KINGSWAY FINANCIAL SERVICES INC
Form 40-F
May 14, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 40-F

[Check one]
[ ] **Registration Statement Pursuant to Section 12 of the Securities Exchange Act of 1934**
or
[X] **Annual Report Pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended: **December 31, 2002** Commission File Number: 1-15212

KINGSWAY FINANCIAL SERVICES INC.

(Exact name of Registrant as specified in its charter)

Ontario	**6331**	**Not Applicable**
(Province or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number, if applicable)*

5310 Explorer Drive, Suite 200, Mississauga, Ontario, Canada L4W 5H8
(905) 629-7888

(Address and telephone number of Registrant s principal executive offices)

James R. Zuhlke
Kingsway America Inc.
1515 Woodfield Road, Suite 820, Schaumburg, IL 60173
(847) 619-7610

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

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares, no par value	New York Stock Exchange, Inc.

Securities registered or to be registered pursuant to Section 12(g) of the Act. **N/A**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act. **N/A**

For annual reports, indicate by check mark the information filed with this Form:

[X] Annual information form [X] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

48,794,212 Common Shares outstanding as of December 31, 2002.

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the Exchange Act). If Yes is marked, indicate the filing number assigned to the Registrant in connection with such Rule.

Yes ______ 82- ______ No ___X___

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 ___X___ No ______

Exhibit Index appears on Page 96

KINGSWAY FINANCIAL SERVICES INC.

DOCUMENTS FILED UNDER COVER OF THIS FORM

Document No. 1

KINGSWAY FINANCIAL SERVICES INC.

2002 ANNUAL INFORMATION FORM

1. INCORPORATION

Kingsway Financial Services Inc. (KFSI) was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. On November 10, 1995, KFSI filed articles of amendment deleting its private company share restrictions, subdividing KFSI s outstanding common shares on a three for one basis, and deleting the Class A Special Shares and the Class B Special Shares that were previously authorized. On October 11, 1996, KFSI filed articles of amendment to sub-divide the common shares on a two for one basis. On April 27, 1998, KFSI filed articles of amendment to subdivide the common shares on a two for one basis. The principal and registered office of KFSI is located at 5310 Explorer Drive, Suite 200, Mississauga, Ontario, L4W 5H8.

2. INTER-CORPORATE RELATIONSHIPS

KFSI s material subsidiaries and its intercorporate relationship with KFSI as of the most recent financial year end are listed and described in Note 1(a) to the Consolidated Financial Statements of KFSI contained in KFSI s 2002 Annual Report (the Annual Report) which is incorporated herein by reference. All subsidiaries are 100% owned, directly or indirectly, (except for qualifying shares of York Fire & Casualty Insurance Company and Kingsway General Insurance Company held by directors in order to satisfy applicable statutory requirements).

3. GENERAL DEVELOPMENT OF THE BUSINESS

KFSI is a holding company which operates through its wholly owned subsidiaries in the property and casualty insurance business. Since its inception in 1986, Kingsway General Insurance Company (KGIC) has provided property and casualty insurance in specialized lines in Canada, primarily in the automobile insurance market. In 1989, KGIC became a wholly owned subsidiary of KFSI. Since KFSI s initial public offering in 1995, KFSI has made selective acquisitions in Canada and the United States, including its insurance subsidiaries, American Service Insurance Company, Inc., U.S. Security Insurance Company, Jevco Insurance Company, Southern United Fire Insurance Company, Universal Casualty Company, Lincoln General Insurance Company, York Fire & Casualty Insurance Company and American Country Insurance Company.

Significant events that have influenced the general development of the business over the last three years include:

(a) the completion of a public offering of 5,000,000 common shares in July, 2001 for net proceeds of $59,375,000 and the sale of an additional 750,000 common shares granted to KFSI s underwriters as an over allotment option for net proceeds of $8,906,250;

(b) the completion of a public offering of 7,500,000 common shares in December, 2001 for net proceeds of $118,943,000 and the sale of an additional 1,125,000 shares issued to KFSI s underwriters pursuant to the exercise of an over allotment option for net proceeds of $17,820,000;

(c) the acquisition of American Country Holdings Inc. (ACHI) and its subsidiaries in April, 2002 for an acquisition price of approximately U.S.$21.7 million. ACHI is a Chicago based insurer which specializes in taxicab insurance. ACHI wrote U.S.$83.4 million in gross premiums in 2001 and had total assets of U.S.$196.2 million as at December 31, 2001. The transaction was completed as a result of the tendering of 95.2% of the issued common shares of ACHI pursuant to an arm s length tender offer to ACHI s shareholders;

(d) the completion of a syndicated, unsecured credit facility of up to $66.5 million in May, 2002;

(e) the completion, in December 2002, of an inaugural public debt offering of $78 million of 8.25% unsecured debentures due December, 2007; and

(f) the completion, in December, 2002, of a private placement of U.S.$15 million in a 30 year floating rate trust preferred securities.

4. NARRATIVE DESCRIPTION OF THE BUSINESS

In 2002, non-standard automobile business accounted for 39% of KFSI s $2,124.7 million of gross premiums written (GPW) (the total premiums on insurance underwritten before deduction of reinsurance premiums ceded). Non-standard automobile insurance is the insuring of automobile risks for drivers with worse than average driving records primarily as a result of accidents or traffic violations. Kingsway s commercial trucking line increased substantially in 2002 and comprised $685.5 million or 32.3% of Kingsway s GPW in the year.

KFSI s premium distribution by line and geographic areas is set out in the Note 9 to the Consolidated Financial Statements contained in the Annual Report which is incorporated herein by reference.

In addition to revenue derived from premiums earned, KFSI also derives revenue from premium financing and investment income. This revenue amounted to $81.1 million in 2002 as compared to $64.6 million in 2001.

KFSI has remained a disciplined underwriter. KFSI has earned a profit from its underwriting activities for 11 of the last thirteen fiscal years, and as well, KFSI s combined ratio in six of the last eight years has been less than 100%. The selected Supplemental Financial Information set out on page 62 of the Annual Report which is incorporated herein by reference provides details of the gross premiums written, underwriting profits, and key ratios from KFSI s insurance operations compared to industry results for the eight year period ending December 31, 2002 and are incorporated herein by reference.

Employees

As at December 31, 2002, KFSI employed an aggregate of approximately 1,680 full-time personnel, none of whom are unionized.

Liquidity

Capital required for KFSI s business has been obtained from KFSI s public offerings of common shares, its syndicated term and operating lending facilities, the issuance of trust preferred securities and has been internally generated from underwriting and investment profits. KFSI s operations create liquidity by collecting and investing premiums, as more fully discussed on pages 37 and 38 of the Annual Report which are incorporated by reference herein.

Investment Portfolio

The total size of the investment portfolio increased from $1,127 million at the end of 2001 to $1,834 million at December 31, 2002. Returns on a pre-tax basis were 4.9% for the year compared with 6.4% for 2001. The investment portfolio as at December 31, 2002 and December 31, 2001 is comprised of assets from a number of different classes as reflected in Note 2 to the 2002 Consolidated Financial Statements set out on pages 54 and 55 of the Annual Report which are incorporated herein by reference.

Competitive Position

The insurance industry is price competitive in all markets in which KFSI insurance subsidiaries operate. KFSI s subsidiaries employ disciplined underwriting practices with the objective of rejecting underpriced risks. The combined ratio of claims plus underwriting expenses compared to net premiums earned is the traditional measure of underwriting results of property and casualty companies. In any year when the ratio exceeds 100%, it generally indicates that unprofitable business has been underwritten. Through careful underwriting, pricing, risk selection, stringent claims management, and non-renewal of unprofitable policies, KFSI has produced an underwriting profit in eleven of the last thirteen years. In contrast, the last year that the combined Canadian Industry made an underwriting profit was 1978.

The combined ratio chart set out on page 24 of the Annual Report indicates the Canadian and U.S. industries combined ratios in comparison with KFSI and is incorporated by reference herein. KFSI believes that it is better to write less business with higher profits than to compete with other insurers at low premiums to increase volume at the expense of higher combined ratios. In 2002, Kingsway s combined ratio from Canadian and U.S. Operations was 108.4% and 97.2% respectively, compared with the industry averages of 105.8% and 105.7% respectively.

5. SELECTED CONSOLIDATED FINANCIAL INFORMATION

Annual Information

The revenue, net income, net income per share, and total assets of KFSI for each of the last eight years are contained in the Supplemental Financial Information table set out on page 62 of the Annual Report which is incorporated herein by reference. Quarterly financial information for the last eight quarters ending December 31, 2002 is contained in the Supplemental Financial Information table on page 63 of the Annual Report which is incorporated herein by reference. The total long term financial liabilities of KFSI as at the end of the last fiscal year was U.S.$100

million in comparison to U.S.$90 million and U.S.$95 million at December 31, 2001 and 2000, respectively.

Dividend Policy

The ability of KFSI to pay dividends is largely dependent upon its ability to receive dividends from its subsidiaries. The insurance subsidiaries are regulated and are required to maintain statutory capital in order to write insurance policies. Regulatory authorities may impose, from time to time, additional restrictions which may affect the actual amounts available to KFSI for the payment of dividends.

During the past five years, KFSI has not paid any dividends. KFSI has no intention to declare regular dividends on its common shares in the foreseeable future. Any decision to pay dividends on KFSI s common shares in the future will be dependent upon the financial requirements of KFSI to finance future growth, the financial condition of KFSI and other factors which the Board of Directors of KFSI may consider appropriate in the circumstances.

6. MANAGEMENT S DISCUSSION AND ANALYSIS

Management s discussion and analysis of financial condition and results of operations which appear on pages 24 to 46 of KFSI s 2002 Annual Report are incorporated herein by reference.

7. MARKET FOR SECURITIES

The common shares of KFSI are listed on the Toronto Stock Exchange and the New York Stock Exchange (Symbol KFS).

8. DIRECTORS AND OFFICERS

The following table and the notes thereto state the names of all executive officers of the Corporation, all other positions or offices with the Corporation and its subsidiaries now held by them, their principal occupations or employment and the number of Common Shares and Options of the Corporation beneficially owned, directly or indirectly, by each of them, or over which they exert control or direction as of March 20, 2003. The same information relating to the directors of the Corporation is contained in the Election of Directors section of the Management Information Circular of KFSI dated March 20, 2003 which is incorporated herein by reference.

Name and Municipality of Residence and Present Principal	Position with the Corporation	Common Shares of the Corporation beneficially owned, directly or indirectly, or controlled	Number of Options Held

Occupation		or directed	
William G. Star Mississauga, ON	Chairman, President and Chief Executive Officer, KFSI	284,060	540,000
W. Shaun Jackson Oakville, ON	Executive Vice-President and Chief Financial Officer, KFSI	44,708	220,000
John L. McGlynn	Vice-President Finance, KFSI	332	3,000
G. Steven Smith Acton, ON	Vice-President, KFSI; Executive Vice-President and COO, Kingsway General	28,377	40,000
Frank Amodeo Toronto, ON	Vice-President, KFSI	4,191	10,000
James R. Zuhlke North Barrington, Illinois	President, Kingsway America	164,900	190,000
Shelly Gobin Mississauga, ON	Assistant Vice-President and Treasurer, KFSI	12,696	27,667

Frank Amodeo joined KFSI in July, 2001. Prior thereto, Mr. Amodeo was Vice-President and General Manager of Winterthur International (The Citadel General Assurance Company).

John L. McGlynn joined KFSI in 2002. Mr. McGlynn previously was the President and Chief Executive Officer of Markham General Insurance Company and the President and Chief Operating Officer of its parent Millenium Financial Management Limited from October, 1999 to April, 2002. Mr. McGlynn was the Executive Vice-President of Millenium Financial Management Limited from October, 1997 to October, 1999.

Except as noted above, for the past five years each executive officer has been engaged in his current occupation or in other capacities within the same or a related entity.

As a group, the directors and officers of KFSI own, directly or indirectly or exercise control or direction over 711,684 (1.5% of the total outstanding) common shares of KFSI. The information as to shares owned indirectly or over which control or direction is exercised by the directors and officers, but which are not registered in their names, not being within the knowledge of KFSI, has been furnished by such officers of KFSI.

The Corporation does not have an Executive Committee. Mr. Walsh serves as KFSI s lead director. The Board of Directors has established an Audit Committee comprised solely of

outside Directors, namely Messrs. Atkins, Di Giacomo and Walsh. In addition, the Corporation has an Investment Committee comprised of Messrs. Di Giacomo, Star and Walsh, a Nominating Committee comprised of Messrs. Atkins, Walsh and Reeve, and a Compensation and Management Resources Committee comprised of Messrs. Beamish, Di Giacomo and Gluckstein.

9. ADDITIONAL INFORMATION

KFSI shall provide to any person, upon request to the Secretary of KFSI:

(a) when the securities of KFSI are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of its securities,

(i) one copy of the Annual Information Form of KFSI, together with one copy of any documents, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;

(ii) one copy of the comparative financial statements of KFSI for its most recently completed financial year together with the accompanying report of KFSI s auditor and one copy of any interim financial statements of KFSI subsequent to the financial statements for KFSI s most recently completed financial year;

(iii) one copy of the information circular of KFSI in respect of its most recent annual meeting of shareholders that involved the election of directors or one copy of any annual filing prepared in lieu of that information circular, as appropriate, and

(b) at any other time, one copy of any other documents referred to in (a) (i), (ii) and (iii) above, provided KFSI may require the payment of a reasonable charge if the request is made by a person who is not a security holder of KFSI.

Additional information, including directors and officers remuneration and indebtedness, the principal holders of KFSI securities, options to purchase securities, and interests of insiders in material transactions, where applicable, is contained in KFSI s Information Circular for its most recent annual meeting of shareholders, which involves the election of directors. Additional financial information is provided in KFSI s comparative financial statements for its most recently completed financial year. Copies of such documents may be obtained upon request from the Secretary of KFSI.

For copies of documents, please contact Mr. Michael Slan, Secretary, Suite 4400, Royal Trust Tower, Toronto-Dominion Centre, Toronto, Ontario, M5K 1G8, Telephone (416) 941-8857, Facsimile (416) 941-8852, E-mail address: mss@foglerubinoff.com.

Document No. 2

Consolidated Financial Statements of

KINGSWAY FINANCIAL SERVICES INC.

Years ended December 31, 2002
and December 31, 2001.

MANAGEMENT STATEMENT ON RESPONSIBILITY FOR FINANCIAL INFORMATION

Management is responsible for presentation and preparation of the annual consolidated financial statements, Management s Discussion and Analysis (MDA) and all other information in this Annual Report. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and also include a reconciliation to generally accepted accounting principles in the United States. Financial information appearing elsewhere in this Annual Report is consistent with the consolidated financial statements.

The consolidated financial statements and information in the MDA necessarily include amounts based on informed judgements and estimates of the expected effects of current events and transactions with appropriate consideration to materiality. In addition, in preparing the financial information management must make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. The MDA also includes information regarding the estimated impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from management s present assessment of this information because future events and circumstances may not occur as expected.

In meeting its responsibility for the reliability of the consolidated financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

We, as Kingsway Financial s Chief Executive Officer and Chief Financial Officer, will be certifying Kingsway Financial s annual disclosure document filed with the SEC (Form 40-F) as required by the new United States Sarbanes-Oxley Act.

The Board of Directors oversees management s responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the Company. The Audit Committee reviews the consolidated financial statements and recommends them to the board for approval. The Audit Committee also reviews and monitors weaknesses in the Company s system of internal controls as reported by management or the external auditors.

Role of the Actuary

With respect to the preparation of these financial statements, management prepares a valuation including the selection of appropriate assumptions of the Company s obligations at the balance sheet date under insurance policies issued by its subsidiaries. With respect to the preparation of these financial statements, KPMG llp carries out a review of management s valuation of the policy liabilities and provides an opinion to the Board of Directors regarding the appropriateness of the claims liabilities recorded by management to meet all policyholder obligations of the Company at the balance sheet date. The work to form that opinion includes an examination of the sufficiency and reliability of data, and review of the valuation process used by management. The actuary is responsible for assessing whether the assumptions and methods used for the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the review of these liabilities determined by management, which are by their very nature inherently variable, the actuary makes assumptions as to future loss ratios, trends, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Company and the nature of the insurance policies.

The valuation is based on projections of future claims and claim adjustment expenses on claims incurred at the balance sheet date. It is certain that actual future claims and claim adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for new classes or claim categories not sufficiently recognized in the claims database.

Management is responsible for the accuracy and completeness of the underlying data used in the valuation. The actuary s report outlines the scope of the review and the opinion.

Role of the Auditor

The external auditors, KPMG LLP , have been appointed by the shareholders. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with Canadian generally accepted auditing standards and to report thereon to the shareholders. In carrying out their audit, the auditors make use of the work of the actuary and their report on the claim liabilities of the Company. The shareholders auditors have full and unrestricted access to the Board of Directors and the Audit Committee to discuss audit, financial reporting and related findings. The auditors report outlines the scope of their audit and their opinion.

/s/ William G. Star	/s/ W. Shaun Jackson
William G. Star	W. Shaun Jackson
President & Chief Executive Officer	Executive Vice President & Chief Financial Officer

February 6, 2003

AUDITORS REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Kingsway Financial Services Inc. as at December 31, 2002 and December 31, 2001 and the consolidated statements of operations, retained earnings and cash flows for each of the years in the three-year period ended December 31, 2002. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and December 31, 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2002 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
February 6, 2003

APPOINTED ACTUARY S REPORT

KPMG LLP has reviewed management s valuation, including the selection of appropriate assumptions and methods, of the unpaid claims liabilities of the insurance and reinsurance subsidiaries of Kingsway Financial Services Inc. for its consolidated balance sheets at December 31, 2002 and 2001 and their changes in the statement of operations for each of the years in the three year period ended December 31, 2002 in accordance with accepted actuarial practice.

In accepted actuarial practice, the valuation of unpaid claims liabilities reflects the time value of money. Insurance regulations in some jurisdictions require that the valuation of some unpaid claims liabilities not reflect the time value of money. The valuation complies with that directive.

In our opinion, the unpaid claims liabilities are appropriate except as described in the preceding paragraph and the consolidated financial statements fairly present its results.

KPMG LLP

Claudette Cantin, F.C.I.A.
February 6, 2003

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Balance Sheets

As at December 31
(In thousands of Canadian dollars)

	2002	2001
Assets		
Cash	$ 244,921	$ 96,200
Investments (notes 2 and 11(c))	1,833,744	1,126,998
Accrued investment income	16,223	12,173
Accounts receivable and other assets	334,603	176,692
Due from reinsurers and other insurers (note 5)	164,742	131,462
Deferred policy acquisition costs	178,574	95,717
Income taxes recoverable	3,851	1,246
Future income taxes (note 6)	59,505	23,086
Capital assets	43,981	38,643
Goodwill and intangible assets (note 1(e))	104,290	76,527
	$2,984,434	$1,778,744
Liabilities and Shareholders' Equity		
Liabilities:		
Bank indebtedness (note 10(a))	$ 170,390	$ 144,516
Accounts payable and accrued liabilities	122,606	83,303
Unearned premiums (note 5)	776,323	424,120
Unpaid claims (notes 5 and 7)	1,200,554	589,963
Senior unsecured debentures (note 10(b))	78,000	--
	2,347,873	1,241,902
Subordinated indebtedness (note 10(c))	23,636	--
Shareholders' equity:		
Share capital (note 3)	357,192	356,232
Currency translation adjustment	11,090	15,499
Retained earnings (note 11(b))	244,643	165,111
	612,925	536,842
Contingent liabilities (note 11)		
	$2,984,434	$1,778,744

See accompanying notes to consolidated financial statements.

On behalf of the Board:

/s/ David H. Atkins Director

/s/ F. Michael Walsh Director

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Operations

Years ended December 31

(In thousands of Canadian dollars, except per share amounts)

	2002	2001	2000
Gross premiums written	$ 2,124,691	$1,065,262	$ 643,022
Net premiums written	$ 2,009,963	$1,014,960	$ 604,693
Revenue:			
Net premiums earned (note 5)	$ 1,737,754	$ 872,830	$ 539,969
Investment income	64,855	52,553	44,576
Net realized gains	16,259	12,079	10,444
	1,818,868	937,462	594,989
Expenses:			
Claims incurred (notes 5 and 7)	1,240,329	616,079	371,946
Commissions and premium taxes (note 5)	372,051	167,176	106,378
General and administrative expenses	122,762	81,938	66,925
Interest expense	12,274	11,399	11,408
Amortization of intangible assets	716	--	--
	1,748,132	876,592	556,657
Income before income taxes	70,736	60,870	38,332
Income taxes(recovery) (note 6):			
Current	4,410	6,665	5,691
Future	(13,206)	3,418	(298)
	(8,796)	10,083	5,393
Net income before goodwill	79,532	50,787	32,939
Amortization of goodwill, net of applicable income tax	--	5,856	5,469
Net income	$ 79,532	$ 44,931	$ 27,470
Earnings per share (note 3):			
Basic	$ 1.63	$ 1.21	$ 0.81
Diluted	$ 1.61	$ 1.19	$ 0.80

See accompanying notes to consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Retained Earnings

Years ended December 31
(In thousands of Canadian dollars)

	2002	2001	2000
Retained earnings, beginning of year	$165,111	$120,180	$ 92,710
Net income	79,532	44,931	27,470
Retained earnings, end of year	$244,643	$165,111	$120,180

See accompanying notes to consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Consolidated Statements of Cash Flows

Years ended December 31
(In thousands of Canadian dollars)

	2002	2001	2000
Cash provided by (used in):			
Operating activities:			
Net income	$ 79,532	$ 44,931	$ 27,470
Items not affecting cash:			
Amortization of goodwill and intangibles	716	6,674	6,206
Amortization of capital assets and deferred charges	9,358	5,137	4,121
Future income taxes	(11,157)	(873)	(276)
Net realized gains	(16,259)	(12,079)	(10,444)
Amortization of bond premiums and discounts	3,746	(4,856)	(2,977)
	65,936	38,934	24,100
Change in non-cash balances:			
Deferred policy acquisition costs	(79,898)	(36,370)	(12,084)
Due from reinsurers and other insurers	1,863	5,377	33,427
Unearned premiums	303,012	131,028	64,024
Unpaid claims	370,193	132,279	(18,390)
Net change in other non-cash balances	(60,722)	(63,920)	1,429
	600,384	207,328	92,506
Financing activities:			
Increase of share capital, net	960	207,751	19
Increase (decrease) in bank indebtedness	26,952	(7,035)	(14,445)
Increase in senior unsecured debentures	78,000	--	--
Increase in subordinated indebtedness	23,636	--	--
	129,548	200,716	(14,426)
Investing activities:			
Purchase of investments	(4,396,825)	(2,277,643)	(1,249,692)
Proceeds from sale of investments	3,857,050	1,958,678	1,221,913
Financed premiums receivable, net	7,768	(7,546)	(24,191)

Purchase of subsidiaries, net of cash acquired (note 8)	(36,908)	(2,336)	(4,468)
Additions to capital assets	(12,296)	(12,837)	(3,864)
	(581,211)	(341,684)	(60,302)
Increase in cash during the year	148,721	66,360	17,778
Cash, beginning of year	96,200	29,840	12,062
Cash, end of year	$ 244,921	$ 96,200	$ 29,840
Supplementary disclosure of cash information:			
Cash paid for:			
Interest	$ 12,186	$ 11,701	$ 11,507
Income taxes	3,034	9,909	1,098

See accompanying notes to consolidated financial statements.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

1. Summary of significant accounting policies:

Kingsway Financial Services Inc. (the Company) was incorporated under the Business Corporations Act (Ontario) on September 19, 1989. The Company is a financial services holding company which, through its subsidiaries, is engaged in property and casualty insurance.

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries all of which are wholly-owned. Acquisitions are accounted for by the purchase method, whereby the results of acquired companies are included only from the date of acquisition, and divestitures are included up to the date of disposal. Assets and liabilities of the acquired companies are included in the financial statements at their fair values at the date of acquisition.

The following is a list of our material subsidiaries, all of which are 100% owned, directly or indirectly, (except for qualifying shares of York Fire & Casualty Insurance Company and Kingsway General Insurance Company held by directors in order to satisfy applicable statutory requirements), with the jurisdiction of incorporation indicated in brackets: American Country Holdings Inc. (Illinois); American Country Insurance Company (Illinois); American Country Financial Services Corp. (Illinois); American Country Underwriting Agency Inc. (Illinois); American Country Professional Services Corp. (Illinois); American Service Investment Corporation (Illinois); American Service Insurance Company, Inc. (Illinois); ARK Insurance Agency Inc. (Illinois); Avalon Risk Management, Inc. (Illinois); Appco Finance Corporation (Florida); AOA Payment Plan Inc. (Illinois); Hamilton Risk Management Company (Florida); Insurance Management Services Inc. (Florida); U.S. Security Insurance Company (Florida); Jevco Insurance Company (Canada); Kingsway America Inc. (Delaware); Kingsway Connecticut Statutory Trust I (Delaware); Kingsway Financial Capital Trust I (Delaware); Kingsway Finance Nova Scotia, ULC (Nova Scotia); Kingsway General Insurance Company (Ontario); Kingsway Reinsurance (Bermuda) Ltd. (Bermuda); Kingsway Reinsurance Corporation (Barbados); Kingsway U.S. Finance Partnership (Delaware); Kingsway U.S. Funding Inc. (Delaware); Kingsway U.S. Tier II Finance Partnership (Delaware); Southern United Holding, Inc. (Alabama); Consolidated Insurance Management Corp. (Alabama); Funding Plus of America (Alabama); Southern United Fire Insurance Company (Alabama); Southern United General Agency of Texas, Inc. (Texas); UCC Corporation (Nevada); Universal Casualty

Company (Illinois); Walshire Assurance Company (Pennsylvania); Lincoln General Insurance Company (Pennsylvania); Yorktowne Premium Finance Company (Pennsylvania); and York Fire & Casualty Insurance Company (Ontario).

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

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1. Summary of significant accounting policies (continued):

(b) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

(c) Investments:

Fixed term investments are carried at amortized cost providing for the amortization of the discount or premium on a constant yield basis to maturity. Investments in common and preferred shares are carried at cost. Where a decline in value of an investment is considered to be other than temporary a writedown of the investment is recorded.

(d) Investment income:

Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date. Gains and losses on disposal of investments are determined and recorded as at the settlement date, and are calculated on the basis of average cost.

(e) Goodwill and other intangible assets:

When the Company acquires a subsidiary or other business where we exert significant influence, we determine the fair value of the net tangible and intangible assets acquired and compare them to the amount paid for the subsidiary or business acquired. Any excess of the amount paid over the fair value of those net assets is considered to be goodwill.

Goodwill is tested at least annually for impairment to ensure that its fair value is greater than or equal to the carrying value. Any excess of carrying value over fair value is charged to income in the period in which the impairment is determined. At December 31, 2002 and 2001 goodwill, net of accumulated amortization, was $97,671,000 and $76,527,000, respectively.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

1. Summary of significant accounting policies (continued):

(e) Goodwill and other intangible assets (continued):

When the Company acquires a subsidiary or other business where we exert significant influence, we may acquire intangible assets, which are recorded at their fair value at the time of the acquisition. Intangible assets with a definite useful life are amortized to income on a straight-line basis over the defined useful life. The Company writes down the value of an intangible asset with a definite useful life when the undiscounted cash flows are not expected to allow for full recovery of the carrying value. At December 31, 2002 and 2001 intangible assets with a definite useful life, net of accumulated amortization, were $3,066,000 and $nil, respectively.

Intangible assets with an indefinite useful life are not subject to amortization and are tested at least annually for impairment to ensure that its fair value is greater than or equal to its carrying value. Any excess of carrying value over fair value is charged to income in the period in which the impairment is determined. At December 31, 2002 and 2001 the Company had intangible assets with an indefinite life of $3,553,000 and $nil, respectively.

Amortization of intangible assets reported in the Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000 was $716,000, $nil and $nil, respectively. There were no write-downs of goodwill or intangible assets due to impairment during the years ended December 31, 2002, 2001, and 2000.

Prior to January 1, 2002 the Company amortized goodwill arising from acquisitions made before July 1, 2001 over the estimated useful life of the asset acquired. Amortization of goodwill was recorded net of applicable income taxes in the Consolidated Statements of Operations. Goodwill amortization of $5,856,000 and $5,469,000, net of applicable taxes of $818,000 and $737,000, was included in income for the years ended December 31, 2001 and 2000, respectively.

(f) Deferred policy acquisition costs:

The Company defers brokers commissions, premium taxes and other underwriting and marketing costs relating to the acquisition of premiums written to the extent they are considered recoverable. These costs are then expensed as the related premiums are earned. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future claims and expenses to be incurred as premiums are earned. Changes in estimates, if any, are recorded in the accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs.

1. Summary of significant accounting policies (continued):

(f) Deferred policy acquisition costs (continued):

Effective October 1, 2002, on a prospective basis, the Company began deferring other underwriting and marketing costs relating to the acquisition of premiums. The impact of this change was an increase to net income before taxes of $6,589,000 for the year ended December 31, 2002. Had these costs been taken into account in the deferral of policy acquisition costs in prior years, the impact on the financial statements would not have been significant.

(g) Premium revenue and unearned premiums:

The Company earns premium revenue over the period covered by each individual insurance contract in proportion to the insurance protection provided. For motorcycle premiums, a higher percentage of the premiums is earned during the summer months, which is the motorcycle riding season in Canada. For all other lines of business, the premiums are earned evenly over the contact period. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the year-end.

The reinsurers share of unearned premiums is recognized as amounts recoverable using principles consistent with the Company s method for determining the unearned premium liability.

(h) Unpaid claims:

The provision for unpaid claims includes adjustment expenses and represents an estimate for the full amount of all expected costs, including investigation, and the projected final settlements of claims incurred on or before the balance sheet date. The provision does not take into consideration the time value of money or make an explicit provision for adverse deviation.

These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the accounting period in which they are determined.

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1. Summary of significant accounting policies (continued):

(i) Reinsurance:

Net premiums earned and claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders. Unearned premiums and deferred policy acquisition costs are also reported before reduction for business ceded to reinsurers and the reinsurers portion is classified with amounts due from reinsurers.

Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the Company s method for obtaining the related policy liability associated with the reinsured policy.

(j) Translation of foreign currencies:

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates and non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Translation gains and losses are included in the current income. Income and expenses are translated at the exchange rates in effect at the date incurred. Realized gains and losses on foreign exchange are recognized in the statement of operations.

The operations of the Company s subsidiaries in the United States and Barbados are self-sustaining. As a result, the assets and liabilities of these subsidiaries are translated at the year-end rates of exchange. Revenues and expenses are translated at the average rate of exchange for each year. The unrealized gains and losses, which result from translation are deferred and included in shareholders equity under the caption currency translation adjustment .

(k) Income taxes:

The Company follows the asset and liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

1. Summary of significant accounting policies (continued):

(l) Stock-based compensation plan:

The Company has a stock-based compensation plan, which is described in Note 4 and uses the intrinsic-value method of accounting for stock-based compensation awards granted to employees and non-employee directors. The exercise price of all stock options is based on the market value of the shares at the time the option is granted. No compensation expense is recognized for this plan when stock options are issued to employees and non-employee directors. The consideration paid by employees and non-employee directors on exercise of stock options is credited to share capital.

(m) Capital assets:

Capital assets are reported in the financial statements at depreciated cost. Depreciation of property and equipment has been provided by the straight-line method over the estimated useful lives of such assets. The useful lives range from 15-40 years for building and leasehold improvements, 5-7 years for furniture and equipment and 3-5 years for computers and software development. At December 31, 2002 and 2001, the total cost of capital assets is $67,825,000 and $55,203,000, respectively, and accumulated depreciation is $23,844,000 and $16,560,000, respectively. At December 31, 2002 and 2001 the buildings and leasehold improvements account for 32% and 37% of the total cost, respectively and 39% and 45% of the depreciated cost, respectively. At December 31, 2002 and 2001 the computers and software development account for 43% and 26% of the total cost, respectively and 38% and 29% of the depreciated cost, respectively.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

2. Investments:

The carrying amounts and fair values of investments are summarized below:

	December 31, 2002

	Carrying amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
Term deposits	$ 506,575	$ 1	$ 65	$ 506,511
Bonds:				
Canadian - Government	130,736	3,993	--	134,729
- Corporate	82,650	3,288	837	85,101
U.S. - Government	152,644	6,768	19	159,393
- Corporate	248,729	10,118	918	257,929
Other - Government	158,294	2,068	2	160,360
- Corporate	282,353	5,275	--	287,628
Sub-total	$1,561,981	$31,511	$ 1,841	$1,591,651
Preferred shares - Canadian	2,045	2	22	2,025
Common shares - Canadian	125,563	9,207	6,137	128,633
- U.S.	57,341	3,156	3,314	57,183
Financed premiums	86,814	--	--	86,814
	$1,833,744	$43,876	$ 11,314	$1,866,306

The maturity profile of the bonds and term deposits investments at their carrying amounts and fair values as at December 31, 2002 is as follows:

	Carrying Amount	Fair Value
Due in one year or less	$ 636,726	$ 638,163
Due after one year through five years	699,514	717,493
Due after five years through ten years	179,809	188,190
Due after ten years	45,932	47,805
	$1,561,981	$1,591,651

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

2. Investments (continued):

	December 31, 2001			
	Carrying Amount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Term deposits	$ 192,191	$ 1	$ 29	$ 192,163
Bonds:				
Canadian - Government	110,757	2,116	287	112,586

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

	- Corporate	72,631	1,469	2,416	71,684
U.S.	- Government	135,251	1,551	346	136,456
	- Corporate	136,590	2,915	666	138,839
Other	- Government	58,995	431	1	59,425
	- Corporate	215,788	1,389	429	216,748
Sub-total		$ 922,203	$ 9,872	$ 4,174	$ 927,901
Preferred shares - Canadian		8,115	13	748	7,380
	- U.S.	1,202	71	325	948
Common shares - Canadian		85,383	10,665	4,157	91,891
	- U.S.	14,750	1,412	426	15,736
	- Other	1,746	--	615	1,131
Financed premiums		93,599	--	--	93,599
		$1,126,998	$22,033	$ 10,445	$1,138,586

The maturity profile of the bonds and term deposits investments at their carrying amounts and fair values as at December 31, 2001 is as follows:

	Carrying Amount	Fair Value
Due in one year or less	$287,625	$288,177
Due after one year through five years	436,472	441,350
Due after five years through ten years	162,984	162,999
Due after ten years	35,122	35,375
	$922,203	$927,901

2. Investments (continued):

The carrying amounts are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Fair values of term deposits, bonds and common and preferred shares are considered to approximate quoted market values based on the latest bid prices. Financed premiums represent the portion of our insureds monthly premium payments that are not yet due. Certain of our insureds have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly installments. The insured pays an additional premium for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional premium is essentially an interest payment on the balance of the unpaid premium and is recognized as income over the period of the policy. The fair value of financed premiums, which are realized over the term of the related policies of up to one year, approximates their carrying amount.

Management has reviewed currently available information regarding those investments whose estimated fair value is less than their carrying amount and ascertained that the carrying amounts are expected to be recovered. Debt securities whose carrying amount exceeds market value can be held until maturity when management expects to receive the principal amount.

All of the Company s fixed term investments have fixed interest rates. The coupon rates for the Company s fixed term investments range from 0.94% to 13.00% at December 31, 2002 and 3.75% to 13.25% at December 31, 2001. As the fair value, carrying amounts and face amounts are not materially different, the effective rates of interest based on fair values would not be materially different from the coupon rates.

The Company limits its investment concentration in any one investee or related group of investees to less than 5% of the Company s investments.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

2. Investments (continued):

Net investment income for the years ended December 31 is comprised as follows:

	2002	2001	2000
Investment income:			
Interest on short-term investments	$ 4,431	$ 6,457	$ 6,433
Interest on bonds	50,317	29,654	26,029
Dividends	3,951	2,652	1,939
Premium finance	8,539	9,861	7,467
Other	565	5,550	4,309
Gross investment income	67,803	54,174	46,177
Investment expenses	2,948	1,621	1,601
Net investment income	$64,855	$52,553	$44,576

Net realized gains for the years ended December 31, 2002, 2001, and 2000 were $16,259,000, $12,079,000, and $10,444,000, respectively. Included in net realized gains were adjustments to the carrying value of investments for declines in market value considered other than temporary of $6,592,000, $1,200,000 and $nil for the years ended December 31, 2002, 2001 and 2000, respectively.

As at December 31, 2002, bonds and term deposits with an estimated fair value of $28,621,000 (2001 $22,847,000) were on deposit with regulatory authorities.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

3. Share capital:

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

Authorized:
Unlimited number of common shares

Share transactions consist of the following:

	Shares Issued	Stock Options	Weighted-Average Exercise Price	Amount
Balance as at December 31, 1999	34,010,068	834,567	$ 10.42	$148,462
Normal course issuer bid	(85,200)			(428)
Stock options:				
Granted in year		701,000	4.30	
Exercised in year	131,729	(131,729)	3.40	447
Forfeited in year		(32,500)	8.97	
Balance as at December 31, 2000	34,056,597	1,371,338	$ 8.00	$148,481
Issued July 12, 2001	5,750,000			68,315
Issued December 19, 2001	8,625,000			138,073
Stock options:				
Granted in year		367,500	$ 7.80	
Exercised in year	225,609	(225,609)	6.04	1,363
Forfeited in year		(59,668)	6.96	
Balance as at December 31, 2001	48,657,206	1,453,561	$ 8.30	$356,232
Stock options:				
Granted in year		425,500	$ 19.66	
Exercised in year	137,006	(137,006)	7.00	960
Forfeited in year		(29,835)	11.39	
Balance as at December 31, 2002	48,794,212	1,712,220	$ 11.17	$357,192

Share issue expenses of $7,948,000, net of applicable income taxes of $4,049,000, were deducted from the amount of share capital issued on July 12, 2001 and December 19, 2001.

(a) During the year ended December 31, 2002, options to acquire 137,006 shares (2001 225,609 shares; 2000 131,729 shares) were exercised at prices from $4.30 to $14.50 per share (2001 $4.00 to $14.50 per share; 2000 $2.50 to $4.00 per share).

(b) The weighted average number of shares outstanding for the years ended December 31, 2002, 2001 and 2000 were 48,742,622, 37,202,057 and 33,984,845, respectively. On a diluted basis, the weighted average number of shares outstanding for the years ended December 31, 2002, 2001 and 2000 were 49,427,348, 37,856,100 and 34,341,235, respectively.

4. Stock-based compensation:

(a) The Company has established a stock option incentive plan for directors, officers and key employees of the Company and its subsidiaries. For December 31, 2002 and 2001, the maximum number of common shares that may be issued under the plan is 3,400,000 (2000 2,400,000) common shares. The maximum number of common shares available for issuance to any one person under the stock option plan is 5% of the common shares outstanding at the time of the grant. The exercise price is based on the market value of the shares at the time the option is granted. In general, the options vest evenly over a three-year period and are exercisable for periods not exceeding 10 years.

The following tables summarize information about stock options outstanding as at December 31, 2002, December 31, 2001 and December 31, 2000:

December 31, 2002

Exercise Price	Date of Grant	Expiry Date	Remaining Contractual Life (Years)	Number Outstanding as at December 31, 2002	Number Exercisable at December 31, 2002
$ 19.66	21-Feb-02	21-Feb-12	9.2	421,500	--
$ 7.80	22-Feb-01	22-Feb-11	8.2	293,340	84,667
$ 4.30	24-Feb-00	24-Feb-10	7.2	497,845	302,336
$ 11.50	25-Feb-99	25-Feb-04	1.2	293,535	293,535
$ 18.78	23-Apr-98	23-Apr-03	0.3	12,000	12,000
$ 14.50	19-Feb-98	19-Feb-03	0.2	194,000	194,000
Total			**6.0**	**1,712,220**	**886,538**

December 31, 2001

Exercise Price	Date of Grant	Expiry Date	Remaining Contractual Life (Years)	Number Outstanding as at December 31, 2001	Number Exercisable at December 31, 2001
$ 7.80	22-Feb-01	22-Feb-11	9.2	346,500	--
$ 4.30	24-Feb-00	24-Feb-10	8.2	565,190	147,516
$ 11.50	25-Feb-99	25-Feb-04	2.2	322,203	211,034
$ 18.78	23-Apr-98	23-Apr-03	1.3	16,000	16,000
$ 14.50	19-Feb-98	19-Feb-03	1.2	199,000	199,000

$ 8.40	24-Apr-97	24-Apr-02	0.3	4,000	4,000
$ 8.75	20-Feb-97	20-Feb-02	0.2	668	668
Total			**6.0**	**1,453,561**	**578,218**

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

4. Stock-based compensation (continued):

December 31, 2000

Exercise Price	Date of Grant	Expiry Date	Remaining Contractual Life (Years)	Number Outstanding as at December 31, 2000	Number Exercisable at December 31, 2000
$ 4.30	24-Feb-00	24-Feb-10	9.2	686,000	--
$ 11.50	25-Feb-99	25-Feb-04	3.2	352,000	117,333
$ 18.78	23-Apr-98	23-Apr-03	2.3	16,000	10,666
$ 14.50	19-Feb-98	19-Feb-03	2.2	201,000	134,000
$ 8.40	24-Apr-97	24-Apr-02	1.3	6,000	6,000
$ 8.75	20-Feb-97	20-Feb-02	1.2	57,003	57,003
$ 4.00	18-Jul-96	18-Jul-01	0.5	53,335	53,335
Total			**5.8**	**1,371,338**	**378,337**

At December 31, 2002, 2001 and 2000 the number of options exercisable is 886,538, 578,218 and 378,337, respectively, with weighted average prices of $10.58, $10.87 and $11.25, respectively.

Canadian generally accepted accounting principles permit the use of the intrinsic value based method, provided pro forma disclosures of net income and earnings per share are made as if the Company had measured the compensation element of stock options granted based on the fair value on the date of grant. Such proforma disclosure follows:

	2002	2001	2000
Net income			
As reported	$79,532	$44,931	$27,470
Pro forma	77,642	43,874	26,820
Basic earnings per share			
As reported	$ 1.63	$ 1.21	$ 0.81
Pro forma	1.59	1.18	0.79
Diluted earning per share			
As reported	$ 1.61	$ 1.19	$ 0.80
Pro forma	1.57	1.16	0.78

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

4. Stock-based compensation (continued):

The per share weighted average fair value of options granted during 2002, 2001 and 2000 was $8.39, $5.14 and $3.40. The fair value of the options granted was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

	2002	2001	2000
Risk-free interest rate	5.54%	5.65%	5.31%
Dividend yield	0.0%	0.0%	0.0%
Volatility of the expected market price of the Company's Common shares	59.1%	62.2%	47.0%
Expected option life (in years)	5.4	5.5	4.0

The Black-Scholes option valuation model was developed for use in estimating fair value of traded options which have no vesting restrictions and are fully transferable. As the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the above pro forma adjustments are not necessarily a reliable single measure of the fair value of the Company s employee stock options.

(b) The Company has an employee share purchase plan where qualifying employees can choose each year to have up to 5% of their annual base earnings withheld to purchase the Company s common shares. The Company matches one half of the employee contribution amount, and its contributions vest immediately. All contributions are used by the plan administrator to purchase common shares in the open market. The Company s contribution is expensed as paid and for the years ended December 31, 2002, 2001 and 2000 totalled $367,000, $252,000 and $226,000, respectively.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

5. Underwriting policy and reinsurance ceded:

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. The Company is not relieved of its primary obligation to the policyholder as a result of the reinsurance transaction.

Failure of reinsurers to honour their obligations could result in losses to the Company, consequently, the Company continually evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvency.

The Company follows the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss of $500,000 and $1,000,000 in the event of property or liability claims for each of the years ended December 31, 2002, 2001 and 2000, respectively. In addition, the Company has obtained catastrophe reinsurance which provides coverage in the event of a series of claims arising out of a single occurrence, which limits this exposure in Canada to $1,500,000 per occurrence to a maximum coverage of $40,000,000 for the year ended December 31, 2002 and a maximum coverage of $25,000,000 for the years ended December 31, 2001 and 2000. In the United States the Company s catastrophe reinsurance limits this exposure to U.S. $5,000,000, U.S. $1,310,000 and U.S.$1,000,000 for the years ended December 31, 2002, 2001 and 2000, respectively, per occurrence to a maximum coverage of U.S.$80,000,000, U.S.$15,000,000 and U.S.$7,500,000, respectively. For homeowners risk in Florida a separate maximum coverage was maintained during the year ended December 31, 2001 of U.S. $40,000,000.

The amounts deducted for reinsurance ceded from net premiums earned, claims incurred and commissions and premium taxes for the years December 31, 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Net premiums earned	$91,698	$51,099	$37,787
Claims incurred	33,256	35,705	17,312
Commissions and premium taxes	14,600	12,745	7,656

The amount of assumed premiums written was $198,086,000, $149,777,000 and $27,359,000 for the years ended December 31, 2002, 2001 and 2000, respectively. The amount of assumed premiums earned was $215,790,000, $142,715,000 and $12,611,000 for the years ended December 31, 2002, 2001 and 2000, respectively.

KINGSWAY FINANCIAL SERVICES INC.

Notes to Consolidated Financial Statements

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

6. Income taxes:

(a) The Company s provision for income taxes, compared to statutory rates is summarized as follows:

	2002	2001	2000
Provision for taxes at Canadian statutory marginal income tax rate	$ 27,304	$ 22,621	$ 14,296
Non-taxable investment income	(832)	(282)	(302)

Foreign operations subject to different tax rates	(36,455)	(9,106)	(3,585)
Non-deductible goodwill amortization	--	2,786	2,762
Change in tax rates and other	1,187	(5,936)	(7,778)
Provision for income taxes	$(8,796)	$ 10,083	$ 5,393

(b) The components of future income tax balances are as follows:

	2002	2001
Future income tax assets:		
Losses carried forward	$ 34,089	$ 7,360
Unpaid claims and unearned premiums	33,633	17,306
Investments	1,713	1,095
Other	7,624	8,258
Future income tax assets	77,059	34,019
Future income tax liabilities:		
Deferred policy acquisition	(12,248)	(8,593)
Unpaid claims and unearned premiums	(970)	(697)
Investments	(786)	(964)
Goodwill and intangible asse	(2,843)	--
Other	(707)	(679)
Future income tax liabilities	(17,554)	(10,933)
Net future income tax assets	$ 59,505	$ 23,086

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6. Income taxes (continued):

(c) Amounts and expiration dates of the operating loss carryforward are as follows:

Year of net operating loss	Expiration date	Net operating loss
Canadian operations:		
2002	2009	$16,146
U.S. operations:		
1995	2010	1,510
1997	2012	4,637
1998	2018	7,033
1999	2019	1,324
2000	2020	2,868
2001	2021	5,119
2002	2022	62,101

(d) If the Company believes that all of its future income tax assets will not result in future tax benefits, it must establish a valuation allowance for the portion of these assets that it thinks will not be realized. Based predominantly upon a review of the Company s anticipated future earnings, but also including all other available evidence, both positive and negative, the Company has concluded it is more likely than not that its net future income tax assets will be realized.

7. Unpaid claims:

(a) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company s experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

7. Unpaid claims (continued):

(a) Nature of unpaid claims (continued):

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company s claim departments personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability and automobile accident benefit claims which are less predictable.

Consequently, the process of establishing the provision for unpaid claims is complex and imprecise as it relies on the judgement and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

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(b) Provision for unpaid claims (continued):

The Company completes an annual evaluation of the adequacy of unpaid claims at the end of each financial year. This evaluation includes a re-estimation of the liability for unpaid claims relating to each preceding financial year compared to the liability that was originally established. The results of this comparison and the changes in the provision for unpaid claims for the years ended December 31, 2002, 2001 and 2000 were as follows:

	2002	2001	2000
Unpaid claims - beginning of year - net	$ 487,229	$ 342,776	$ 324,872
Net unpaid claims of subsidiaries acquired	207,840	--	--
Provision for claims occurring:			
In the current year	1,152,507	588,942	373,431
In prior years	101,079	33,874	(3,386)
Claims paid during the year relating to:			
The current year	(491,352)	(303,783)	(207,968)
The prior years	(382,051)	(189,801)	(149,708)
Currency translation adjustment	(8,896)	15,221	5,535
Unpaid claims - end of year - net	1,066,356	487,229	342,776
Reinsurers' and other insurers' share of unpaid claims	134,198	102,734	92,546
Unpaid claims - end of year	$ 1,200,554	$ 589,963	$ 435,322

7. Unpaid claims (continued):

The results for the years ended December 31, 2002 and 2001 were adversely affected by the evaluation of unpaid claims related to prior years. The adverse development of Ontario auto claims (including motorcycle, commercial auto and long haul trucking) was the primary reason for the unpaid claims deficiency. Evolving case law and the erosion of the tort threshold in Ontario has led to an extension of the reporting period during which a plaintiff may bring suit. Also, we identified significantly increased frequency and severity trends in health care cost in Ontario beginning in 2000, where we are required to offer unlimited coverage and much higher liability limits than our other markets. The numerous changes to Ontario automobile legislation and court decisions throughout the 1990 s has inhibited the Canadian insurance industry s ability to accurately predict the ultimate claims liabilities associated with Ontario automobile policies, which includes automobile, trucking and motorcycle risks. As changes to Ontario automobile policies have occurred, the changes have been reflected in our assessment of unpaid claims for current and prior years as well as our assessment of claims that occur in future periods. As a result, we increased our estimate for unpaid claims relating to automobile third party liability claims incurred prior to 2002. The estimated provisions related to automobile accident benefit claims were also increased as the inflation rate and severity factors previously utilized were found to be inadequate. We increased our reserves related to tort liability and revised our expected loss estimates for automobile accident benefit claims in our 2002 unpaid claims liabilities to account for the upward changes in both health care cost inflation and severity.

With the introduction of Bill 59 in November 1996, the insurance industry in Ontario expected that tort liability claims would be dramatically reduced from previously experienced, except in cases of catastrophic injuries, and settlement procedures related to accident benefit claims would provide more controls over health care costs and disability payments to claimants than under previous legislation. Both of these expectations proved inaccurate based on losses incurred from 1997 to 2001 that developed in subsequent periods. We recognized these losses as the information supporting the unpaid claims deficiency became available. We continue to re-evaluate the unpaid claims provision in light of the changing environmental and legislative landscape.

Another material contributor to the adverse development of unpaid claims liabilities in 2002, related to claims incurred in 2001 and prior years , was non-standard auto policies written in Southeastern United States. Adverse development of unpaid losses incurred in 2001 accounted for approximately $30 million in 2002 reported incurred losses. Similar to Ontario, Florida has experienced a significant acceleration in fraudulent claims activity over the last several years. Although we have taken steps to combat this development, the unfavorable legal environment resulted in the inflation of claims payments beyond our original estimates. We have reflected the revised claim estimates related to unpaid automobile liability (personal injury protection) claims in our 2002 unpaid claims liabilities.

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7. Unpaid claims (continued):

These increases (decreases) in prior accident year incurred claims, which amounted to $101.1 million, $33.9 million and ($3.4 million), were recognized during the years ended December 31, 2002, 2001 and 2000, respectively. The following tables identify the relative contribution of the increases (decreases) in incurred claims attributable to the respective products and incurred loss years.

Year ended December 31, 2002

	Motor-cycle	Trucking	Standard Auto	Non-Standard Auto	Property	Liability	Other	Total
1997 and prior	$ 3,210	$ (487)	$ (108)	$ 4,402	$ (583)	$ 687	$ (3)	$ 7,118
1998	(71)	3,346	2,675	1,068	35	579	133	7,765
1999	396	1,177	1,692	2,212	71	965	8	6,521
2000	1,864	3,107	6,096	13,654	(88)	261	(520)	24,374
2001	336	4,575	6,051	42,981	1,023	362	(27)	55,301
Total	$ 5,735	$ 11,718	$ 16,406	$64,317	$ 458	$2,854	$(409)	$101,079

Year ended December 31, 2001

	Motor-cycle	Trucking	Standard Auto	Non-Standard Auto	Property	Liability	Other	Total
1996 and prior	$ 35	$ (9)	$ (120)	$ 1,256	$ (6)	$ 546	$ 38	$ 1,740
1997	66	385	303	1,868	43	128	(10)	2,783
1998	1,480	255	470	4,881	(92)	168	11	7,173
1999	1,447	1,919	(161)	4,942	(308)	603	41	8,483
2000	553	1,923	1,991	9,119	130	269	(290)	13,695
Total	$ 3,581	$ 4,473	$ 2,483	$22,066	$ (233)	$1,714	$(210)	$ 33,874

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7. Unpaid claims (continued):

Year ended December 31, 2000

	Motor-cycle	Trucking	Standard Auto	Non-Standard Auto	Property	Liability	Other	Total
1995 and prior	$ 379	$ --	$ (462)	$ 8,162	$ (45)	$ 57	$ (61)	$ 8,030
1996	(228)	22	(359)	(497)	(69)	(7)	(9)	(1,147)
1997	563	479	(719)	(6,853)	(159)	106	(149)	(6,732)
1998	16	5,804	(581)	(5,766)	(348)	109	(308)	(1,074)
1999	(745)	(5,674)	(287)	6,006	(1,421)	508	(850)	(2,463)
Total	$(15)	$ 631	$(2,408)	$ 1,052	$(2,042)	$ 773	$(1,377)	$(3,386)

(c) The fair value of unpaid claims and adjustment expenses, gross and recoverable from reinsurers, has been omitted because it is not practicable to determine fair value with sufficient reliability.

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8. Acquisitions:

In 1999 the Company acquired all of the outstanding shares of Hamilton Investments, Inc. (Hamilton). All consideration will be paid in cash, part of which was paid at closing, with the remainder to be paid based on the earnings of Hamilton for the fiscal years 1999 to 2003. The present value of the guaranteed future payments was accrued at the date of acquisition. The additional consideration payable for the years ended December 31, 2002, 2001 and 2000 was $2,369,000, $2,336,000 and $2,197,000, respectively. At December 31, 2002 contingent consideration based on earnings is not expected to be payable.

On April 5, 2002, the Company acquired all of the outstanding common and preferred shares of American Country Holdings, Inc. for a purchase price of $37.8 million. The results of American Country s operations have been included in the consolidated financial statements since March 31, 2002. American Country owns all the outstanding shares of American Country Insurance Company, an insurer of taxicabs based in Chicago, Illinois.

The following table summarizes the estimated fair value of the assets acquired and the liabilities assumed at the date of acquisition:

Cash and investments	$216,885
Accounts receivable	102,986
Other tangible assets	35,708
Intangible assets	
Contracts	3,782
Insurance licenses	3,553
Goodwill	20,110
Total assets	383,024
Bank indebtedness	15,794
Insurance liabilities	304,200
Accounts payable	22,454
Other liabilities	570
Total liabilities	343,018
Purchase price	$ 40,006

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9. Segmented information:

The Company provides property and casualty insurance and other insurance related services in three reportable segments: Canada, the United States and corporate and other insurance related services. The Company s Canadian and United States segments include transactions with the Company s reinsurance subsidiaries. At the present time, other insurance related services are not significant. Results for the Company s operating segments are based on the Company s internal financial reporting systems and are consistent with those followed in the preparation of the consolidated financial statements. The segmented information for December 31, 2002 is summarized as follows:

	Canada	United States	Corporate and Other	Total
Gross premiums written	$ 490,754	$ 1,633,937	$ --	$ 2,124,691
Net premiums earned	415,227	1,322,527	--	1,737,754
Investment income (loss)	24,059	41,583	(787)	64,855
Net realized gains (losses)	(2,574)	17,084	1,749	16,259
Interest expense	--	10,508	1,766	12,274
Net income tax expense (recovery)	(6,005)	(3,751)	960	(8,796)
Amortization of capital assets and deferred charges	748	7,529	1,081	9,358
Amortization of intangible assets	--	716	--	716
Net income (loss)	(13,042)	88,708	3,866	79,532
Total assets	$ 1,299,918	$ 1,670,807	$ 13,709	$ 2,984,434
Additions to goodwill	--	20,110	--	20,110
Additions to intangible assets	--	7,335	--	7,335

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9. Segmented information (continued):

The segmented information for December 31, 2001 is summarized below:

	Canada	United States	Corporate and Other	Total
Gross premiums written	$356,049	$ 709,213	$ --	$1,065,262
Net premiums earned	321,926	550,904	--	872,830
Investment income	25,035	27,289	229	52,553
Net realized gains	7,579	4,426	74	12,079
Interest expense	--	10,262	1,137	11,399
Net income tax expense	2,941	6,730	412	10,083
Goodwill amortization	701	5,105	50	5,856
Amortization of capital assets and deferred charges	644	3,132	1,361	5,137
Net income	14,925	27,080	2,926	44,931
Total assets	$633,545	$1,075,538	$69,661	$1,778,744

The segmented information for December 31, 2000 is summarized below:

	Canada	United States	Corporate and Other	Total
Gross premiums written	$289,416	$353,606	$ --	$ 643,022
Net premiums earned	251,898	288,071	--	539,969
Investment income	21,835	22,327	414	44,576
Net realized gains	5,885	4,559	--	10,444
Interest expense	--	10,283	1,125	11,408
Net income tax expense (recovery)	4,079	1,690	(376)	5,393
Goodwill amortization	705	4,764	--	5,469
Amortization of capital assets and deferred charges	1,314	2,718	89	4,121
Net income	18,488	7,619	1,363	27,470
Total assets	$498,595	$649,668	$ 25,663	$1,173,926
Additions to goodwill	--	2,271	--	2,271

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9. Segmented information (continued):

The Company s gross premiums written are derived from the following business lines and geographical areas:

	2002	2001	2000
Business Line			
Personal Lines:			
Non-Standard Auto	39%	51%	56%
Standard Auto	2%	3%	6%
Motorcycle	2%	4%	6%
Property (including Liability)	2%	3%	3%
Warranty	1%	2%	3%
Other Specialty Lines	1%	1%	2%
Total Personal Lines	47%	64%	76%
Commercial Lines:			
Trucking	32%	24%	13%
Commercial Auto	8%	5%	3%
Property (including Liability)	11%	5%	6%
Other Specialty Lines	2%	2%	2%
Total Commercial Lines	53%	36%	24%
Total Gross Premiums Written	100%	100%	100%

	2002	2001	2000
Geographical Area			
United States:			
Florida	12%	13%	9%
Illinois	11%	15%	20%
California	11%	4%	0%
Texas	7%	6%	6%
South Carolina	4%	5%	2%
Alabama	3%	4%	4%
Pennsylvania	3%	3%	4%
Other	26%	17%	10%
Total United States	77%	67%	55%
Canada:			
Ontario	10%	16%	24%
Alberta	6%	7%	9%
Quebec	5%	8%	9%
Other	2%	2%	3%
Total Canada	23%	33%	45%
Total Gross Premiums Written	100%	100%	100%

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10. Indebtedness:

(a) Bank indebtedness:

On February 23, 1999, the Company entered into a U.S.$100 million unsecured credit facility with a syndicate of banks. Under this facility the Company has the option to borrow at a floating rate equivalent to the banks prime rate or for a fixed term at a fixed rate of LIBOR plus a spread based on the Company s credit rating or upon the ratio of funded debt to total capitalization, whichever is higher. The facility is for a fixed term of five years and one day and was fully drawn on March 5, 1999 for general corporate purposes. During each of the years ended December 31, 2002, 2001 and 2000 the Company repaid U.S.$5 million, and has the obligation to make principal repayments of U.S.$5 million in the year 2003, prior to the maturity of the facility on February 23, 2004.

In March, 1999, the Company entered into interest rate swap contracts whereby the Company fixed its rate on this U.S.$100 million debt at 5.91% plus a spread based on the Company s credit rating or upon the ratio of funded debt to total capitalization, whichever is higher, for the period of the facility. The fair values of the liabilities under the swap contracts at December 31, 2002, 2001 and 2000 were $8,632,000, $7,479,000 and $169,000, respectively.

In May, 2002, the Company entered into a $66.5 million revolving credit facility with a syndicate of banks. The facility is a 364 day revolving credit facility at a floating interest rate determined based on the type of loan and our senior unsecured debt rating. As at December 31, 2002, $33,076,000 was outstanding under this facility with an effective interest rate of approximately 3%.

(b) Senior unsecured debentures:

On December 6, 2002, the Company issued $78 million of 8.25% unsecured senior debentures with a maturity date of December 31, 2007. The debentures are redeemable prior to the maturity date, at the Company s option, providing at least 30 days notice to debenture holders. Interest on the debentures is payable semi-annually in arrears. The net proceeds to the Company were $77,087,420.

(c) Subordinated indebtedness:

On December 4, 2002, a subsidiary trust of the Company issued U.S.$15 million of capital securities to a third party in a private transaction. A U.S.$15 million 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 debenture bears interest through March 4, 2003 at the rate of 5.42375%. Thereafter, the rate will be the London interbank offered interest rate for three-month U.S. dollar deposits, plus 4%, but until December 4, 2007, the interest rate will not exceed 12.5%. The Company has the right to call the securities at par after five years.

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11. Contingent liabilities:

(Tabular amounts in thousands of Canadian dollars, except for per share amounts)

(a) Legal Proceedings:

In connection with its operations, the Company and its subsidiaries are, from time to time, named as defendants in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expense in excess of amounts provided and the Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

(b) Statutory Requirements:

Statutory policyholders capital and surplus of the Company s insurance subsidiaries was $654.3 million and $456.9 million at December 31, 2002 and 2001, respectively.

Minimum asset and capital requirements were met in all jurisdictions in which the Company s subsidiaries operate. For the year 2003, under the various insurance regulatory restrictions, based on our December 31, 2002 financial statements, our insurance and reinsurance subsidiaries would have aggregate dividend capacity of $180.3 million.

(c) Letters of Credit:

At December 31, 2001 the Company had entered into a U.S.$175 million letter of credit facility. On October 4, 2002 this was replaced by a syndicated U.S. $350 million facility. The letter of credit facility is principally used to collateralize inter-company reinsurance balances for statutory capital management purposes. The Company pledges securities to collateralize the utilized portion of the letter of credit facility. At December 31, 2002 and 2001 the letter of credit facility utilization was U.S.$304.6 million and U.S.$173.5 million, respectively.

Also from time to time, the Company pledges securities to third parties to collateralize liabilities incurred under its policies of insurance. At December 31, 2002 and 2001, the amount of pledged securities was U.S.$49.2 million and $nil, respectively.

12. Fair value disclosure:

The fair value of financial assets and liabilities, other than investments (note 2), unpaid claims (note 7) and interest rate swaps (note 10) approximate their carrying amounts.

13. Reconciliation of Canadian and United States Generally Accepted Accounting Principles:

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. The significant differences between Canadian GAAP and U.S. GAAP, which affect the Company s consolidated financial statements, are described below:

The following table reconciles the consolidated net income as reported under Canadian GAAP with net income and other comprehensive income in accordance with U.S. GAAP:

	2002	2001	2000

Net income based on Canadian GAAP	$ 79,532	$ 44,931	$ 27,470
Impact on net income of U.S. GAAP adjustments, net of tax:			
Deferred start-up costs (note 13(a))	1,052	1,037	911
Goodwill amortization (note 13(b))	--	116	110
Equity accounting (note 13(c))	1,237	281	(883)
Net income based on U.S. GAAP	$ 81,821	$ 46,365	$ 27,608
Other comprehensive income adjustments:			
Change in unrealized gain on investments classified as available for sale (note (13d))	20,973	11,996	24,098
Change in fair value of interest rate swaps	(1,152)	(7,479)	--
Less: related future income taxes	(4,949)	(2,512)	(6,036)
Other comprehensive income adjustments	14,872	2,005	18,062
Currency translation adjustments in the period	(4,409)	11,447	3,182
Other comprehensive income	10,463	13,452	21,244
Total comprehensive income	$ 92,284	$ 59,817	$ 48,852
Basic earnings per share based on U.S. GAAP net income	$ 1.68	$ 1.25	$ 0.81
Diluted earnings per share based on U.S. GAAP net income	$ 1.66	$ 1.22	$ 0.80

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13. Reconciliation of Canadian and United States Generally Accepted Accounting Principles (continued):

The following table reconciles shareholders equity as reported under Canadian GAAP with shareholders equity in accordance with U.S. GAAP:

	2002	2001
Shareholders' equity based on Canadian GAAP	$ 612,925	$ 536,842
Other comprehensive income	16,558	1,686
Cumulative net income impact:		
Deferred start-up costs (note 13(a))	(1,981)	(3,033)
Goodwill amortization (note 13(b))	(1,213)	(1,213)
Equity accounting (note 13(c))	635	(602)
Shareholders' equity based on U.S. GAAP	$ 626,924	$ 533,680

Statement of Financial Accounting Standards (SFAS) No. 130 Reporting Comprehensive Income requires the Company to disclose items of other comprehensive income in a financial statement and to disclose accumulated balances of other comprehensive income or loss in the equity section of the Company s balance sheet. The total cumulative other comprehensive income amounts to $27,648,000 and $17,185,000 as at December 31, 2002 and 2001, respectively.