is also subject to two mortgages. On December 22, 2022, the Company announced a definitive agreement for the sale of the Real Property, for gross cash proceeds of \$44.5 million and the assumption of the mortgages. On December 29, 2022, the sale was completed.
- VA Lafayette owns real property consisting of approximately 6.5 acres and a 29,224 square foot single-tenant medical office building located in the State of Louisiana (the "LA Real Property"). The LA Real Property serves as a medical and dental clinic for the Department of Veteran Affairs and is subject to a long-term lease. The LA Real Property is also subject to a mortgage (the "LA Mortgage"). During the fourth quarter of 2022, the Company began executing a plan to sell VA Lafayette, and as a result, VA Lafayette is reported as held for sale at ~~June 30, 2023~~ ~~September 30, 2023~~ and December 31, 2022.
- Both CMC and VA Lafayette have been classified as discontinued operations and the results of their operations are reported separately for all periods presented. See Note 5, "Acquisitions, Disposal and Discontinued Operations," to the unaudited consolidated interim financial statements for further discussion. All segmented information has been restated to exclude the Leased Real Estate segment for all periods presented.

Extended Warranty includes the following subsidiaries of the Company: IWS Acquisition Corporation ("IWS"), Geminus Holding Company, Inc. ("Geminus"), PWI Holdings, Inc. ("PWI"), Professional Warranty Service Corporation ("PWSC") and Trinity Warranty Solutions LLC ("Trinity"). As discussed in Note 5, "Acquisitions, Disposal and Discontinued Operations," to the unaudited consolidated interim financial statements, the Company disposed of PWSC on July 29, 2022. The earnings of PWSC are included in the unaudited interim consolidated statements of operations and the segment disclosures through the disposal date. Throughout Management's Discussion and Analysis, the term "Extended Warranty" is used to refer to this segment.

IWS is a licensed motor vehicle service agreement company and is a provider of after-market vehicle protection services distributed by credit unions in 25 states and the District of Columbia to their members, with customers in all fifty states.

Geminus primarily sells vehicle service agreements to used car buyers across the United States, through its subsidiaries, The Penn Warranty Corporation ("Penn") and Prime Auto Care, Inc. ("Prime"). Penn and Prime distribute these products in ~~42~~ ~~46~~ and ~~40~~ ~~42~~ states, respectively, via independent used car dealerships and franchised car dealerships.

PWI markets, sells and administers vehicle service agreements to used car buyers in all fifty states via independent used car and franchise network of approved automobile and motorcycle dealer partners. PWI's business model is supported by an internal sales and operations team and partners with American Auto Shield in three states with a white label agreement. PWI also has a "white label" agreement with Classic to sell a guaranteed asset protection product ("GAP") in states that Classic is approved in.

PWSC sold home warranty products and provided administration services to homebuilders and homeowners across the United States. PWSC distributed its products and services through an in-house sales team and through insurance brokers and insurance carriers throughout all states except Alaska and Louisiana.

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

KINGSWAY FINANCIAL SERVICES INC.

Kingsway Search Xcelerator includes the Company's subsidiaries, CSuite Financial Partners, LLC ("CSuite"), Ravix Financial, Inc. ("Ravix") ~~and~~, Secure Nursing Service LLC ("SNS") ~~and~~ Systems Products International, Inc. ("SPI"). Throughout Management's Discussion and Analysis, the term the term "Kingsway Search Xcelerator" is used to refer to this segment.

CSuite provides financial executive services, for project and interim-staffing engagements, and search services for full-time placements for customers throughout the United States.

Ravix provides outsourced financial services and human resources consulting for short or long duration engagements for customers in several states.

SNS provides healthcare staffing services to acute healthcare facilities on a contract or per diem basis in the United States, primarily in California.

SPI provides software products created exclusively to serve the management needs of all types of shared-ownership properties throughout the United States, Mexico and the Caribbean.

NON-U.S. GAAP FINANCIAL MEASURE

Throughout this quarterly report, we present our operations in the way we believe will be most meaningful, useful and transparent to anyone using this financial information to evaluate our performance. Our unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. In addition to the U.S. GAAP presentation of net (loss) income, we present segment operating income as a non-U.S. GAAP financial measure, which we believe is valuable in managing our business and drawing comparisons to our peers. Below is a definition of our non-U.S. GAAP measure and its relationship to U.S. GAAP.

Segment Operating Income

Segment operating income represents one measure of the pretax profitability of our segments and is derived by subtracting direct segment expenses from direct segment revenues. Revenues and expenses are presented in the unaudited consolidated statements of operations, but are not subtotalized by segment; however, this information is available in total and by segment in Note 20 "Segmented, "Segmented Information," to the unaudited consolidated interim financial statements, regarding reportable segment information. The nearest comparable U.S. GAAP measure to total segment operating income is (loss) income from continuing operations before income tax (benefit) expense (benefit) that, in addition to segment operating income, includes net investment income, net realized gains, net gain (loss) on change in fair value of equity investments, gain (loss) on change in fair value of limited liability investments, at fair value, net change in unrealized gain on private company investments, gain on change in fair value of real estate investments, impairment losses, loss gain (loss) on change in fair value of derivative asset option contracts, interest expense, other revenue and expenses not allocated to segments, net, amortization of intangible assets, loss on change in fair value of debt, gain on disposal of subsidiary and gain on extinguishment of debt. A reconciliation of total segment operating income to (loss) income from continuing operations before income tax (benefit) expense (benefit) for the three and ~~six~~ nine months ended ~~June 30, 2023~~ September 30, 2023 and ~~June~~ September 30, 2022 is presented below in Table 1 of the "Results of Continuing Operations" section of Management's Discussion and Analysis.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES

The preparation of unaudited consolidated interim financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and classifications of assets and liabilities, revenues and expenses, and the related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates. Estimates and their underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recorded in the accounting period in which they are determined.

The Company's most critical accounting policies are those that are most important to the portrayal of its financial condition and results of operations, and that require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. The critical accounting policies and judgments in the accompanying unaudited consolidated interim financial statements include revenue recognition; valuation of fixed maturities and equity investments; impairment assessment of investments; valuation of limited liability investments, at fair value; valuation of deferred income taxes; accounting for business combinations and asset acquisitions; valuation and impairment assessment of intangible assets; goodwill recoverability; deferred contract costs; fair value assumptions for subordinated debt obligations; fair value assumptions for subsidiary stock-based compensation awards; fair value assumptions for derivative financial instruments; and contingent consideration. Although management believes that its estimates and assumptions are reasonable, they are based upon information available when they are made, and therefore, actual results may differ from these estimates under different assumptions or conditions.

The Company's significant accounting policies and critical estimates are described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the 2022 Annual Report. There has been no material change subsequent to December 31, 2022 to the information previously disclosed in the 2022 Annual Report with respect to these significant accounting policies and critical estimates.

KINGSWAY FINANCIAL SERVICES INC.

RESULTS OF CONTINUING OPERATIONS

A reconciliation of total segment operating income to net (loss) income for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and **June 30, 2022** **September 30, 2022** is presented in Table 1 below:

Table 1 Segment Operating Income
(in thousands of dollars)

	For the three months ended June 30,						For the three months ended September 30,			For the nine months ended September 30,		
	2023		2022		Change		2023		2022		Change	
	2023	2022	Change	2023	2022	Change	2023	2022	Change	2023	2022	Change
Segment operating income:												
Extended Warranty	\$ 1,392	\$ 2,936	\$ (1,544)	\$ 2,824	\$ 4,659	\$ (1,835)	\$ 1,778	\$ 2,461	\$ (683)	\$ 4,602	\$ 7,120	\$ (2,518)
Kingsway Search Xcelerator	1,616	893	723	3,193	1,699	1,494	1,003	723	280	4,196	2,422	1,774
Total segment operating income	3,008	3,829	(821)	6,017	6,358	(341)	2,781	3,184	(403)	8,798	9,542	(744)
Net investment income	330	465	(135)	1,068	1,084	(16)	351	463	(112)	1,419	1,547	(128)
Net realized gains	123	184	(61)	333	238	95	206	797	(591)	539	1,035	(496)
Gain (loss) on change in fair value of equity investments	1,707	(38)	1,745	2,782	(48)	2,830						
Gain (loss) on change in fair value of limited liability investments, at fair value	4	46	(42)	(126)	173	(299)						
Net gain (loss) on equity investments							592	(5)	597	3,374	(53)	3,427
Gain on change in fair value of limited liability investments, at fair value							320	195	125	194	368	(174)
Net change in unrealized gain on private company investments							63	—	63	63	—	63
Gain on change in fair value of real estate investments							—	1,488	(1,488)	—	1,488	(1,488)
Impairment losses	(95)	—	(95)	(95)	—	(95)	(71)	—	(71)	(166)	—	(166)
Loss on change in fair value of derivative asset option contracts	—	—	—	(1,366)	—	(1,366)						
Gain (loss) on change in fair value of derivative asset option contracts							—	13,498	(13,498)	(1,366)	13,498	(14,864)
Interest expense	(1,086)	(1,704)	618	(4,058)	(3,068)	(990)	(1,061)	(2,139)	1,078	(5,119)	(5,207)	88
Other revenue and expenses not allocated to segments, net	(3,806)	(3,180)	(626)	(6,446)	(6,246)	(200)	(2,833)	(7,242)	4,409	(9,279)	(13,488)	4,209
Amortization of intangible assets	(1,410)	(1,442)	32	(2,828)	(2,884)	56	(1,424)	(1,358)	(66)	(4,252)	(4,242)	(10)
Loss on change in fair value of debt	(339)	(1,330)	991	(30)	(3,198)	3,168	(165)	(1,794)	1,629	(195)	(4,992)	4,797
Gain on disposal of subsidiary							342	37,917	(37,575)	342	37,917	(37,575)
Gain on extinguishment of debt	—	—	—	31,616	—	31,616	—	—	—	31,616	—	31,616
(Loss) income from continuing operations before income tax expense (benefit)	(1,564)	(3,170)	1,606	26,867	(7,591)	34,458						
Income tax expense (benefit)	213	(19)	232	912	(441)	1,353						
(Loss) income from continuing operations before income tax (benefit) expense							(899)	45,004	(45,903)	25,968	37,413	(11,445)
Income tax (benefit) expense							(102)	6,061	(6,163)	810	5,620	(4,810)
(Loss) income from continuing operations	(1,777)	(3,151)	1,374	25,955	(7,150)	33,105	(797)	38,943	(39,740)	25,158	31,793	(6,635)

Income from discontinued operations, net of taxes	110	786	(676)	217	2,281	(2,064)	122	830	(708)	339	3,111	(2,772)
Loss on disposal of discontinued operations, net of taxes							—	(2,500)	2,500	—	(2,500)	2,500
Net (loss) income	\$ (1,667)	\$ (2,365)	\$ 698	\$ 26,172	\$ (4,869)	\$ 31,041	\$ (675)	\$ 37,273	\$ (37,948)	\$ 25,497	\$ 32,404	\$ (6,907)

Segment Operating Income, (Loss) Income from Continuing Operations and Net (Loss) Income

In the **second** **third** quarter of 2023, we reported segment operating income of **\$3.0** **2.8** million, a decrease of **\$0.8** million **\$0.4** million from the same period in 2022 (**\$6.0** **8.8** million year to date, a decrease of **\$0.3** million **\$0.7** million compared to prior year to date). The decrease for the three and **six** **nine** months ended **June** **September** 30, 2023 is primarily due to the following items:

- The disposal of PWSC as of July 29, 2022, which had segment operating income loss of **\$0.7** million **\$0.1** million in the **second** **third** quarter of 2022 (**\$1.0** million (segment operating income of **\$1.0** million prior year to date); and
- Decreased operating income at the other Extended Warranty subsidiaries; which was partially offset by
- Increased operating income from Kingsway Search Xcelerator, primarily due to including CSuite and SNS for the **second** **third** quarter and **six** **nine** months of 2023 (both were acquired in November 2022). CSuite and SNS had combined operating income of **\$0.7** million **\$0.2** million and **\$1.4** million **\$1.5** million for the three and **six** **nine** months ended **June** **September** 30, 2023, respectively.

In the **second** **third** quarter of 2023, we reported loss from continuing operations of **\$1.8** million **\$0.8** million compared to income from continuing operations of **\$3.2** **38.9** million in the **second** **third** quarter of 2022. The loss from continuing operations for the three months ended **June** **September** 30, 2023 is primarily due to:

- Interest expense; and
- Other revenue and expenses not allocated to segments, net, which includes a management fee expense of **\$1.5** million payable to the manager of Net Lease Investment Grade Portfolio LLC net; ("Net Lease"); and
- Amortization of intangible assets; partially offset by
- Segment operating income and
- Gain on change in fair value of equity investments, which includes a gain of **\$1.8** million related to the Company's investment in Limbach Holdings, Inc. ("Limbach"), income.

The loss income from continuing operations for the three months ended **June 30, 2022** **September 30, 2022** is primarily due to interest expense, a gain on disposal of subsidiary of **\$37.9** million, related to the sale of PWSC, a gain on change in fair value of derivative asset option contracts of **\$13.5** million, related to the trust preferred debt repurchase options, and segment operating income; all of which was partially offset by other revenue and expenses not allocated to segments, net, which includes **\$1.3** million of expense due. See Note 5, "Acquisitions, Disposal and Discontinued Operations" and Note 10, "Derivatives," to the increase in fair value unaudited consolidated interim financial statements, for further discussion of the Ravix contingent consideration, amortization of intangible assets PWSC disposal and loss on change in fair value of trust preferred debt partially offset by segment operating income repurchase options.

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In the second quarter of 2023, we reported a net loss of **\$1.7** million compared to **\$2.4** million in the second quarter of 2022. In addition to the items described above impacting loss from continuing operations, the net loss includes income from discontinued operations, net of taxes of **\$0.1** million and **\$0.8** million for the three months ended **June 30, 2023** and **June 30, 2022**, respectively. The income from discontinued operations is related to the operations of CMC, solely with respect to the three months ended **June 30, 2022**, and VA Lafayette. See Note 5, "Acquisitions, Disposal and Discontinued Operations," to the unaudited consolidated interim financial statements, for further discussion.

For the **six** **nine** months ended **June** **September** 30, 2023, we reported income from continuing operations of **\$26.0** **25.2** million compared to a loss from continuing operations of **\$7.2** **31.8** million for the **six** **nine** months ended **June 30, 2022** **September 30, 2022**. The income from continuing operations for the **six** **nine** months ended **June** **September** 30, 2023 is primarily due to:

- A gain on extinguishment debt of **\$31.6** million, related to the repurchase of the trust preferred debt; and
- Gain on change in fair value of equity investments, which includes a gain of **\$2.7** million **\$3.3** million related to the Company's investment in Limbach, Limbach Holdings, Inc. ("Limbach"); which was partially offset by
- Loss on change in fair value of derivative asset option contracts of **\$1.4** million, related to the trust preferred debt repurchase options; and
- Other revenue and expenses not allocated to segments, net, which includes a management fee expense of **\$1.8** million paid to the managers of Flower Portfolio 001, LLC ("Flower") and Net Lease Investment Grade Portfolio LLC ("Net Lease").

See Note 11, "Debt" and Note 10, "Derivatives," to the unaudited consolidated interim financial statements, for further discussion of the repurchase of the trust preferred debt and trust preferred debt repurchase options.

The loss income from continuing operations for the **six** **nine** months ended **June 30, 2022** **September 30, 2022** is primarily due to gain on disposal of subsidiary of \$37.9 million, related to the sale of PWSC, gain on change in fair value of derivative asset option contracts of \$13.5 million, related to the trust preferred debt repurchase options, and segment operating income, that was partially offset by interest expense, other revenue and expenses not allocated to segments, net, which includes \$1.3 million a \$6.1 million of expense related to previously-granted awards to PWSC employees that are accounted for on a fair value basis and \$1.5 million of expense due to the increase in fair value of the Ravix contingent consideration, amortization of intangible assets, loss on change in fair value of debt and income tax benefit, expense which which was partially offset by segment operating income is primarily due to the state tax expense associated with the sale of PWSC on July 29, 2022 and net investment income, the related increase in valuation allowance from the accelerated utilization of indefinite life interest expense carryforwards as a result of such sale.

In the third quarter of 2023, we reported a net loss of \$0.7 million compared to net income of \$37.3 million in the third quarter of 2022 (net income of \$25.5 million year to date compared to \$32.4 million prior year to date). In addition to the items described above impacting (loss) income from continuing operations, the net (loss) income includes:

- Income from discontinued operations, net of taxes of \$0.1 million and \$0.8 million for the three months ended September 30, 2023 and September 30, 2022, respectively (\$0.3 million and \$3.1 million year to date and prior year to date, respectively); and
- A loss on disposal of discontinued operations, net of taxes of \$2.5 million for the three and nine months ended September 30, 2022.

The income from discontinued operations is related to the operations of CMC, solely with respect to the three and nine months ended September 30, 2022, and VA Lafayette. The loss on disposal of discontinued operations is related to a liability recorded at September 30, 2022 regarding the Company's obligation to indemnify a former subsidiary for open claims. See Note 5, "Acquisitions, Disposal and Discontinued Operations," to the unaudited consolidated interim financial statements, for further discussion.

Extended Warranty

The Extended Warranty service fee and commission revenue decreased **12.4%** **7.0%** (or **\$2.4** **\$1.3** million) to **\$17.0** **\$17.3** million for the three months ended **June 30, 2023** **September 30, 2023** compared with **\$19.4 million** **\$18.6 million** for the three months ended **June 30, 2022** **September 30, 2022** (\$**33.7** **51.0** million year to date compared to **\$37.7** **\$56.3** million prior year to date). Our auto Extended Warranty companies continue to be impacted by payment pressures incurred by consumers as a result of **rising** **a higher interest rates** **rate** environment and **continued** **higher-than-expected** price of used automobiles. While the price of used automobiles has fallen since the beginning of 2023, the declines for the end consumer are not occurring as quickly as **anticipated** at the beginning of the year. **anticipated**. Service fee and commission revenue was impacted by the following for the three and **six** **nine** months ended **June** **September 30, 2023**:

- A **\$2.1** **\$0.7** million decrease at PWSC for the three months ended **June 30, 2023** **September 30, 2023** (a decrease of **\$4.2 million** **\$4.9 million** year to date), due to the sale of PWSC on July 29, 2022;
- A \$0.5 million decrease at Trinity for the three months ended **June** **September 30, 2023** (a decrease of **\$1.6 million** **\$2.1 million** year to date), primarily driven by decreases in its equipment breakdown and maintenance support services due to mild weather conditions, which results in fewer service calls, as well as long lead times on parts and installations;
- A **\$0.1** **\$0.15** million **increase** **decrease** at Geminus for the three months ended **September 30, 2023** (essentially flat year to date);
- A **\$0.1** **million** **decrease** at IWS for the three months ended **June 30, 2023** **September 30, 2023** (an increase of **\$1.2 million** **\$1.1 million** year to date). IWS sells a substantial amount of VSAs for new automobiles but, more importantly, its products are distributed through credit unions at the point of vehicle financing, which has been less impacted by the **recent** **current** **macro-economic conditions**, **conditions**. However, in 2023 IWS has been impacted by the loss of two customers (one due to acquisition, one due to change in management), which was partially offset by growth at new and existing customers, the latter usually due to credit unions getting competitive on interest rates. During the first quarter of 2022, there was a change in estimate of IWS' **deferred revenue** associated with vehicle service contract fees, which resulted in a reduction to IWS revenue of \$1.2 million; and
- A \$0.1 million increase at PWI for the three months ended **June** **September 30, 2023** (an increase of **\$0.4 million** **\$0.5 million** year to date). In the second half of 2022, there was a restructuring of leadership at PWI that has resulted in a higher focus on salesforce production.

The Extended Warranty operating income was **\$1.4 million** **\$1.8 million** for the three months ended **June 30, 2023** **September 30, 2023** compared with **\$2.9 million** **\$2.5 million** for the three months ended **June 30, 2022** **September 30, 2022**. (\$**2.8** **4.6** million year to date compared to **\$4.7** **\$7.1** million prior year to date). We saw an increase in claims paid at our auto Extended Warranty companies – both sequentially and year over year – primarily due to inflationary pressures on the cost of parts and labor. While the third quarter 2023 claims were up from the same period prior year, claims were lower than the second quarter of 2023, and the increase over prior year was less than the increase of second quarter 2023 over the second quarter of 2022.

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Operating income was primarily impacted by the following:

- A ~~\$0.7~~ \$0.1 million ~~decrease~~ ~~increase~~ at PWSC for the three months ended ~~June 30, 2023~~ ~~September 30, 2023~~ (a decrease of ~~\$1.0 million~~ \$0.9 million year to date), due to the sale of PWSC on July 29, 2022;
- A ~~\$0.3~~ \$0.3 million decrease at ~~IWS Trinity~~ to ~~\$0.7 million~~ \$0.3 million for the three months ended ~~June 30, 2023~~ ~~September 30, 2023~~ (a decrease of ~~\$0.1~~ \$0.5 million year to date to ~~\$1.4 million~~). The decrease for the quarter is ~~\$0.8 million~~, primarily due to increased claims authorized on vehicle service agreements. The increase for the year to date is primarily due to increased revenue, which was nearly offset by an increase in commission expense and claims authorized on vehicle service agreements increased, as a decrease in the number of claims revenue that was slightly more than partially offset by an increase a decrease in the average cost of a claim services sold. General and administrative expenses were essentially flat for both quarter to date and year to date. During the first quarter of 2022, there was a change in estimate of IWS' deferred revenue and deferred contract costs associated with vehicle service contract fees, which resulted in a reduction to IWS operating income of \$0.9 million for the six months ended June 30, 2022;
- A ~~\$0.3~~ \$0.2 million decrease at Geminus to ~~\$0.1 million~~ for the three months ended ~~June~~ ~~September 30, 2023~~ (a decrease of ~~\$0.3~~ \$0.5 million year to date to ~~\$0.3 million~~, \$0.4 million), due to an increase in commission expense and claims authorized on vehicle service agreements. General and administrative expenses were down slightly both quarter to date and year to date;
- A \$0.2 million decrease at PWI to ~~\$0.3~~ \$0.4 million for the three months ended ~~June~~ ~~September 30, 2023~~ (a decrease of ~~\$0.3~~ \$0.5 million year to date to ~~\$0.7~~ \$1.1 million). The operating income for the three and ~~six~~ ~~nine~~ months ended ~~June~~ ~~September 30, 2023~~ was impacted by higher claims expense and commission expense compared with the same periods in 2022, which more than offset the benefits from significantly lower general and administrative expenses; and
- A less than ~~\$0.1 million~~ increase ~~\$0.2 million~~ decrease at ~~Trinity~~ ~~IWS~~ to ~~\$0.4 million~~ \$0.9 million for the three months ended ~~June~~ ~~September 30, 2023~~ (a decrease of ~~\$0.3~~ million less than ~~\$0.1 million~~ year to date to ~~\$0.5 million~~ \$2.3 million). The decrease for the quarter is primarily due to increased claims authorized on vehicle service agreements. General and administrative expenses were essentially flat quarter to date and down slightly year to date. During the first quarter of 2022, there was a decrease change in estimate of IWS' deferred revenue that was partially offset by and deferred contract costs associated with vehicle service contract fees, which resulted in a decrease in cost reduction to IWS operating income of services sold, \$0.9 million for the nine months ended September 30, 2022.

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Kingsway Search Xcelerator

The Kingsway Search Xcelerator revenue increased to ~~\$9.2~~ \$7.5 million for the three months ended ~~June 30, 2023~~ ~~September 30, 2023~~ compared to ~~\$4.1~~ \$3.8 million for the three months ended ~~June 30, 2022~~ ~~September 30, 2022~~ (~~\$18.9~~ \$26.4 million year to date compared to ~~\$8.3~~ \$12.1 million prior year to date). Kingsway Search Xcelerator operating income was ~~\$1.6~~ \$1.0 million for the three months ended ~~June 30, 2023~~ ~~September 30, 2023~~ compared to ~~\$0.9~~ \$0.7 million for the three months ended ~~June 30, 2022~~ ~~September 30, 2022~~ (~~\$3.2~~ \$4.2 million year to date compared to ~~\$1.7~~ \$2.4 million prior year to date). The increase in revenue and operating income is primarily due to the inclusion of CSuite and SNS for the three and six to:

- Organic growth at Ravix. While revenue was down \$0.4 million for the for the three months ended September 30, 2023 compared to the same period in 2022 (down \$1.1 million year to date); gross margin and operating income increased \$0.1 million for the three months ended September 30, 2023 (\$0.3 million year to date); and
- The inclusion of CSuite and SNS for the three and nine months of 2023 following their acquisitions effective November 1, 2022 and November 18, 2022, respectively.

Net Investment Income

Net investment income was ~~\$0.3~~ \$0.4 million in the ~~second~~ ~~third~~ quarter of 2023 compared to \$0.5 million in the ~~second~~ ~~third~~ quarter of 2022 (\$~~1.1~~ \$1.4 million year to date compared to ~~\$1.1~~ \$1.5 million prior year to date). The decrease in net investment income for the three months ended ~~June~~ ~~September 30, 2023~~ primarily relates to the decrease in investment income from real estate investments, partially offset by higher investment income from fixed maturities as a result of general changes in market conditions. The decrease in net investment income for the ~~nine~~ months ended September 30, 2023 primarily relates to the decrease in investment income from real estate investments and limited liability investments, partially offset by higher investment income from cash equivalents and fixed maturities as a result of general changes in market conditions.

Net Realized Gains

Net realized gains were ~~\$0.1~~ \$0.2 million in the ~~second~~ ~~third~~ quarter of 2023 compared to ~~\$0.2~~ \$0.8 million in the ~~second~~ ~~third~~ quarter of 2022 (\$~~0.3~~ \$0.5 million year to date compared to ~~\$0.2~~ \$1.0 million prior year to date). The net realized gains for the three months ended ~~June~~ ~~September 30, 2023~~ and ~~June 30, 2022~~ primarily relate to realized gains recognized by Argo Holdings Fund I, LLC ("Argo Holdings"). The net realized gains for the ~~six~~ ~~nine~~ months ended ~~June~~ ~~September 30, 2023~~ primarily relate to realized gains recognized by Argo Holdings and net realized gains on sales of limited liability investments. The net realized gains for the ~~three~~ and ~~six~~ ~~nine~~ months ended ~~June~~ ~~September 30, 2022~~ primarily relate to realized

gains recognized by Argo Holdings, net realized gains on sales of limited liability investments and distributions received from one of the Company's investments in private companies in which its carrying value previously had been written down to zero as a result of prior distributions.

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Net Gain (Loss) on Change in Fair Value of Equity Investments

Gain on change in fair value of equity investments was \$1.7 \$0.6 million in the second third quarter of 2023 compared to a loss of less than \$0.1 million in the second third quarter of 2022 (gain of \$2.8 \$3.4 million year to date compared to a loss of less than \$0.1 million prior year to date). The gain for the the three and six nine months months ended June September 30, 2023 primarily relates to the Company's investment in Limbach Holdings, Inc. ("Limbach"). Prior to the second quarter of 2023, the Company held warrants in Limbach. During the first quarter of 2023, the underlying common stock price of Limbach increased, resulting in an increase in the fair value of the warrants held at March 31, 2023. During the second quarter of 2023, the Company completed a cashless exercise of its Limbach warrants. The change in fair value for During the second third quarter of 2023, is a result the Company sold all of the increased common stock price its shares of Limbach as of June 30, 2023 common stock.

Gain (Loss) on Change in Fair Value of Limited Liability Investments, at Fair Value

Gain on change in fair value of limited liability investments, at fair value was less than \$0.1 \$0.3 million in the second third quarter of 2023 compared to less than \$0.1 \$0.2 million in the second third quarter of 2022 (a loss of \$0.1 \$0.2 million year to date compared to a gain of \$0.2 \$0.4 million prior year to date). The loss gain for the six three months ended June September 30, 2023 represents a decrease in fair value of \$0.5 million related to Net Lease, partially offset by an increase in fair value of \$0.4 million related to Argo Holdings. The gain for the six three months ended June September 30, 2022 represents an increase in fair value of \$0.8 \$0.4 million related to Net Lease, partially offset by a decrease in fair value of \$0.6 \$0.2 million related to Argo Holdings.

The gain for the nine months ended September 30, 2023 represents an increase in fair value of \$0.8 million related to Argo Holdings, partially offset by a decrease in fair value of \$0.6 million related to Net Lease. The gain for the nine months ended September 30, 2022 represents an increase in fair value of 1.2 million related to Net Lease, partially offset by a decrease in fair value of \$0.8 million related to Argo Holdings.

During the second quarter of 2023, the Company recorded the sale of Net Lease's final investment property. As a result of the sale, the Company's investment in Net Lease is zero at June September 30, 2023.

Gain on Change in Fair Value of Real Estate Investments

Gain on change in fair value of real estate investments was \$1.5 million for the three and nine months ended September 30, 2022. Real estate investments represented investment real estate properties held by the Company's consolidated subsidiary, Flower. The Company consolidated the financial statements of Flower on a three-month lag. The increase in fair value was attributable to the sale of the real estate investment properties for \$12.2 million, which closed on September 29, 2022. As a result of the three-month lag, the Company recorded the sale transaction in its fourth quarter 2022 financial statements.

Loss Gain (Loss) on Change in Fair Value of Derivative Asset Option Contracts

For the six months ended June 30, 2023, loss Gain on change in fair value of derivative asset option contracts was zero in the third quarter of 2023 compared to \$13.5 million in the third quarter of 2022 (a loss of \$1.4 million, million year to date compared to a gain of \$13.5 million prior year to date). The derivative contract relates to three trust preferred debt repurchase option agreements the Company entered into during the third quarter of 2022. The Company exercised the repurchase options during the first quarter of 2023. The gain for the three and nine months ended September 30, 2022 relates to the \$11.4 million difference between the fair value of the option at date of inception (13.7 million) and the cash consideration paid (\$2.3 million), as well as the subsequent change in fair value of \$2.1 million as of September 30, 2022.

Refer to Note 10, "Derivatives," to the unaudited consolidated interim financial statements, for further information on the option agreements.

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Interest Expense

Interest expense for the second third quarter of 2023 was \$1.1 million compared to \$1.7 \$2.1 million in the second third quarter of 2022 (\$4.1 \$5.1 million year to date compared to \$3.1 \$5.2 million prior year to date). Interest expense was impacted by the following for the three and six months nine months ended June 30, 2023 September 30, 2023:

- A decrease of \$1.0 \$1.5 million for the three months ended June September 30, 2023 (increase of \$0.1 million (\$1.4 million year to date) on the Company's subordinated debt. During the first quarter of 2023, the Company repurchased TruPs debt having a principal amount of \$75.5 million. As a result, the interest expense for the second third quarter of 2023 relates only to the one remaining TruPs debt instrument outstanding. The increase decrease for the year to date primarily resulted from the repurchase of the TruPs debt during the first quarter of 2023 (resulting in 2023 year to date interest expense including only the one remaining TruPs debt instrument outstanding during the second and third quarters of 2023), partially offset by generally higher London interbank offered interest rates ("LIBOR") for three-month U.S. dollar deposits during the six nine months of 2023 compared to the same period in 2022. The Company's subordinated debt bears bore interest at the rate of LIBOR, plus spreads ranging from 3.85% to 4.20%. Effective July 3, 2023, the index used for determining the interest rate for the remaining trust preferred debt instrument converted from LIBOR to CME Term SOFR;
- An increase of \$0.1 million for the three months ended June September 30, 2023 (\$0.4 \$0.6 million year to date), related to the 2020 KWH Loan, as a result of a decrease in fair value of the interest rate swap related to the 2020 KWH bank loan;
- An increase of \$0.1 million for the three months ended June September 30, 2023 (\$0.3 \$0.4 million year to date), related to the \$6.5 million SNS Loan, which was effective November 18, 2022 and has an annual interest rate equal to the greater of the Prime Rate plus 0.5%, or 5.00% (current rate of 8.75% 9.00%);

- An increase of \$0.1 million for the three months ended **June** **September** 30, 2023 (\$0.3 **0.4** million year to date), related to the \$6.0 million 2022 Ravix Loan, which was effective November 16, 2022 and has an annual interest rate equal to the Prime Rate plus 0.75% (current rate of **9.00%** **9.25%**);
- An increase of less than \$0.1 million for the three months ended **June** **September** 30, 2023 (\$0.1 million year to date) related to the 2021 Ravix Loan, which was effective October 1, 2021, and has an annual interest rate equal to the greater of the Prime Rate plus 0.5%, or 3.75% (current rate of **8.75%** **9.00%**); and
- A decrease of \$0.1 million for the three months ended **June** **September** 30, 2023 (\$0.2 million year to date) related to notes payable held by the Company's consolidated subsidiary, **Flower Portfolio 001, LLC ("Flower")**. **Flower**. The Flower debt was repaid in the third quarter of 2022.

See "Debt" section below for further details.

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Other Revenue and Expenses not Allocated to Segments, Net

Other revenue and expenses not allocated to segments, net was a net expense of **\$3.8 million** **\$2.8 million** in the **second** **third** quarter of 2023 compared to **\$3.2 million** **\$7.2 million** in the **second** **third** quarter of 2022 (**\$4.93** million year to date compared to **\$6.2** **\$13.5** million prior year to date). Included are revenue and expenses associated with our various other investments that are accounted for on a consolidated basis, our **former** insurance company that has been in run-off since 2012, and expenses associated with our corporate holding company.

The **increase** **decrease** in net expense for the three months ended **June 30, 2023** **September 30, 2023** is primarily attributable to a **management fee paid** **decrease in stock-based compensation expense of \$5.0 million related to the manager of Net Lease**, **previously-granted awards to PWSC employees (PWSC was sold in July 2022)**, partially offset by a **decrease** **an increase in healthcare benefit expenses during the third quarter of 2023 compared to the same period in 2022**.

The decrease in net expense for the nine months ended **September 30, 2023** is primarily attributable to decreases in stock-based compensation expense of \$6.1 million related to previously-granted awards to PWSC employees and expense related to the Ravix contingent consideration liability, **during the three months ended June 30, 2023** compared to same period in 2022.

The increase in net expense for the six months ended **June 30, 2023** is primarily attributable **partially offset by increases** due to management fees paid to the managers of **Flower** and **Net Lease**, **partially offset by decreases in stock-based compensation** **healthcare benefit expense and acquisition** related to previously-granted awards to PWSC employees (**PWSC was sold in July 2022**) and expense related to the Ravix contingent consideration liability **expenses** during the **six** **nine** months ended **June 30, 2023** **September 30, 2023** compared to the same period in 2022.

Loss on Change in Fair Value of Debt

Loss on change in fair value of debt was **\$0.3** **\$0.2** million in the **second** **third** quarter of 2023 compared to **\$1.3** **\$1.8** million in the **second** **third** quarter of 2022 (**less than** **\$0.1** **\$0.2** million year to date compared to **\$3.2** **\$5.0** million prior year to date). During the first quarter of 2023, the Company repurchased TruPs debt having a principal amount of \$75.5 million. The change in fair value related to the repurchased TruPs debt was a gain of \$0.3 million and the change in fair value related to the remaining TruPs debt instrument was a loss of **\$0.3** **\$0.5** million during the **six** **nine** months ended **June** **September** 30, 2023.

The loss for three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and **June** **September** 30, 2022 reflects changes in the fair value of the subordinated debt resulting primarily from changes in interest rates used (not related to instrument-specific credit risk). The following summarizes the impacts:

Impact of Rate Change on Fair Value	Three months ended June 30, 2023 September 30, 2023	Three months ended June 30, 2022 September 30, 2022	Six Nine months ended June 30, 2023 September 30, 2023	Six Nine months ended June 30, 2022 September 30, 2022
	Result	Result	Result	Result
LIBOR:				
increase causes fair value to increase; decrease causes fair value to decrease	Increase to fair value	Increase to fair value	Increase to fair value	Decrease Increase to fair value
Risk free rate:				
increase causes fair value to decrease; decrease causes fair value to increase	Increase to fair value	Decrease to fair value	Decrease to fair value	Decrease to fair value Increase to fair value

See "Debt" section below for further information.

Gain on Disposal of Subsidiary

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On July 29, 2022, the Company sold its 80% majority-owned subsidiary, PWSC. As a result of the sale, the Company recognized a net gain on disposal of \$37.9 million during the three and nine months ended September 30, 2022. During three and nine months ended September 30, 2023, the Company recorded an additional gain on disposal of PWSC of \$0.3 million related to the working capital true-up and release of indemnity funds that were held in escrow. The sale of PWSC did not represent a strategic shift that will have a major effect on the Company's operations or financial results; therefore, PWSC is not presented as a discontinued operation.

See Note 5, "Acquisitions, Disposal and Discontinued Operations," to the unaudited consolidated interim financial statements, for further discussion of the PWSC disposal.

Gain on Extinguishment of Debt

For the six nine months ended June 30, 2023 September 30, 2023, gain on extinguishment of debt consists of a \$31.6 million gain related to the repurchase of TruPs debt having a principal amount of \$75.5 million. The gain on extinguishment of debt results from removing the fair value of the debt, trust preferred debt repurchase options, deferred interest payable and accumulated other comprehensive income related to the repurchased TruPs from the Company's consolidated balance sheet at the repurchase date. See Note 11 "Debt," to the unaudited consolidated interim financial statements, for further discussion.

Income Tax (Benefit) Expense (Benefit)

Income tax expense benefit for the second third quarter of 2023 was \$0.2 0.1 million compared to income tax benefit an expense of less than \$0.1 6.1 million in the second third quarter of 2022 (expense of \$0.9 million \$0.8 million year to date compared to a benefit expense of \$0.4 million \$5.6 million prior year to date). For the three and months ended six September 30, 2023, the Company reported income tax benefit primarily due to the partial release of its valuation allowance related to deferred tax liabilities from acquisitions. For the nine months ended June September 30, 2023, the Company reported income tax expense primarily due to state tax expense. For the three and nine months ended September 30, 2022, the Company reported income tax expense primarily due to the state tax expense. For expense associated with the three sale of PWSC during the period and six months ended June 30, 2022, the Company reported a tax benefit primarily due to the release of its related increase in valuation allowance associated with from the accelerated utilization of indefinite life business interest expense carryforwards, carryforwards as a result of such sale. See Note 14, "Income Taxes," to the unaudited consolidated interim financial statements, for additional detail of the income tax (benefit) expense (benefit) recorded for the three and nine months ended six September 30, 2023 months ended June 30, 2023 and June 30, 2022 September 30, 2022.

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INVESTMENTS

Portfolio Composition

See Note 2(d), "Summary of Significant Accounting Policies - Investments," to the consolidated financial statements in the 2022 Annual Report for an overview of how we account for our various investments.

At June 30, 2023 September 30, 2023, we held cash and cash equivalents, restricted cash and investments with a carrying value of \$68.5 million \$70.8 million. Our U.S. operations typically invest in U.S. dollar-denominated instruments to mitigate their exposure to currency rate fluctuations.

Table 2 below summarizes the carrying value of investments, including cash and cash equivalents and restricted cash, at the dates indicated.

TABLE 2 Carrying value of investments, including cash and cash equivalents and restricted cash
(in thousands of dollars, except for percentages)

Type of investment	June 30, 2023	% of Total	December 31, 2022	% of Total	September 30, 2023	% of Total	December 31, 2022	% of Total
Fixed maturities:								
U.S. government, government agencies and authorities	14,145	20.6%	15,080	11.2%	12,904	18.2%	15,080	11.2%
States, municipalities and political subdivisions	3,069	4.5%	2,232	1.7%	2,820	4.0%	2,232	1.7%
Mortgage-backed	8,042	11.7%	8,412	6.3%	8,631	12.2%	8,412	6.3%
Asset-backed	1,367	2.0%	1,610	1.2%	1,350	1.9%	1,610	1.2%
Corporate	9,570	14.0%	10,257	7.6%	10,110	14.3%	10,257	7.6%
Total fixed maturities	36,193	52.8%	37,591	28.1%	35,815	50.6%	37,591	28.1%

Equity investments - common stock	2,935	4.3%	153	0.1%	205	0.3%	153	0.1%
Limited liability investments	899	1.3%	983	0.7%	816	1.2%	983	0.7%
Limited liability investments, at fair value	3,688	5.4%	17,059	12.7%	3,599	5.1%	17,059	12.7%
Investments in private companies	790	1.2%	790	0.6%	854	1.2%	790	0.6%
Other investments	95	0.1%	201	0.2%	69	0.1%	201	0.2%
Short-term investments	158	0.2%	157	0.1%	160	0.2%	157	0.1%
Total investments	44,758	65.3%	56,934	42.4%	41,518	58.6%	56,934	42.4%
Cash and cash equivalents	14,162	20.7%	64,168	47.9%	20,183	28.5%	64,168	47.9%
Restricted cash	9,618	14.0%	13,064	9.7%	9,103	12.9%	13,064	9.7%
Total	68,538	100.0%	134,166	100.0%	70,804	100.0%	134,166	100.0%

Investment Impairment

The Company's fixed maturities are subject to declines in fair value below amortized cost that may result in the recognition of impairment losses in net (loss) income. Factors considered in the determination of whether or not an impairment loss is recognized in net (loss) income include a current intention or need to sell the security or an indication that a credit loss exists.

Effective January 1, 2023, as a result of the adoption of ASU 2016-13, if the decline in fair value is due to credit factors and the Company does not expect to receive cash flows sufficient to support the entire amortized cost basis, the credit loss is reported in the consolidated statements of operations in the period that the declines are evaluated. Significant judgment is required in the determination of whether a credit loss has occurred for a security. The Company considers all available evidence when determining whether a security requires a credit allowance to be recorded, including the financial condition and expected near-term and long term prospects of the issuer, whether the issuer is current with interest and principal payments, credit ratings on the security or changes in ratings over time, general market conditions, industry, sector or other specific factors and whether the Company expects to receive cash flows sufficient to recover the entire amortized cost basis of the security. The Company performs a quarterly analysis of its available-for-sale fixed maturity investments and other investments to determine if an impairment loss has occurred. As a result of the analysis performed, the Company recorded an impairment loss related to other investments of less than \$0.1 million and zero \$0.1 million for the three and six nine months ended June 30, 2023 and June 30, 2022 September 30, 2023. There were no impairment losses recorded related to available-for-sale fixed maturity investments during the three and six nine months ended June September 30, 2023.

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Prior to the adoption of ASU 2016-13, the Company performed a quarterly analysis of its available-for-sale fixed maturity investments and other investments to determine if declines in market value were other-than-temporary. See the "Significant Accounting Policies and Critical Estimates" section of Management's Discussion and Analysis of Financial Condition included in the 2022 Annual Report for further information regarding the Company's detailed analysis and factors considered in establishing an other-than-temporary impairment on an investment. As a result of the analysis performed, there were no write downs for other-than-temporary impairment related to fixed maturity investments and other investments for the three and six nine months ended June 30, 2022 September 30, 2022.

The Company recorded write downs for other-than-temporary impairment related to limited liability investments of \$0.1 million and zero for the three months ended September 30, 2023 and September 30, 2022, respectively (\$0.1 million and zero for the nine months ended September 30, 2023 and September 30, 2022, respectively), which are included in impairment losses in the consolidated statements of operations.

The Company recorded write downs for other-than-temporary impairment related to limited liability investments, at fair value of \$0.1 million and less than \$0.1 million zero for the three months ended June September 30, 2023 and June September 30, 2022, respectively (\$0.1 million and less than \$0.1 million for the six nine months ended June 30, 2023 September 30, 2023 and June 30, 2022 September 30, 2022, respectively), which are included in gain (loss) on change in fair value of limited liability investments, at fair value in the consolidated statements of operations.

At June 30, 2023 September 30, 2023 and December 31, 2022, the gross unrealized losses for fixed maturities amounted to \$2.4 million \$2.5 million and \$2.5 million, respectively, and there were no unrealized losses attributable to non-investment grade fixed maturities.

DEBT

See Note 11, "Debt," to the unaudited consolidated interim financial statements for further details to those provided below.

Bank Loans

In 2019, the Company formed Kingsway Warranty Holdings LLC ("KWH"), whose subsidiaries at the time included IWS, Geminus and Trinity. As part of the acquisition of PWI on December 1, 2020, PWI became a wholly owned subsidiary of KWH, which borrowed a principal amount of \$25.7 million from a bank to partially finance its acquisition of PWI and to fully repay the prior outstanding loan at KWH (the "2020 KWH Loan"). The 2020 KWH Loan had an annual interest rate equal to LIBOR, having a floor of 0.75%, plus 2.75%. During the second quarter of 2022, the 2020 KWH Loan was amended to change the annual interest rate to be equal to the Secured Overnight Financing Rate ("SOFR"), having a floor of 0.75%, plus spreads ranging from 2.62% to 3.12%. At **June 30, 2023** **September 30, 2023**, the interest rate was **8.01%** **8.20%**. The 2020 KWH Loan is carried in the consolidated balance sheets at its amortized cost, which reflects the quarterly pay-down of principal as well as the amortization of the debt discount and issuance costs using the effective interest rate method. The 2020 KWH Loan matures on December 1, 2025.

The 2020 KWH Loan contains a number of covenants, including, but not limited to, a leverage ratio, a fixed charge ratio and limits on annual capital expenditures, all of which are as defined in and calculated pursuant to the 2020 KWH Loan that, among other things, restrict KWH's ability to incur additional indebtedness, create liens, make dividends and distributions, engage in mergers, acquisitions and consolidations, make certain payments and investments and dispose of certain assets.

On February 28, 2023, KWH entered into a second amendment to the 2020 KWH Loan (the "KWH DDTL") that provides for an additional delayed draw term loan in the principal amount of up to \$10.0 million, with a maturity date of December 1, 2025. All or any portion of the KWH DDTL, subject to a \$2 million minimum draw amount, may be requested at any time through February 27, 2024. The proceeds are evidenced by an intercompany loan and guarantee between KAI and KWH. Proceeds from certain assets dispositions, as defined, may be required to be used to repay outstanding draws under the DDTL. The principal amount shall be repaid in quarterly installments in an amount equal to 3.75% of the original amount of the drawn DDTL. The KWH DDTL also increases the senior cash flow leverage ratio maximum permissible for certain periods. The Company did not draw down on the KWH DDTL during the **six** **nine** months ended **June 30, 2023** **September 30, 2023**.

As part of the acquisition of Ravix on October 1, 2021, Ravix became a wholly owned subsidiary of Ravix Acquisition LLC ("Ravix LLC"), and together they borrowed from a bank a principal amount of \$6.0 million in the form of a term loan, and established a \$1.0 million revolver to finance the acquisition of Ravix (together, the "2021 Ravix Loan"). The 2021 Ravix Loan has an annual interest rate equal to the greater of the Prime Rate plus 0.5%, or 3.75% (current rate of **8.75%** **9.00%**) and is carried in the consolidated balance sheets at its amortized cost, which reflects the monthly pay-down of principal as well as the amortization of the debt discount and issuance costs using the effective interest rate method. The term loan matures on October 1, 2027.

Subsequent to the acquisition of CSuite on November 1, 2022, CSuite became a wholly owned subsidiary of Ravix LLC. As a result of the acquisition of CSuite, on November 16, 2022, the 2021 Ravix Loan was amended to (1) include CSuite as a borrower; (2) borrow an additional principal amount of \$6.0 million in the form of a supplemental term loan (the "2022 Ravix Loan"); and (3) amend the maturity date and interest rate of the \$1.0 million revolver (the "2022 Revolver"). The 2022 Ravix Loan matures on November 16, 2028 and has an annual interest rate equal to the Prime Rate plus 0.75% (current rate of **9.00%** **9.25%**) and is carried in the consolidated balance sheets at its unpaid principal balance. The 2022 Revolver matures on November 16, 2024 and has an annual interest rate equal to the Prime Rate plus 0.50%.

The 2021 Ravix Loan and 2022 Ravix Loan contain a number of covenants, including, but not limited to, a leverage ratio and a fixed charge ratio, all of which are as defined in and calculated pursuant to the 2021 Ravix Loan and 2022 Ravix Loan that, among other things, restrict Ravix and CSuite's ability to incur additional indebtedness, create liens, make dividends and distributions, engage in mergers, acquisitions and consolidations, make certain payments and investments and dispose of certain assets.

As part of the asset acquisition of SNS on November 18, 2022, the Company formed Secure Nursing Service LLC, who became a wholly owned subsidiary of Pegasus Acquirer Holdings LLC ("Pegasus LLC"), and together they borrowed from a bank a principal amount of \$6.5 million in the form of a term loan, and established a \$1.0 million revolver to finance the acquisition of SNS (together, the "SNS Loan"). The SNS Loan has an annual interest rate equal to the greater of the Prime Rate plus 0.5%, or 5.00% (current rate of **8.75%** **9.00%**) and is carried in the consolidated balance sheets at its amortized cost, which reflects the monthly amortization of the debt discount and issuance costs using the effective interest rate method. The term loan matures on November 18, 2028 and revolver matures on November 18, 2023.

The SNS Loan contains a number of covenants, including, but not limited to, a leverage ratio and a fixed charge ratio and limits on annual capital expenditures, all of which are as defined in and calculated pursuant to the SNS Loan that, among other things, restrict SNS's ability to incur additional indebtedness, create liens, make dividends and distributions, engage in mergers, acquisitions and consolidations, make certain payments and investments and dispose of certain assets.

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Subordinated Debt

Between December 4, 2002 and December 16, 2003, six subsidiary trusts of the Company issued \$90.5 million of 30-year capital securities to third parties in separate private transactions. In each instance, a corresponding floating rate junior subordinated deferrable interest debenture was then issued by Kingsway America Inc. to the trust in exchange for the proceeds from the private sale. The floating rate debentures **bear** **bore** interest at the rate of LIBOR, plus spreads ranging from 3.85% to 4.20%. **Effective July 3, 2023**, the **index** used for determining the interest rate for the remaining trust preferred debt instrument converted from LIBOR to CME Term SOFR. The Company has the right to call each of these securities at par value any time after five years from their issuance until their maturity.

On August 2, 2022, the Company entered into an agreement with a holder of four of the trust preferred debt instruments ("TruPs") that gave the Company the option to repurchase up to 100% of the holder's principal and deferred interest for a purchase price equal to 63% of the outstanding principal and deferred interest. Originally, the agreement called for a repurchase at 63%, which escalated to 63.75% once the September 26, 2022 agreement (described below) was signed. The Company agreed that any repurchase made would be for no less than 50% of the TruPs held by the holder.

Until the earlier of (i) the date that all four of the preferred debt instruments have been repurchased and (ii) the nine month anniversary of the agreement ("May Termination Date"), all interest on the four preferred debt instruments continued to accrue. However, with respect to TruPs that were repurchased prior to the May Termination Date, the amount of interest accrued during the term of the agreement was treated as an offset and reduced the repurchase price for such TruPs. The Company had no obligation to pay any such accrued interest with respect to any of the TruPs that are repurchased prior to the May Termination Date.

The Company paid approximately \$2.0 million to the holder for this option and the Company had until the May Termination Date to execute the repurchases. Given the Company repurchased an amount equal to or greater than \$30.0 million, the \$2.0 million paid was applied to the repurchases.

On September 20, 2022, the Company entered into an additional agreement with the same party to the August 2, 2022 agreement that gave the Company the option to repurchase up to 100% of the holder's principal and deferred interest for 63.75% of the outstanding principal and deferred interest relating to a portion of a fifth TruPs held. The September 20, 2022 agreement is subject to the same terms and conditions as the August 2, 2022 and no additional consideration was paid.

On September 26, 2022, the Company entered into an agreement with a holder of a portion of one of the TruPs that gave the Company the option to repurchase up to 100% of the holder's principal and deferred interest for a purchase price equal to 63% of the outstanding principal and deferred interest.

Until the earlier of (i) the date that all of the preferred debt instrument has been repurchased and (ii) the May Termination Date, all interest on the preferred debt instrument continued to accrue. However, with respect to TruPs that were repurchased prior to the May Termination Date, the amount of interest accrued during the term of the agreement was treated as an offset and reduce the repurchase price for such TruPs. The Company had no obligation to pay any such accrued interest with respect to the TruPs that are repurchased prior to the May Termination Date.

The Company paid approximately \$0.3 million to the holder for this option and the Company had until the May Termination Date to execute the repurchase. Given the Company repurchased the TruPs, the \$0.3 million paid was applied to the repurchases.

In February 2023, the Company entered into amendments to the repurchase agreements described above that gave the Company an additional discount on the total repurchase price if the Company effected a 100% repurchase on or before March 15, 2023. On March 2, 2023, the Company gave notice to the holders that it intended to exercise its options to repurchase 100% of the principal. On March 22, 2023, the Company completed the repurchases using currently available funds from working capital to fund the repurchases. The total amount paid was \$56.5 million, which included a credit for the \$2.3 million that the Company previously paid at the time of entering into the repurchase agreements. As a result, the Company repurchased \$75.5 million of principal and \$23.0 million of deferred interest payable. The Company recognized a gain of \$31.6 million, which is included in gain on extinguishment of debt in the unaudited consolidated statement of operations for the **six nine** months ended **June 30, 2023** **September 30, 2023**. The gain on extinguishment of debt results from removing the fair value of the debt, trust preferred debt repurchase options, deferred interest payable and accumulated other comprehensive income related to the repurchased TruPs from the Company's consolidated balance sheet at the repurchase date. At **June** **September** 30, 2023, the Company had \$15.0 million of principal outstanding related to the remaining trust preferred debt instrument.

During the third quarter of 2018, the Company gave notice to its Trust Preferred trustees of its intention to exercise its voluntary right to defer interest payments for up to 20 quarters, pursuant to the contractual terms of its outstanding Trust Preferred indentures, which permit interest deferral. This action does not constitute a default under the Company's Trust Preferred indentures or any of its other debt indentures. In order to execute the repurchases described above, on March 13, 2023, the Company paid \$5.0 million to the remaining Trust Preferred trustee to be used by the trustee to pay the interest which the Company had been deferring since the third quarter of 2018. At **June** **September** 30, 2023 and December 31, 2022, deferred interest payable of zero and \$25.5 million, respectively, is included in accrued expenses and other liabilities in the consolidated balance sheet.

The agreements governing our subordinated debt contain a number of covenants that, among other things, restrict the Company's ability to incur additional indebtedness, make dividends and distributions, and make certain payments in respect of the Company's outstanding securities.

The Company's subordinated debt is measured and reported at fair value. At **June 30, 2023** **September 30, 2023**, the carrying value of the subordinated debt is **\$12.5 million** **\$12.6 million**. The fair value of the subordinated debt is calculated using a model based on significant market observable inputs and inputs developed by a third party. For a description of the market observable inputs and inputs developed by a third party used in determining fair value of debt, see Note 21, "Fair Value of Financial Instruments," to the unaudited consolidated interim financial statements.

During the **six nine** months ended **June 30, 2023** **September 30, 2023**, the market observable swap rates changed, and the Company experienced **a** **an increase** **decrease** in the credit spread assumption developed by the third-party. Changes in the market observable swap rates affect the fair value model in different ways. An increase in the **LIBOR** **risk-free** swap

rates has the effect of increasing the fair value of the Company's subordinated debt while an increase in the risk-free swap rates has the effect of decreasing the fair value. The increase in the credit spread assumption has the effect of decreasing the fair value of the Company's subordinated debt while a decrease in the credit spread assumption has the effect of increasing the fair value. The other primary variable affecting the fair value of debt calculation is the passage of time, which will always have the effect of increasing the fair value of debt. The changes to the credit spread and swap rate variables during the **six****nine** months ended **June 30, 2023** **September 30, 2023**, along with the passage of time, contributed to a **\$0.8** **\$0.9** million increase in fair value of the Company's subordinated debt between December 31, 2022 and **June 30, 2023** **September 30, 2023**.

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Though changes in the market observable swap rates will continue to introduce some volatility each quarter to the Company's reported gain or loss on change in fair value of debt, changes in the credit spread assumption developed by the third party does not introduce volatility to the Company's consolidated statements of operations. The fair value of the Company's subordinated debt will eventually equal the principal value totaling \$15.0 million of the subordinated debt by the time of the stated redemption date of the remaining trust, which matures on May 22, 2033.

The **\$55.3** **\$55.2** million decrease in the Company's subordinated debt between December 31, 2022 and **June 30, 2023** **September 30, 2023** is attributed to the following:

- A decrease of \$56.1 million as a result of the repurchase of trust preferred debt during the first quarter of 2023;
- A decrease of \$0.3 million related to the change in fair value of the repurchased trust preferred debt instruments between December 31, 2022 and the repurchase dates; and
- An increase of **\$1.1 million** **\$1.2 million** related to the change in fair value of the remaining trust preferred debt instrument between December 31, 2022 and **June 30, 2023** **September 30, 2023**.

Of the **\$0.8** **\$0.9** million increase in fair value of the Company's subordinated debt between December 31, 2022 and **June 30, 2023** **September 30, 2023**, **\$0.8** **\$0.7** million is reported as increase in fair value of debt attributable to instrument-specific credit risk in the Company's unaudited consolidated statements of comprehensive (loss) income and **less than \$0.1** **0.2** million is reported as loss on change in fair value of debt in the Company's unaudited consolidated statements of operations.

The unaudited consolidated statements of comprehensive (loss) income for the **six****nine** months ended **June** **September** 30, 2023 also includes an increase of \$27.2 million as a result of removing the accumulated other comprehensive income related to the repurchased TruPs from the Company's consolidated balance sheet at the repurchase date.

RECENTLY ISSUED ACCOUNTING STANDARDS

See Note 4, "Recently Issued Accounting Standards," to the unaudited consolidated interim financial statements, for discussion of certain accounting standards that may be applicable to the Company's current and future consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

The purpose of liquidity management is to ensure there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company and its subsidiaries have been met primarily by funds generated from operations, capital raising, disposal of subsidiaries, investment maturities and investment income, and other returns received on investments and from the sale of investments.

A significant portion of the cash provided by our Extended Warranty companies is required to be placed into restricted trust accounts, as determined by the insurers who back-up our service contracts, in order to fund future expected claims. On a periodic basis (quarterly or annually), we may be required to contribute more into the restricted accounts or we may be permitted to draw additional funds from the restricted accounts, dependent upon actuarial analyses performed by the insurers regarding sufficiency of funds to cover future expected claims. A substantial portion of the restricted trust accounts are invested in fixed maturities and other instruments that have durations similar to the expected future claim projections.

Cash provided from these sources is used primarily for warranty expenses, business service expenses, debt servicing, acquisitions and operating expenses of the holding company.

The Company's Extended Warranty and Kingsway Search Xcelerator subsidiaries fund their obligations primarily through service fee and commission revenue.

Cash Flows

During the **six nine** months ended **June 30, 2023** **September 30, 2023**, the Company reported **\$8.6** **9.6** million of net cash used in operating activities from continuing operations, primarily due to outflows related to the payment of management fees to the managers of Net Lease and Flowers (\$1.8 million), an indemnity payment to the buyer of Mendota related to loss and loss adjustment expenses (\$2.0 million) and payment of deferred interest on the remaining trust preferred debt **instrument**; **instrument** (\$5.0 million); partially offset by **gain on equity investments and** operating income from the Extended Warranty and Kingsway Search Xcelerator segments. During the **six nine** months ended **June** **September 30, 2022**, the Company reported **\$4.3** **4.9** million of net cash provided by operating activities from continuing operations, primarily due to operating income from the segments.

During the **six nine** months ended **June 30, 2023** **September 30, 2023**, the net cash provided by investing activities from continuing operations was **\$15.1** **16.7** million. This source of cash is primarily attributed to distributions received by Net Lease from one of its limited liability investment companies of \$13.3 million, as well as proceeds from sales and maturities of fixed maturities and **sales of equity securities in excess of purchases of fixed** **maturities, maturities and acquisition of business, net of cash acquired**. During the **six nine** months ended **June** **September 30, 2022**, the net cash used in provided by investing activities from continuing operations was **\$2.2** **\$33.6** million. This **use** **source** of cash was primarily attributed to **the net cash proceeds received, net of cash disposed of, from the sale of PWSC, of \$35.2 million**. This source of cash was partially offset by purchases of fixed maturities in excess of proceeds from limited liability investments and from sales and maturities of fixed maturities.

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During the **six nine** months ended **June 30, 2023** **September 30, 2023**, the net cash used in financing activities from continuing operations was **\$60.0 million** **\$55.1 million**. This use of cash was primarily attributed to the repurchase of five of the TruPs for \$56.5 million, principal repayment on bank loans of **\$4.8** **\$6.1** million, distributions to noncontrolling interest holders of **\$3.6** **4.0** million and cash paid for repurchase of warrants of **\$1.6** **4.0** million, partially offset by cash proceeds from the exercise of warrants of **\$6.6** **16.7** million. During the **six nine** months ended **June** **September 30, 2022**, the net cash used in financing activities from continuing operations was **\$4.9** **\$6.6 million**. This use of cash was attributed to principal repayment on bank loans of **\$4.0** **\$5.0 million**, principal repayments on the notes **payable** **payable** of **\$0.2** **\$0.4** million and distributions to noncontrolling interest holders of **\$0.7** **\$1.0** million.

Holding Company Liquidity

The liquidity of the holding company is managed separately from its subsidiaries. The obligations of the holding company primarily consist of holding company operating expenses; transaction-related expenses; investments; and any other extraordinary demands on the holding company.

Pursuant to satisfying the covenants under the 2020 KWH Loan, distributions to the holding company in an aggregate amount not to exceed \$1.5 million in any 12-month period are permitted. Also, beginning in 2022, the holding company is permitted to receive a portion of the excess cash flow (as defined in the 2020 KWH Loan document) generated by the KWH Subs in the previous year. In 2022, the Company was entitled to 50% of the excess cash flow with the other 50% used to pay down the 2020 KWH Loan. The Company is entitled to receive 75% of the 2022 excess cash flow in 2023, or \$3.3 million. During the first quarter of 2023, the Company paid down the KWH 2020 Loan by \$1.1 million. During 2022, the Company received \$1.7 million and in March 2022 paid down the KWH 2020 Loan by \$1.7 million.

The amount of excess cash flow the Company is entitled to retain is dependent upon the leverage ratio (as defined in the 2020 KWH Loan document):

If leverage ratio is	Percent of excess cash flow retained by the Company
Greater than 1.75:1.00	50%
Less than 1.75:1.00 but greater than 0.75:1.00	75%
Less than 0.75:1.0	100%

On October 1, 2021, the Company closed on the acquisition of Ravix. Related to the Ravix acquisition, the Company secured the 2021 Ravix Loan with Ravix and Ravix LLC as borrowers under the 2021 Ravix Loan. On November 1, 2022, the Company closed on the acquisition of CSuite. Related to the CSuite acquisition, the Company secured the 2022 Ravix Loan with CSuite, Ravix and Ravix LLC as borrowers under the 2022 Ravix Loan. Pursuant to the covenants under the 2021 Ravix Loan and the 2022 Ravix Loan, Ravix and CSuite are permitted to make distributions to the holding company so long as doing such would not cause non-compliance with the various covenants outlined within the 2021 Ravix Loan and 2022 Ravix Loan.

On November 18, 2022, the Company closed on the acquisition of SNS. Related to the SNS acquisition, the Company secured the SNS Loan with SNS and Pegasus LLC as borrowers under the SNS Loan. Pursuant to the covenants under the SNS Loan, SNS is not permitted to make distributions to the holding company without the consent of the lender.

On October 18, 2018, the Company completed the previously announced sale of its non-standard automobile insurance companies Mendota Insurance Company, Mendakota Insurance Company and Mendakota Casualty Company (collectively "Mendota"). As part of the transaction, the Company will indemnify the buyer for any loss and loss adjustment

expenses with respect to open claims in excess of Mendota's carried unpaid loss and loss adjustment expenses at June 30, 2018 related to the open claims. The maximum obligation to the Company with respect to the open claims was \$2.5 million. Per the purchase agreement, a security interest on the Company's equity interest in its consolidated subsidiary, Net Lease, as well as any distributions to the Company from Net Lease, was to be collateral for the Company's payment of obligations with respect to the open claims.

During the third quarter of 2021, the purchasers of Mendota and the Company agreed to release the Company's equity interest in Net Lease as collateral and allow Net Lease to make distributions to the Company. In exchange, the Company agreed to deposit \$2.0 million into an escrow account and advance \$0.5 million to the purchaser of Mendota to satisfy the Company's payment obligation with respect to the open claims.

During the third quarter of 2022, the buyer provided to the Company an analysis of the claims development that indicated that the Company's potential exposure with respect to the open claims was at the maximum obligation amount. Previous communications from the buyer noted no such development. As a result of the newly provided information, the Company recorded a liability of \$2.5 million, which is included in accrued expenses and other liabilities in the **unaudited** consolidated balance sheet at December 31, 2022. During the first quarter of 2023, the \$2.0 million that had been previously deposited into an escrow account was released and remitted to the buyer to satisfy the Company's payment with respect to the open claims.

The holding company's liquidity, defined as the amount of cash in the bank accounts of Kingsway Financial Services Inc. and Kingsway America Inc., was \$5.7 million and \$48.9 million at **June** September 30, 2023 and December 31, 2022, respectively, which excludes future actions available to the holding company that could be taken to generate liquidity. The holding company cash amounts are reflected in the cash and cash equivalents of \$14.2 million \$20.2 million and \$64.2 million reported at **June 30, 2023** September 30, 2023 and December 31, 2022, respectively, on the Company's consolidated balance sheets. The significant decrease is primarily due to the repurchase of the trust preferred debt during the first quarter of 2023.

The Company **notes there are outstanding warrants that expire in September 2023 and, if all outstanding warrants were exercised, the Company would receive an additional \$10.7 million of exercise proceeds. The Company also** notes that it has an additional \$10.0 million available from the second amendment to the 2020 KWH Loan (see Note 11, "Debt"), that is available to be drawn.

Based on the Company's current business plan and revenue prospects, existing cash, cash equivalents, investment balances and anticipated cash flows from operations are expected to be sufficient to meet the Company's working capital and operating expenditure requirements, for the next twelve months. However, the Company's assessment could also be affected by various risks and uncertainties, including, but not limited to, the developing macro-economic environment.

KINGSWAY FINANCIAL SERVICES INC.

Regulatory Capital

Kingsway Reinsurance Corporation ("Kingsway Re"), our reinsurance subsidiary domiciled in Barbados, is required by the regulator in Barbados to maintain minimum statutory capital of \$125,000. Kingsway Re is currently operating with statutory capital near the regulatory minimum, requiring us to periodically contribute capital to fund operating expenses. Kingsway Re incurs operating expenses of approximately \$0.1 million per year.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are a smaller reporting company as defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); therefore, pursuant to Regulation S-K, we are not required to make disclosures under this Item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of our Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act as of **June 30, 2023** September 30, 2023).

The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports the Company files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow for timely decisions regarding required disclosures. In designing and evaluating our disclosure controls and procedures, the Company's management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet reasonable assurance standards. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints that

require the Company's management to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on the evaluation of our disclosure controls and procedures, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of **June 30, 2023** **September 30, 2023**, the Company's disclosure controls and procedures were not effective as a result of one unremediated material weakness in the Company's internal control over financial reporting that was discovered during the course of the 2018 external audit of the accounts, relating to the accounting for and disclosure of certain complex and nonrecurring transactions as it specifically pertains to the adoption and application of ASU 2014-09, *Revenue from Contracts with Customers*. Not all material weaknesses necessarily present the same risks from period to period as a result of differing events and transactions which have occurred or may occur in current and future periods.

Material Weaknesses in Internal Control over Financial Reporting

A material weakness is defined as a deficiency or combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

With respect to the inadequate design accounting for and operation of internal disclosure of certain complex and nonrecurring transactions, the execution of the controls over the application of accounting literature did not operate effectively with respect to the adoption and application of ASU 2014-09. This matter was discovered during the course of the 2018 external audit of the accounts and was reviewed with the Company's Audit Committee.

As a result of this material weakness, the Company's management directed a comprehensive review of its consolidated financial statements to assess the possibility of further material misstatements that may remain unidentified. As a result of such review, and notwithstanding the material weakness described above, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, believes that the unaudited consolidated financial statements contained in this Form 10-Q for the three and **six** **nine** months ended **June 30, 2023** **September 30, 2023** and **June 30, 2022** **September 30, 2022** fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

Remediation Process

In 2022, the Company directed its internal audit department to conduct a thorough review of the material revenue processes. The review is in its final stages, which has preliminarily indicated no material issues. The Company expects to use the final results of this review in 2023 to implement a remediation plan for this final material weakness.

The actions that the Company is taking are subject to ongoing senior management review as well as Audit Committee oversight. The Company is committed to maintaining a strong internal control environment and believes that these remediation efforts will represent significant improvements in its controls.

KINGSWAY FINANCIAL SERVICES INC.

Changes in Internal Control over Financial Reporting

On September 7, 2023, the Company acquired 100% of the outstanding equity interests of SPI. Since the date of this acquisition, the Company has been analyzing and evaluating procedures and controls to determine their effectiveness and to make them consistent with our disclosure controls and procedures. As permitted by the SEC, SPI has been excluded from the scope of our quarterly discussion of material changes in internal control over financial reporting below.

There have been no changes in the Company's internal control over financial reporting during the period beginning **April 1, 2023** **July 1, 2023**, and ending **June 30, 2023** **September 30, 2023**, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except with respect to SPI.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information concerning pending legal proceedings is incorporated herein by reference to Note 23, "Commitments and Contingent Liabilities," to the unaudited consolidated interim financial statements in Part I of this Form 10-Q.

Item 1A. Risk Factors

There have been no material changes with respect to those risk factors previously disclosed in our 2022 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered equity securities during the quarter ended **June 30, 2023** **September 30, 2023**.

On March 21, 2023, the Company's Board of Directors approved a security repurchase program under which the Company is authorized to repurchase up to \$10.0 million of its currently issued and outstanding securities through March 22, 2024. See Note 18, "Shareholders' Equity," for further discussion of the share repurchase program.

The following table provides information about our repurchases of our securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 during the quarter ended **June 30, 2023** **September 30, 2023**.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
April 1 - 30, 2023	6,300	\$ 8.05	6,300	\$ 9,949
May 1 - 31, 2023 (a)	311,000	\$ 3.53	311,000	\$ 8,852
June 1- 30, 2023 (a)	247,670	\$ 3.67	247,670	\$ 7,944
Total	564,970	\$ 3.64	564,970	

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
July 1 - 31, 2023	31,146	\$ 8.05	31,146	\$ 7,693
August 1 - 31, 2023 (a)	566,191	\$ 4.02	566,191	\$ 5,418
September 1- 30, 2023	31,250	\$ 8.05	31,250	\$ 5,167
Total	628,587	\$ 4.42	628,587	

(a) **Represents** **Includes the** repurchase of 535,191 warrants.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None

KINGSWAY FINANCIAL SERVICES INC.

Item 6. Exhibits

[10.1](#) Membership Interest Purchase Agreement by and among National Institute of Clinical Research, as Seller, Dr Sali Asward, as the Shareholder, and Kingsway Search Xcelerator, Inc., as the Buyer, date October 19, 2023 (included as Exhibit 10.1 to the Form 8-K, filed October 23, 2023, and incorporated herein by reference).

[10.2](#) Stock Purchase Agreement by and among Thomas J. Corney and TC Family 2023 LLC, as Sellers, and DDI Acquisition LLC, as Buyer, dated October 26, 2023 (included as Exhibit 10.1 to the Form 8-K, filed October 30, 2023, and incorporated herein by reference).

[31.1](#) Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

[31.2](#) Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

[32.1](#) Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

[32.2](#) Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS Inline XBRL Instance Document

101.SCH Inline XBRL Taxonomy Extension Schema

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase

101.LAB Inline XBRL Taxonomy Extension Label Linkbase

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KINGSWAY FINANCIAL SERVICES INC.

Date: [August 8, November 7, 2023](#) By: [/s/ John T. Fitzgerald](#)
John T. Fitzgerald, President, Chief Executive Officer and Director
(principal executive officer)

Date: [August 8, November 7, 2023](#) By: [/s/ Kent A. Hansen](#)

Kent A. Hansen, Chief Financial Officer and Executive Vice President
(principal financial officer)

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EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302

Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John T. Fitzgerald, certify that:

1. I have reviewed this report on Form 10-Q of Kingsway Financial Services Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, November 7, 2023

By /s/ John T. Fitzgerald

John T. Fitzgerald, President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kent A. Hansen, certify that:

1. I have reviewed this Form 10-Q of Kingsway Financial Services Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, November 7, 2023

By /s/ Kent A. Hansen

Kent A. Hansen, Chief Financial Officer and Executive Vice President
(Principal Financial Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Kingsway Financial Services Inc. (the "Company") for the period ended **June** **September** 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned John T. Fitzgerald, the President and Chief Executive Officer and Principal Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigned's knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **August 8, November 7, 2023**

By /s/ John T. Fitzgerald

John T. Fitzgerald, President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Kingsway Financial Services Inc. (the "Company") for the period ended **June** **September** 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Kent A. Hansen, the Chief Financial Officer and Principal Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of the undersigned's knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **August 8, November 7, 2023**

By /s/ Kent A. Hansen

Kent A. Hansen, Chief Financial Officer and Executive Vice President
(Principal Financial Officer)

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