The Westaim Corporation

NOTICE OF SPECIAL MEETING
AND
MANAGEMENT INFORMATION CIRCULAR
REGARDING THE ACQUISITION OF JEVCO INSURANCE COMPANY
AND THE RELATED FINANCING

FEBRUARY 26, 2010

February 26, 2010

Dear Westaim Shareholder:

On January 25, 2010, The Westaim Corporation ("**Westaim**") announced that it had entered into an agreement to purchase all of the issued and outstanding shares of JEVCO Insurance Company ("**Jevco**") from Kingsway Financial Services Inc. (the "**Acquisition**") and had arranged financing of $275 million for the purpose of completing the Acquisition. At closings held on February 9, 2010 and February 19, 2010, Westaim issued and sold an aggregate of 550 million subscription receipts ("**Subscription Receipts**") at a price of $0.50 each for aggregate gross proceeds of $275 million (the "**Financing**").

The gross proceeds from the sale of the Subscription Receipts, less certain expenses, are being held in escrow pending the satisfaction of certain conditions including:

(a) shareholders of Westaim ("**Shareholders**") having approved the issuance of all of the securities issuable upon the conversion of the Subscription Receipts;

(b) all conditions required to complete the Acquisition (other than payment of the purchase price) having been satisfied or waived by Westaim; and

(c) receipt of the approval of the Office of the Superintendent of Financial Institutions ("**OSFI**") of the Acquisition.

The board of directors (the "**Board**") and management of Westaim unanimously support the Acquisition and the Financing for the reasons described in the accompanying meeting materials (the "**Meeting Materials**"), including a management information circular prepared by Westaim (the "**Information Circular**"). The Meeting Materials are being provided to you in respect of a special meeting (the "**Meeting**") of Westaim Shareholders to approve the Financing, which meeting is to be held at 10:00 a.m. (Toronto time) on Thursday, March 25, 2010 at St. Andrew's Club and Conference Centre, 150 King Street West, 27th Floor, Toronto, Ontario.

At the Meeting, you will be asked to approve an ordinary resolution approving the Financing. If the Financing is approved at the Meeting and all other conditions to the completion of the Acquisition are satisfied or waived, the Acquisition is expected to be completed on or about March 26, 2010 but in any event prior to April 30, 2010 (unless extended by the parties). Following the completion of the Acquisition, the business and operations of Jevco will be managed and operated as a wholly-owned subsidiary of Westaim. After the issuance of shares upon the conversion of the Subscription Receipts issued in the Financing, Her Majesty the Queen in Right of the Province of Alberta, on behalf of certain Alberta public sector pension plans, endowments and government funds ("**HMQ**"), will own a 40% voting interest (45.9% economic interest) in Westaim and certain directors and officers of Westaim and certain investment funds managed by Goodwood Inc., (together with their respective associates) will own approximately 7.6% of the Westaim Shares.

The Financing must be approved by a simple majority of the votes cast by Westaim Shareholders, in person or by proxy, excluding the votes held by the Related Purchasers (as defined in the Information Circular) and any parties acting jointly or in concert with the Related Purchasers.

The Westaim Board unanimously recommends that you vote in favour of the Financing.

A detailed description of the Acquisition and the Financing and other relevant information is contained in the Information Circular. A fairness opinion with respect to the consideration to be paid under the Acquisition and the terms of the Financing has been received from Cormark Securities Inc., a copy of which is included in the Information Circular.

Your vote is important. If you are unable to be present at the Meeting in person, we encourage you to vote by completing the relevant enclosed form of proxy and delivering it as instructed in the form of proxy.

Should you have any questions or require information on the procedures for voting your Westaim Shares at the Meeting, please contact Kingsdale Shareholder Services Inc. at 1-888-518-6813.

The future is expected to be rewarding for Westaim Shareholders and we trust that the Financing will receive your support. The Information Circular contains important information regarding the Acquisition, the Financing and related matters, and I encourage you to take the time to review it carefully. If you require assistance, please consult your financial, legal or other professional advisers.

Sincerely,

THE WESTAIM CORPORATION

(signed) "J. Cameron MacDonald"

J. Cameron MacDonald
President and Chief Executive Officer

THE WESTAIM CORPORATION

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

NOTICE is hereby given that a Special Meeting (the "**Meeting**") of shareholders of The Westaim Corporation (the "**Corporation**" or "**Westaim**") will be held at St. Andrew's Club and Conference Centre, 150 King Street West, 27th Floor, Toronto, Ontario, Canada on March 25, 2010 at 10:00 a.m. (Toronto time) for the following purposes:

1. to consider and if deemed appropriate, to pass an ordinary resolution (the "**Financing Resolution**") in the form set out in Appendix A to Westaim's management information circular dated February 26, 2010 (the "**Information Circular**"), approving the issuance of up to 550 million common shares of the Corporation ("**Westaim Shares**") issuable upon the conversion of (i) 254 million class A subscription receipts (the "**Class A Subscription Receipts**") and (ii) 296 million class B subscription receipts (the "**Class B Subscription Receipts**" and together with the Class A Subscription Receipts, the "**Subscription Receipts**"), including any Westaim Shares issuable upon the conversion of any Non-Voting Shares (as hereinafter defined) issuable upon the conversion of the Class B Subscription Receipts; and

2. to transact such other business as may properly come before the Meeting and at any adjournment or adjournments thereof.

This Notice of Meeting (the "**Notice**") is accompanied by the Information Circular and an Instrument of Proxy.

The record date for the determination of shareholders entitled to receive notice of and to vote at the Meeting or any adjournment or adjournments thereof is February 23, 2010 (the "**Record Date**"). Shareholders whose names have been entered in the register of shareholders at the close of business on the Record Date will be entitled to receive notice of and to vote at the Meeting or any adjournment or adjournments thereof.

A Shareholder may attend the Meeting in person or may be represented by proxy. Shareholders who are unable to attend the Meeting or any adjournment or adjournments thereof in person are requested to date, sign and return the accompanying Instrument of Proxy for use at the Meeting or any adjournment or adjournments thereof. To be effective, the enclosed Instrument of Proxy must be returned to Computershare Trust Company of Canada ("**Computershare**"), Attention: Proxy Department, 9th Floor, 100 University Avenue, Toronto, Ontario, M5J 2Y1 or by fax to 1-866-249-7775 or 416-263-9524, or to Kingsdale Shareholder Services Inc. at 130 King Street West, Suite 2950, P.O. Box 361, Toronto, Ontario, M5X 1E2 or by fax to 416-867-2271 or toll-free 1-866-545-5580 in each case to arrive no later than 10:00 a.m. (Toronto time) on March 23, 2010, or not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays in the City of Toronto, Ontario) prior to the time set for the Meeting or any adjournment or adjournments thereof.

DATED at Toronto, Ontario this 26TH day of February, 2010.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) "Jeffrey A. Sarfin"

Jeffrey A. Sarfin
Chief Financial Officer

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MANAGEMENT INFORMATION CIRCULAR

This Information Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of The Westaim Corporation. The accompanying Instrument of Proxy is for use at the Meeting and at any adjournment(s) or postponement(s) of the Meeting and for the purposes set forth in the accompanying Notice of Meeting.

DEFINED TERMS

Unless otherwise defined or unless the context otherwise requires, capitalized terms used in this Information Circular have the respective meanings given to them in the Glossary of Terms at the end of this Information Circular.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This Information Circular contains certain “forward-looking statements” and “forward-looking information” under applicable securities laws. Except for statements of historical fact, certain information contained herein constitutes forward-looking statements. The words “may”, “could”, “would”, “will”, “believes”, “intends”, “anticipates”, “projected”, “estimated”, “exploring”, “likely”, “expected”, “continuous”, “strategy”, “projected”, “developing”, “potential” and words and expressions of similar import, are intended to identify forward looking statements. Such forward-looking statements include but are not limited to statements concerning Westaim’s strategies; Westaim’s estimates and expectations regarding Westaim’s investments in Master Asset Vehicle replacement notes; and forward looking statements included in the Management Discussion and Analysis related to JEVCO Insurance Company and Kingsway General Insurance Company included in or incorporated by reference in this Information Circular. Forward-looking statements are not guarantees of future performance. They involve significant risks, uncertainties and assumptions and Westaim’s actual results could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond Westaim’s control including, but not limited to: (i) risks related to Jevco, including commercial, strategic, operational, compliance and human resources risks; (ii) general economic and financial conditions which may affect the ability to raise new capital; (iii) general industry and market conditions and growth rates; (iv) matters identified in the forward-looking statements contained in other public statements by Westaim; (vi) other risks and uncertainties that have not been identified at this time; (vii) management’s response to these factors; (viii) the inability on the part of Westaim to complete the Acquisition on the terms contemplated or at all; (ix) the failure to receive final approvals of the Toronto Stock Exchange (the “**TSX**”) to the listing of the Underlying Shares (as defined below), and, with respect to the Acquisition, the approvals of Office of the Superintendent of Financial Institutions Canada (“**OSFI**”), the Minister of Finance (Canada) and the approvals required in connection with the *Competition Act* (Canada); (x) future unforeseen liabilities; and (xi) other factors including, but not limited to, those listed under “*Risk Factors*” in this Information Circular.

The foregoing list should not be construed as exhaustive. Other than as required by applicable law, Westaim disclaims any intention or obligation to review, revise or update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements are expressly qualified by this cautionary statement. Although Westaim has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause unanticipated actions, events or results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The reader is cautioned not to place undue reliance on forward-looking statements.

INFORMATION CONTAINED IN THIS INFORMATION CIRCULAR

The information contained in this Information Circular is given as at February 26, 2010, except where otherwise noted and except that information in documents incorporated by reference is given as of the dates noted in those documents.

No person has been authorized by Westaim to give information or to make any representations in connection with the Financing, the Acquisition or the other matters referred to herein other than those contained or incorporated by reference in this Information Circular, and if given or made, any such information or representations should not be relied upon in making a decision as to how to vote on the Financing Resolution or be considered to have been authorized by Westaim or its board of directors.

This Information Circular, the notice of meeting and the enclosed proxy (the "**Meeting Materials**") do not constitute an offer to buy, or a solicitation of an offer to sell, any securities, or the solicitation of a proxy, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such an offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or solicitation.

Shareholders should not construe the contents of this Information Circular as legal, tax or financial advice and should consult with their own professional advisors in considering the relevant legal, tax, financial or other matters contained in this Information Circular.

DOCUMENTS INCLUDED WITH OR INCORPORATED BY REFERENCE IN THIS INFORMATION CIRCULAR

Information has been incorporated by reference in this Information Circular from documents filed with securities commissions or similar regulatory authorities in Canada. Copies of documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of Westaim at 212 King Street West, Suite 201, Toronto, ON M5H 1K5, telephone at 416-203-2253 or by accessing Westaim's disclosure documents available through the internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) which can be accessed at www.sedar.com. Certain capitalized words and phrases used in this Information Circular which are defined in the documents incorporated herein have the same meaning in this Information Circular. Westaim files annual and quarterly financial information, material change reports and other information with securities commissions or similar authorities in Canada (collectively the "**Commissions**"). The Commissions allow Westaim to "incorporate by reference" the information it files with them, which means that it can disclose important information to you by referring you to those documents. Information that is incorporated by reference is an important part of this Information Circular.

The following documents of Westaim, filed with the Commissions, are specifically incorporated by reference in and form an integral part of this Information Circular:

(a) Westaim's annual information form dated as of March 23, 2009 for the year ended December 31, 2008 ("**Annual Information Form**");

(b) Westaim's audited consolidated financial statements, the notes thereto and the auditors report thereon for the years ended December 31, 2008 and 2007, together with the management discussion and analysis for such audited consolidated financial statements;

(c) material change reports of Westaim dated:

  (i) April 13, 2009 relating to the announcement of the execution of a management services agreement with Goodwood Management Inc. and the appointment of J. Cameron MacDonald as President and Chief Executive Officer of Westaim;

(ii) November 17, 2009 relating to the Amalgamation;

(iii) February 3, 2010 relating to the execution of the Purchase Agreement; and

(iv) February 10, 2010 relating to the completion of the sale of the Subscription Receipts and the completion of the Amalgamation;

(d) Westaim's unaudited interim consolidated financial statements, and the notes thereto for the periods ended September 30, 2009 and 2008, together with the management discussion and analysis for such interim consolidated financial statements; and

(e) Westaim's management information circular filed on SEDAR on April 6, 2009.

All documents of the type referred to above (excluding confidential material change reports) filed by Westaim with any Commission or similar regulatory authority in Canada after the date of this Information Circular and prior to the Meeting will be deemed to be incorporated by reference in this Information Circular.

The following documents of Jevco and KGIC are attached as appendices to this Information Circular:

(a) Jevco's audited financial statements for the year ended December 31, 2009, with comparative figures for 2008 (see *Appendix C*);

(b) KGIC's audited financial statements for the year ended December 31, 2008 with comparative figures for 2007 (see *Appendix D*); and

(c) KGIC's September 30, 2009 and 2008 unaudited interim financial statements (see *Appendix E*).

The following documents of Jevco and KGIC, filed with the Commissions by Westaim concurrently with the filing of this Information Circular, are specifically incorporated by reference in and form an integral part of this Information Circular and are available on SEDAR (www.sedar.com):

(a) Jevco's management discussion and analysis for the year ended December 31, 2009;

(b) Jevco's audited financial statements, the notes thereto and the auditors report thereon for the years ended December 31, 2008 and 2007;

(c) Jevco's management discussion and analysis for the year ended December 31, 2008;

(d) KGIC's management discussion and analysis for the nine month period ended September 30, 2009;

(e) KGIC's management discussion and analysis for the year ended December 31, 2008;

(f) KGIC's audited financial statements, the notes thereto and the auditors report thereon for the years ended December 31, 2007 and 2006; and

(g) KGIC's management discussion and analysis for the year ended December 31, 2007.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Information Circular to the extent that a statement contained herein, or in any other subsequently filed document which is or is deemed to be incorporated by reference herein, modifies or supersedes such prior statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Circular.

INFORMATION PERTAINING TO KFS, JEVCO OR KGIC

Information pertaining to Kingsway Financial Services Inc. ("**KFS**"), Jevco and KGIC, including forward-looking statements included in or incorporated by reference into this Information Circular and including, but not limited to, information included in or pertaining to KFS, Jevco or KGIC under "Documents Incorporated by Reference in this Information Circular" or "Information Concerning Jevco" or in Appendix C, D or E to this Information Circular has been furnished by KFS or Jevco or is based on publicly available documents and records on file with public sources. Although Westaim does not have any knowledge that would indicate that any such information is untrue or incomplete, neither Westaim nor any of its directors, executive officers or advisors assumes any responsibility for the accuracy or completeness of such information, nor for any failure by Jevco or KFS to disclose events which may have occurred or which may affect the completeness or accuracy of such information but which is unknown to it.

QUESTIONS AND ANSWERS ABOUT THE ACQUISITION AND FINANCING

The following are some questions that you may have regarding the Meeting and the proposed Acquisition and Financing and answers to such questions. These questions and answers are not meant to be a substitute for the information contained in the remainder of this Information Circular. You are urged to read this entire Information Circular, its Appendices and the documents referred to in, or incorporated by reference into this Information Circular before making any decisions.

Q: What am I voting on?

A: You are being asked to vote **FOR** the Financing Resolution approving the issuance of up to 550 million common shares of Westaim ("**Westaim Shares**") issuable upon the conversion of (i) 254 million class A subscription receipts (the "**Class A Subscription Receipts**") and (ii) 296 million class B subscription receipts (the "**Class B Subscription Receipts**" and together with the Class A Subscription Receipts, the "**Subscription Receipts**"), including any Westaim Shares issuable upon the conversion of any Non-Voting Shares (as hereinafter defined) issuable upon the conversion of the Class B Subscription Receipts.

An aggregate of 550 million Subscription Receipts were issued and sold by Westaim at a price of $0.50 each (the "**Financing**") in order to finance the purchase by Westaim of all of the issued and outstanding shares of JEVCO Insurance Company ("**Jevco**") from Kingsway Financial Services Inc. (the "**Acquisition**"). The gross proceeds from the sale of the Subscription Receipts, less an amount equal to retail broker's fees and certain costs and expenses relating to the sale of the Subscription Receipts, were deposited into escrow pending the completion of the Acquisition. See "*The Financing*" and "*The Acquisition*".

Q: Will there be a separate vote on the Acquisition?

A: No. Shareholder approval is not required for the Acquisition itself. However, the proceeds from the Financing are required by Westaim in order to complete the Acquisition. Accordingly, a vote **FOR** the Financing Resolution will in effect represent a vote in favour of the Acquisition.

Q: When and where is the Meeting?

A: The Meeting will take place on March 25, 2010 at 10:00 a.m. (Toronto time) at the St. Andrew's Club & Conference Centre, 150 King Street West, 27th Floor, Toronto, Ontario.

Q: Who is soliciting my proxy?

A: Your proxy is being solicited by management of Westaim. The solicitation of proxies for the Meeting will be made primarily by mail, and may be supplemented by telephone or other personal contact by the directors, executive officers or agents of Westaim retained to assist in the solicitation of proxies. Westaim has retained the services of Kingsdale Shareholder Services Inc. ("**Kingsdale**") as proxy solicitation agent, for assistance in connection with the solicitation of proxies. Interested Shareholders in North America may contact Kingsdale at 1-888-518-6813.

Q: Who can attend and vote at the Meeting and what is the quorum for the Meeting?

A: Only Shareholders of record as of the close of business on February 23, 2010, the Record Date for the Meeting, are entitled to receive notice of and to attend, and to vote at, the Meeting or any adjournment(s) or postponement(s) of the Meeting. Shareholders who become holders of record of Westaim Shares after February 23, 2010 and who wish to vote at the Meeting must establish their ownership of Westaim Shares and request, not later than 10 days before the Meeting, that their name be added to the list of Shareholders entitled to vote at the Meeting.

The Meeting Materials are being sent by Westaim directly to each registered Shareholder (that is, you have Westaim share certificate(s) registered in your name) and to Intermediaries (as hereinafter defined) for distribution to Non-registered Shareholders. If you are a registered Shareholder, you may vote in person at the Meeting or you may appoint another person to represent you as proxyholder and vote your Westaim

Shares at the Meeting. See "*Voting of Proxies*" in this Information Circular. If you are a Non-registered Shareholder, please see "*Solicitation of Proxies*" in this Information Circular.

The quorum for the transaction of business at the Meeting will be two persons present in person each being a Shareholder entitled to vote at the Meeting or the duly appointed proxyholder of a Shareholder.

Q: How many Westaim Shares are entitled to vote?

A: As of February 23, 2010, there were a total 94,220,632 Westaim Shares outstanding all of which are entitled to vote at the Meeting. However, in accordance with the rules of the TSX and applicable securities laws, the votes attaching to an aggregate of 20,925,306 Westaim Shares held by the Related Purchasers (as hereinafter defined) and parties considered to be acting jointly or in concert with the Related Purchasers will not be counted for the purpose of determining whether the Financing Resolution has been approved. See "*Voting Securities and Principal Holders of Voting Securities*" and "*The Financing – Toronto Stock Exchange Requirements*".

Q: What vote is required at the Meeting to approve the Resolution?

A: The Financing Resolution must be passed by the affirmative vote of at least a majority of the votes cast by Shareholders present in person or represented by proxy at the Meeting excluding the votes attaching to an aggregate of 20,925,306 Westaim Shares held by the Related Purchasers and parties considered to be acting jointly or in concert with the Related Purchasers.

Q: What is the recommendation of the directors of Westaim?

A: The directors of Westaim unanimously recommend that Shareholders vote **FOR** the Financing Resolution.

Q: Why are the directors making this recommendation?

A: In reaching their conclusion that the Financing is fair to Shareholders and is in the best interests of Westaim, the directors considered and relied upon a number of factors, including those described under the headings "*The Acquisition – Recommendation of the Board of Directors*" and "*Fairness Opinion of Cormark Securities*".

Q: Do any directors or executive officers of Westaim or other insiders have any interests in the Financing that are different from, or in addition to, those of the Shareholders generally?

A: Yes, certain directors, executive officers and insiders of Westaim as well as other parties related to Westaim have an interest in the Financing. Certain directors and officers of Westaim, funds managed by Goodwood Inc. and other insiders of Westaim (the "**Related Purchasers**") purchased an aggregate of 23,335,000 Class A Subscription Receipts in connection with of the Financing. The terms of the Class A Subscription Receipts purchased by the Related Purchasers are identical to the terms of the Class A Subscription Receipts sold in the GMP Offering (as hereinafter defined). See "*The Financing – Toronto Stock Exchange Requirements*" and "*Interest of Certain Persons in Matters to be Acted Upon*" in this Information Circular.

Q: How will the votes be counted?

A: Westaim's transfer agent will count and tabulate the proxies in accordance with applicable law, Westaim's by-laws and the transfer agent's standard practices.

Q: Are there risks I should consider in deciding whether to vote for the Resolution?

A: Yes. See "*Cautionary Statement Regarding Forward-Looking Statements*" and "*Risk Factors*" in this Information Circular.

Q: Who can I contact if I have questions?

A: Shareholders who have questions about deciding how to vote should contact their financial, legal or professional advisors. For any queries referencing information in this Information Circular or in respect of voting your Instrument of Proxy, please call Kingsdale at 1-888-518-6813.

SUMMARY

The following is a summary of information contained elsewhere in this Information Circular. This summary is provided for convenience only and should be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing or referred to elsewhere in this Information Circular, including the appendices and documents incorporated by reference in this Information Circular.

Westaim and Jevco

Westaim

Westaim is a corporation existing under the *Business Corporations Act* (Alberta) (the "**ABCA**") that invests, directly and indirectly, through acquisitions, joint ventures and other arrangements, with the objective of providing its shareholders with capital appreciation and real wealth preservation. See "*Information Concerning Westaim*".

Jevco

Jevco is a federal property and casualty insurance company existing under the *Insurance Companies Act* (Canada) (the "**ICA**") and authorised to carry on property, surety, automobile and liability insurance business in all of the provinces and territories of Canada. See "*Information Concerning Jevco*".

The Acquisition and Financing

Purchase Agreement and Purchase Price

Westaim has agreed to acquire Jevco by purchasing all of the issued and outstanding shares of Jevco (the "**Acquisition**") from Kingsway Financial Services Inc. ("**KFS**") pursuant to a purchase agreement dated January 25, 2010 (the "**Purchase Agreement**"). The purchase price to be paid at closing (the "**Purchase Price**") for all the issued and outstanding shares of Jevco will be (i) 94.5% of the difference between (a) the book value of Jevco as at December 31, 2009 and (b) the amount of an estimated dividend determined in accordance with the Purchase Agreement (the "**Estimated Dividend**"); plus (ii) the amount by which the Estimated Dividend exceeds the actual cash dividend declared and paid by Jevco to KFS immediately prior to the time of closing of the Acquisition (the "**Actual Dividend**"). Westaim currently estimates that the aggregate Purchase Price (before any adjustments provided for in the Purchase Agreement) will be approximately $258.5 million.

The payment of the Purchase Price at closing will be made: (a) as to $32.5 million of the Purchase Price, to an independent escrow agent to be agreed upon by Westaim and KFS (the "**Escrow Agent**") in trust pending certain adjustments to the purchase price and final determination of the audited financial statements of Jevco for the year ended December 31, 2009; and (b) as to the balance of the Purchase Price, by wire transfer of immediately available funds as directed by KFS. See "*The Acquisition*".

The Financing

An aggregate of 550 million subscription receipts ("**Subscription Receipts**") were issued and sold by Westaim at a price of $0.50 each (the "**Financing**") in order to finance the Acquisition. The gross proceeds from the sale of the Subscription Receipts, less an amount equal to retail broker's fees and certain costs and expenses relating to the sale of the Subscription Receipts, were deposited into escrow pending the completion of the Acquisition. See "*The Financing*".

Recommendation of the Board of Directors

Westaim management expects that the Financing will be of benefit to the Shareholders by enabling Westaim to complete a transaction that:

(a) transforms Westaim into a company with a new focus on the Canadian property and casualty insurance business;

(b) gives Westaim an experienced and talented management team at Jevco which is expected to benefit from the financial strength and stability provided by a recapitalized Westaim;

(c) gives Westaim a strong financial partner; and

(d) enables Westaim to pursue possible acquisition opportunities in the property and casualty insurance industry.

After giving consideration to the terms of the Financing, the potential growth and development opportunities for the business of Westaim and the other factors deemed relevant by Westaim management and the board of directors of Westaim (the "**Board**"), including the perceived benefits set forth above, the Board unanimously recommends that Shareholders vote in favour of the Financing Resolution, appended as Appendix A to this Information Circular. See "*The Acquisition – Recommendation of the Board of Directors*".

Fairness Opinion of Cormark Securities Inc.

On February 4, 2010, Cormark Securities delivered its verbal opinion, later confirmed in writing (the "**Fairness Opinion**"), to the Board stating that, subject to the assumptions, limitations and qualifications set out in the Fairness Opinion, (i) the consideration to be paid by Westaim to KFS to acquire Jevco under the Purchase Agreement and (ii) the terms of the Financing, are fair, from a financial point of view, to Shareholders, other than the Related Purchasers. See "*Fairness Opinion of Cormark Securities*".

Conditions of Closing and Closing Date

The completion of the Acquisition is subject to the satisfaction of certain conditions, including:

(a) no event, matter or circumstance having occurred which has a material adverse effect in respect of Jevco;

(b) all required consents and authorizations having been obtained;

(c) the approval or expiry of applicable waiting periods pursuant to the *Competition Act* (Canada) or from the Commissioner of Competition having been received; and

(d) all approvals required in connection with the Acquisition, including the approvals of the Superintendent of Financial Institutions (Canada) and the Minister of Finance (Canada) pursuant to the ICA having been received.

The closing of the Acquisition is expected to take place on (i) March 26, 2010; or (ii) two business days after receipt of the last of the required approvals under the *Competition Act* (Canada) (or the expiry of the applicable waiting periods), the ICA (including from the Minister of Finance (Canada) and the Superintendent of Financial Institutions (Canada)) and the Toronto Stock Exchange (the "**TSX**") in respect of the Financing or (iii) such earlier or later date as Westaim and KFS may agree in writing, provided that either party may terminate the Purchase Agreement if the closing has not occurred by April 30, 2010 (unless such date has been extended by the parties). See "*The Acquisition Agreement*".

Risk Factors

There are a number of risks applicable to the businesses of Jevco and Westaim and to the Acquisition itself including the following: difficult economic conditions or a prolonged economic downturn may adversely affect Jevco's business; Jevco may not be able to realize its investment objectives or its liquid assets may prove to be insufficient to meet future obligations; Jevco or the insurance industry generally may be subject to negative publicity; the highly competitive nature of the insurance industry; Jevco may be unable to maintain its claims-paying ratings; Jevco's business could be affected by political, regulatory, economic or other influences; Jevco's provision for unpaid claims may be inadequate; Jevco relies on independent brokers for much of its business; a majority of Jevco's direct premiums written are concentrated in the non-standard automobile and recreational vehicle insurance markets; rising reinsurance rates or a lack of available reinsurance may adversely affect Jevco's business; risks related to litigation and regulatory actions; failure to comply with applicable insurance laws or regulatory requirements may adversely affect Jevco's business; Jevco's business depends upon certain key employees; failure to obtain required approvals or otherwise satisfy closing conditions may delay or prevent completion of the Acquisition; the issuance of a significant number of Westaim Shares or the failure to complete the Acquisition could adversely affect the market price of such shares; Jevco may have undisclosed liabilities; HMQ (as hereinafter defined) will be able to exert significant control over Westaim's affairs; and Westaim may require significant additional funding. See "*Risk Factors*".

THE ACQUISITION

Background to the Acquisition

On April 3, 2009, Westaim announced that it planned to pursue strategic investment opportunities designed to maximize the value of its strong balance sheet and non-cash resources. Since that time, management of Westaim has been reviewing and analyzing numerous investment opportunities to execute its strategy of using its capital to partner with successful operating management teams to build and grow attractive businesses over the long term.

On November 23, 2009, KFS announced in a press release its intention to dispose of its majority interest in Jevco. The press release indicated that KFS intended to relinquish control of Jevco but that it expected to remain as a non-influential investor in Jevco.

On November 24, 2009, Cameron MacDonald, the Chief Executive Officer of Westaim, received a call from William Andrus to discuss the opportunity to pursue the acquisition of Jevco on behalf of Westaim. Mr. Andrus had been a member of KFS's board of directors from April 2009 to August 2009 and was of the view that Jevco could represent an attractive business acquisition for Westaim, and was consistent with Westaim's stated strategy. Mr. MacDonald and other Westaim management had preliminary discussions with Mr. Andrus regarding the opportunity.

On December 4, 2009, Mr. Andrus called Westaim to again gauge its interest in pursuing the acquisition of Jevco, and to set up a call that day between Jevco senior management and Westaim. A call was held later that day, during which Jevco's senior management provided an overview of Jevco's business and the investment opportunity. It was agreed that Serge Lavoie, Jevco's Chief Executive Officer, and Scot Hopkins, Jevco's Chief Operating Officer, would meet with Westaim in Toronto the following week to discuss the opportunity in more detail.

On December 7, 2009, Mr. Lavoie and Mr. Hopkins met with management of Westaim and Mr. Andrus in Toronto. At this meeting, Mr. Lavoie gave a presentation regarding Jevco and discussed possible deal structures that could potentially be acceptable to both Westaim and KFS. This included Westaim purchasing a majority interest in Jevco for a combination of cash and Westaim Shares and KFS retaining an interest in Jevco through the holding of preferred shares. Following this meeting, Westaim believed that the opportunity to acquire Jevco was attractive and that it should work with Jevco management to develop a structure that could be presented to KFS for its consideration.

Between December 7 and December 10, 2009, management of Westaim had numerous discussions with Jevco's management and members of Jevco's board of directors designed to increase their understanding of Jevco's business and to develop an appropriate structure for a possible acquisition of Jevco. On the evening of December 10, 2009, Westaim submitted a non-binding letter of intent to KFS outlining the terms and conditions under which it was prepared to entertain an acquisition of Jevco. This letter of intent was subject to a number of conditions, including a complete due diligence review of Jevco's business and affairs. Based on the contents of the letter of intent, KFS agreed to meet with Westaim the following day to discuss a possible transaction.

On December 11, 2009, Mr. Larry Swets, on behalf of KFS, met with management of Westaim in Toronto to discuss the contents of the letter of intent and possible terms upon which KFS would be willing to enter into a transaction regarding Jevco. A follow-up call was held on December 14, 2009, during which it was determined that the parties should continue to pursue a possible transaction and that Westaim should enter into a confidentiality and non-disclosure agreement with KFS in order to obtain access to detailed information regarding Jevco. Westaim executed a confidentiality and non-disclosure agreement on December 17, 2009 and proceeded to work with CIBC World Markets Inc. ("**CIBC**"), KFS's financial advisor, to conduct a due diligence review of Jevco.

Also on December 17, 2009, Ian W. Delaney, Westaim's Chairman, had a discussion about Jevco with Brian Gibson, Senior Vice-President of Public Equities for Alberta Investment Management Corporation ("**AIMCo**"), regarding AIMCo's interest in participating in the possible acquisition of Jevco in some capacity.

Over the next several days, Westaim conducted its due diligence review of Jevco's business and affairs, including several calls and meetings with senior management of Jevco and representatives of CIBC. Discussions were also held between Westaim and KFS regarding changes to the terms proposed in the letter of intent. On January 4, 2010, Westaim submitted to KFS revised, non-binding terms upon which it was prepared to entertain an agreement to purchase Jevco. On January 6, 2010, a full day due diligence review meeting was held at KFS's offices in Toronto with several members of management of Jevco and KFS. On January 7, 2009, a conference call was held with management of Westaim and Mr. Swets to discuss the revised, non-binding terms. Additional terms were discussed and it was agreed that Westaim would formalize the terms in a new letter of intent to be submitted to KFS.

On January 8, 2010, Mr. MacDonald provided an update to members of the Board including the current status of the negotiations with KFS regarding Jevco and the terms submitted to KFS on January 4, 2010. Also on January 8, 2010, Mr. Peter Puccetti, a director of Westaim, called Mr. Gibson to discuss the interest of AIMCo in providing funding for the acquisition of Jevco, if required.

A revised letter of intent was submitted to KFS on January 11, 2010. After a call with Mr. Swets on January 12, 2010, further amended terms were submitted to KFS on January 13, 2010.

Based on the nature of the negotiations and a belief that KFS would prefer an all-cash transaction, Mr. Puccetti, called Mr. Gibson to discuss the possibility of a larger role for AIMCo in the potential transaction. After this call, Mr. Puccetti communicated to Mr. Swets that in order to focus negotiations, Westaim wanted KFS to negotiate exclusively with Westaim. On January 15, 2010, KFS and Westaim agreed to a limited exclusivity period which would expire on January 20, 2010.

Following the granting of this exclusivity period, Westaim and its acquisition legal counsel, Cassels Brock & Blackwell LLP, began reviewing a definitive purchase agreement outlining an all cash transaction. On January 16, 2010, AIMCo signed a confidentiality and non-disclosure agreement with KFS and commenced discussions with Westaim regarding its possible participation in the acquisition of Jevco. Over the next several days, Westaim finalized its due diligence review of Jevco.

On January 19, 2010, management of Westaim met with representatives of GMP Securities L.P. ("**GMP**") to discuss the possibility of GMP participating in securing additional financing for the Jevco transaction.

On January 20, 2010, the Board met in Toronto to review the proposed terms of the Jevco transaction. Also present at the meeting was Westaim's corporate legal advisors, Heenan Blaikie LLP. At the meeting, at the request of Westaim, Mr. Lavoie provided a presentation regarding Jevco's business and affairs. The Board was also provided with an overview of the terms of the proposed transaction by Westaim management. Westaim management also outlined a number of unresolved issues that needed to be negotiated further with KFS. While the Board was supportive of the transaction, because of the unresolved issues as well as the necessity of making changes to the definitive purchase agreement, the Board deferred its formal consideration of the transaction.

Later on January 20, 2010, Westaim management and its transaction legal advisors met with Mr. Swets and KFS's advisors in Toronto to continue negotiating the terms of the definitive purchase agreement. At that meeting, significant progress was made in resolving some of the open issues.

On January 21, 2010, AIMCo provided Westaim with a commitment on behalf of Her Majesty the Queen in Right of the Province of Alberta ("**HMQ**") to provide a minimum of $148 million in equity financing for the purpose of completing the acquisition of Jevco.

On January 22, 2010, management of Westaim, Jevco and KFS met with officials from OSFI to discuss the possibility of KFS selling all of the shares of Jevco to Westaim. Also on January 22, 2010, Westaim management and its legal advisors met with Mr. Swets and KFS's advisors in Toronto with the goal of finalizing the terms of the definitive purchase agreement. At a reconvened meeting of the Board, Westaim management provided an update on the status of the negotiations and their expectation that a definitive purchase agreement in a form acceptable to Westaim should be available later that day. The Board was also updated regarding the HMQ commitment as well as a possible offering of subscription receipts proposed to be carried out through GMP. The Board further deferred its consideration of the transaction.

A further revised draft of the purchase agreement was received during the evening of January 22, 2010. However, Westaim was still not satisfied with certain of its provisions. Further negotiations on the draft agreement took place over the weekend of January 23 and 24, 2010. Also during this period, Westaim received a proposal from GMP to underwrite a $50 million private placement of subscription receipts and to offer on a best efforts basis an additional $59.5 million of subscription receipts for gross proceeds of up to $109.5 million (collectively, the "**GMP Offering**"). On January 24, 2010, AIMCo executed the AIMCo Letter (as hereinafter defined) pursuant to which it agreed, on behalf of HMQ, to purchase $148 million in subscription receipts and to purchase any subscription receipts not purchased in the best efforts portion of the GMP Offering.

In the evening of January 24, 2010, the Board reconvened to approve the final terms of the Acquisition and the Purchase Agreement as well as the terms of the GMP Offering and the AIMCo Letter. Following the receipt of Board approval, Westaim executed the Purchase Agreement, the AIMCo Letter and the GMP Engagement Letter (as hereinafter defined), which was subject to reconfirmation by GMP. The execution of the Purchase Agreement, the terms of the GMP Offering and the AIMCo commitment were announced prior to the opening of trading on the morning of January 25, 2010.

On February 4, 2010, the Board met to consider and approve the definitive documents for the Financing and in this regard it received an oral fairness opinion from Cormark Securities Inc. ("**Cormark Securities**") that the consideration to be paid by Westaim under the Purchase Agreement and the terms of the Financing are fair, from a financial point of view, to the Shareholders (other than the Related Purchasers).

At closings held on February 9, 2010 and February 19, 2010, Westaim issued and sold, on a private placement basis, an aggregate of 550 million Subscription Receipts for aggregate gross proceeds of $275 million.

Recommendation of the Board of Directors

Westaim management believes that the Financing will be of benefit to the Shareholders by enabling Westaim to complete a transaction that is expected to:

(a) transform Westaim into a company with a new focus on the Canadian property and casualty insurance business;

(b) give Westaim an experienced and talented management team at Jevco which is expected to benefit from the financial strength and stability provided by a recapitalized Westaim;

(c) give Westaim a strong financial partner in HMQ; and

(d) enable Westaim to pursue possible acquisition opportunities in the property and casualty insurance industry.

After giving consideration to the Fairness Opinion (as hereinafter defined), the terms of the Financing, the potential growth and development opportunities for the business of Westaim and the other factors deemed relevant by Westaim management and the Board, including the perceived benefits set forth above, the Board unanimously recommends that Shareholders vote in favour of the Financing Resolution, appended hereto as Appendix A.

To be approved, the Financing Resolution must be passed by at least a simple majority of the votes cast by Shareholders present in person or represented by proxy at the Meeting other than the Related Purchasers and parties who may be considered to be acting jointly or in concert with the Related Purchasers. **Unless otherwise specified, the persons named in the accompanying Instrument of Proxy intend to vote FOR the Financing Resolution.**

Fairness Opinion of Cormark Securities

On February 4, 2010, Cormark Securities delivered its verbal opinion, later confirmed in writing (the "**Fairness Opinion**"), to the Board stating that, subject to the assumptions, limitations and qualifications set out in the Fairness Opinion, (i) the consideration to be paid by Westaim to KFS to acquire Jevco under the Purchase Agreement and (ii) the terms of the Financing, are fair, from a financial point of view, to Shareholders (other than the Related Purchasers).

The full text of the Fairness Opinion, setting out the assumptions made, matters considered and limitations and qualifications on the review undertaken in connection with preparing the Fairness Opinion, is attached as Appendix B to this Information Circular. Cormark Securities provided the Fairness Opinion for the information and assistance of the Board in connection with its consideration of the Acquisition and the Financing. The Fairness Opinion is not a recommendation as to whether or not Shareholders should vote for or against the Financing Resolution. As described above, the Fairness Opinion was one of many factors taken into consideration by the Board in making its determination to unanimously recommend that Shareholders vote **FOR** the Financing Resolution.

Pursuant to the terms of its engagement letter with Westaim, Cormark Securities is to be paid a fee for providing the Fairness Opinion and no part of the fee is contingent on the result of the vote on the Financing Resolution or the completion of the Acquisition. Westaim has also agreed to indemnify Cormark Securities against certain liabilities and to reimburse Cormark Securities for its expenses.

The Board recommends that Shareholders read the Fairness Opinion in its entirety. See Appendix B to this Information Circular.

THE ACQUISITION AGREEMENT

General

Westaim has agreed to acquire Jevco by purchasing all of the issued and outstanding shares of Jevco from KFS (the "**Acquisition**"). To effect the Acquisition, Westaim and KFS have entered into a purchase agreement dated January 25, 2010 (the "**Purchase Agreement**"). The principal terms and conditions of the Acquisition are summarized below. The following summary is qualified in its entirety by the complete terms of the Purchase Agreement which is available on SEDAR (www.sedar.com).

KFS is a holding company which operates through its wholly-owned subsidiaries in the property and casualty insurance business. KFS's primary business is non-standard automobile insurance. Non-standard automobile insurance is the insuring of drivers who do not qualify for standard automobile insurance coverage because of their payment history, driving record, place of residence, age, vehicle type or other factors. Other products offered by KFS include trucking insurance, commercial automobile insurance, commercial and personal property coverages, standard automobile insurance, motorcycle insurance and other specialty lines.

Jevco, currently a wholly-owned subsidiary of KFS, is a federal property and casualty insurance company existing under the *Insurance Companies Act* (Canada) (the "**ICA**") and authorized to carry on property, surety, automobile and liability insurance business in all of the provinces and territories of Canada. The ICA is administered, and the activities of Jevco are supervised, by the Office of the Superintendent of Financial Institutions ("**OSFI**"). Under the ICA, advance approval by the Minister of Finance is required for the acquisition of control of an insurance company. Jevco specializes in providing insurance products covering non-standard auto, recreational vehicles, commercial auto, property and liability. Jevco also provides surety insurance primarily to participants in the Canadian construction industry.

Purchase Price

The purchase price to be paid at closing (the "**Purchase Price**") for all the issued and outstanding shares of Jevco will be (i) 94.5% of the difference between (a) the Book Value (as hereinafter defined) of Jevco as at December 31, 2009, and (b) the amount of an estimated cash dividend determined in accordance with the Purchase Agreement (the "**Estimated Dividend**"); plus (ii) the amount by which the Estimated Dividend exceeds the actual cash dividend declared and paid by Jevco to KFS immediately prior to the time of closing of the Acquisition (the "**Actual Dividend**"), which dividend is to be for the maximum amount permitted by OSFI that does not exceed the amount of the Estimated Dividend. Westaim currently estimates that the aggregate Purchase Price (before any adjustments outlined below) will be approximately $258.5 million.

The payment of the Purchase Price at closing shall be made: (a) as to $32.5 million of the Purchase Price, to an independent escrow agent to be agreed upon by Westaim and KFS (the "**Escrow Agent**") in trust pending certain adjustments to the purchase price and final determination of the audited financial statements of Jevco for the year ended December 31, 2009; and (b) as to the balance of the Purchase Price, by wire transfer of immediately available funds as directed by KFS, in writing.

The Purchase Price is subject to the following adjustments:

(a) on closing, the Purchase Price will be adjusted upward (or downward) by an amount equal to 94.5% of the amount by which the market value of Jevco's investment portfolio on the closing date exceeds (or is less than) the market value of Jevco's investment portfolio as at December 31, 2009;

(b) following closing, the Purchase Price will be adjusted upward (or downward), dollar-for-dollar, to the extent that the Book Value of Jevco as determined from the final audited financial statements of Jevco for the year ended December 31, 2009 is more (or less) than the book value in the draft 2009 audited financial statements;

(c) in the event that the KGIC Claims Reserve (the reserves for the business of Kinsgway General Insurance Company assumed by Jevco and the K-Plus Insurance business written by Jevco) from December 31, 2009 until December 31, 2012 (the "**KGIC Claims Reserve Development**") is adverse to Jevco, the Purchase Price will be decreased (i) $1.00 for every $1.00 of KGIC Claims Reserve Developments up to $5 million; and (ii) $0.75 for every $1.00 of KGIC Claims Reserve Development from $5 million to $25 million to a maximum Purchase Price adjustment of $20 million; and

(d) on closing, Westaim will acquire 100% of the operating assets of Jevco, which includes the property located at 7120 Hurontario St., Mississauga, Ontario and will accordingly pay 94.5% of the carrying value of the Hurontario property as reflected in the annual financial statements for the year ended December 31, 2009 (the "**Carrying Value**"). KFS will have until December 31, 2010 to market and sell the Hurontario property, and upon such sale, the Purchase Price will be reduced (or increased) by $0.945 for every $1.00 by which the Carrying Value exceeds (or is less than) the sale price, however, in no event shall the Purchase Price be reduced by an amount that is greater than the difference between the Carrying Value and $29.5 million, the estimated value of the Hurontario property (the "**Estimated Value**"). In the event that on or prior to December 31, 2010, the Hurontario property is not sold, the Purchase Price shall be reduced by $0.945 for every $1.00 by which the Carrying Value exceeds the Estimated Value.

Certain of the adjustments to the Purchase Price may be paid by the Escrow Agent pursuant to the terms of an escrow agreement. The Purchase Agreement also provides mechanisms for resolution of disputes with respect to the calculation of adjustments to the Purchase Price.

Closing

The closing of the Acquisition is expected to take place on (i) March 26, 2010; or (ii) two business days after receipt of the last of the required approvals under the *Competition Act* (Canada) (or the expiry of the applicable waiting periods), the ICA (including from the Minister of Finance (Canada) and the Superintendent of Financial Institutions (Canada)) and the TSX Approval in respect of the Financing, or (iii) such earlier or later date as Westaim and KFS may agree in writing, but not later than April 30, 2010 (unless extended by the parties).

Representations and Warranties

The Purchase Agreement contains various representations and warranties of Westaim and KFS with respect to themselves and, in the case of KFS, with respect to Jevco. These representations and warranties relate to, among other things: incorporation and corporate power, corporate, regulatory and business authorizations, execution and binding obligations, authorized and issued capital, title to shares in Jevco and to Jevco's assets, conduct of Jevco's business in the ordinary course, compliance with laws, owned and leased property, absence of breaches of material contracts, intellectual property, financial statements and absence of undisclosed liabilities, insurance, litigation and compliance, taxes, environmental matters, employee matters and benefits, condition of assets, loans to directors, officers, employees, shareholders and non-arm's length persons, and assumption of KGIC assets in October 2009.

Covenants of KFS and Westaim

Certain covenants must be complied with in connection with the Acquisition, including:

(a) KFS shall: provide access to due diligence materials; refrain from disposing of investments in the investment portfolio without Westaim's consent; provide access to books and records of Jevco; and cause Jevco to terminate all related party agreements;

(b) KFS and Westaim shall: take all actions necessary to satisfy the conditions necessary for closing; obtain authorizations and make all filings necessary to effect the Acquisition; enter into a transition services agreement (the "**Transition Services Agreement**"); cause KFS and 7120 Hurontario Limited Partnership to enter into a new lease agreement (the "**Partnership New Lease Agreement**") provided, however, that KFS and Westaim acknowledge and agree to act in good faith and use commercially reasonable efforts to negotiate and settle in definitive form such Partnership New Lease Agreement prior to the closing of the Acquisition; and

(c) Westaim shall not permit Jevco to amend, repeal or modify any provision in its by-laws or other constating documents relating to the exculpation or indemnification of former directors and officers and shall cause Jevco to enter into a new lease agreement with KFS (together with the Partnership New Lease Agreement, the "**New Lease Agreements**").

During the interim closing period between the date of the Purchase Agreement and the closing of the Acquisition and subject to any exceptions specified in the Purchase Agreement:

(a) KFS shall ensure that Jevco conducts business in the ordinary course;

(b) Jevco shall not undertake certain actions without the prior written approval of Westaim (which approval shall not be withheld except with respect to conduct which could reasonably be expected to result in a material adverse effect upon the business, operations or condition (financial or otherwise) of Jevco (subject to certain limitations, a "**Material Adverse Effect**")), including, but not limited to selling assets of the business outside of the ordinary course of business; making capital expenditures in excess of $250,000; discharging obligations in excess of $250,000; increasing its indebtedness for borrowed money; making any bonus or profit sharing distribution; removing the auditor, actuary or, except as contemplated in the Purchase Agreement, any director or terminate any officer or other senior employee of Jevco; increasing any employee compensation; increase employee benefits; cancel or waive any material claims or rights; enter into any material contract outside of the ordinary course of business or that cannot be terminated on thirty (30) days' notice or less; amend or change its constating documents or by-laws; issue any common shares, options, warrants or other securities; declare or pay any dividends (other than the Actual Dividend); doing any other thing which may have a Material Adverse Effect on the transactions contemplated in the Purchase Agreement; or authorizing, agreeing, or otherwise committing, whether or not in writing, to do any of the foregoing;

(c) KFS shall cause Jevco to:

  (i) confer with one or more designated representatives of Westaim regarding any changes to be made to any material operational matters;

  (ii) notify and, where applicable, obtain Westaim's prior approval on any event or circumstance which results or could reasonably be expected to result in a Material Adverse Effect and of any materially adverse governmental authority complaints, investigations or hearings (or communications indicating that the same may be contemplated), adjudicatory proceedings, or submissions involving any material assets or properties of Jevco, and keep Westaim fully informed of such events and permit its representatives prompt access to all materials prepared in connection therewith. Westaim shall have the right to review and comment on any such matters that arise;

  (iii) co-operate fully with Westaim in connection with any meetings and discussions to be held prior to closing with regulators, brokers, reinsurers and ratings agencies and in connection therewith to provide such readily available information and analyses respecting Jevco as may be reasonably requested;

  (iv) use commercially reasonable efforts to preserve intact the current business organization of Jevco, keep available the services of the present employees and agents of Jevco, and maintain good relations with, and the goodwill of, the brokers, other representatives, reinsurers, suppliers, customers, landlords, creditors and other persons having business relationships with Jevco; and

  (v) use commercially reasonable efforts to (i) ensure that all reinsurance arrangements of Jevco remain in force on the same terms for the full term of such arrangement; and (ii) in consultation with Westaim, pursue negotiation to renew expiring reinsurance arrangements in the ordinary course of business.

For a period of three years following the closing, KFS has agreed that it will not underwrite any standard personal lines property and casualty automobile and home insurance through any insurance broker, anywhere in Canada and further, that it will not for a period of three years following the closing solicit any executive, officer or employee of Jevco or induce any of them to discontinue such relationship with Jevco.

Conditions of Closing

The obligations of Westaim to complete the Acquisition are subject to the satisfaction of certain conditions to be fulfilled or performed at or prior to closing, including:

(a) the representations and warranties of KFS contained in the Purchase Agreement and in any related agreement being true and correct in all material respects as of the closing;

(b) KFS having fulfilled, performed or complied with all material covenants contained in the Purchase Agreement and each related agreement;

(c) all required consents and authorizations having been obtained on terms acceptable to Westaim, acting reasonably;

(d) no Material Adverse Effect having occurred;

(e) no action or proceeding shall be pending or threatened by any person (other than KFS, Westaim, Jevco or any of their respective affiliates) in any jurisdiction, to enjoin, restrict or prohibit any of the transactions contemplated by the Purchase Agreement or any of the Transition Services Agreement, the New Lease Agreements or the escrow agreement with the Escrow Agent, the right of Westaim to own the shares in Jevco purchased by it pursuant to the Acquisition or the right of Jevco to operate its business after closing on the same basis as currently operated;

(f) the approvals or expiry of applicable waiting periods pursuant to the *Competition Act* (Canada) or from the Commissioner of Competition shall have been received;

(g) all approvals required in connection with the Acquisition, including the approvals of the Superintendent of Financial Institutions (Canada) and the Minister of Finance (Canada) pursuant to the ICA shall have been received;

(h) the Actual Dividend (if any) shall have been paid; and

(i) KFS shall have delivered or caused to be delivered to Westaim all documents required to complete the Acquisition or required pursuant to the Purchase Agreement.

The obligations of KFS to complete the Acquisition are subject to the satisfaction of certain conditions to be fulfilled or performed at or prior to closing, including the satisfaction of the conditions to Westaim's obligations set out in items (e), (f), (g) and (h), above, and including:

(a) the representations and warranties of Westaim contained in the Purchase Agreement and in any related agreement being true and correct in all material respects as of the closing;

(b) Westaim having fulfilled, performed or complied with in all material respects all material covenants contained in the Purchase Agreement and each related agreement;

(c) all required consents and authorizations having been obtained on terms acceptable to KFS, acting reasonably; and

(d) Westaim having delivered or caused to be delivered to KFS all documents relating to the Acquisition or the Purchase Agreement.

Termination

The Purchase Agreement may be terminated at any time prior to closing:

(a) by Westaim, if, at the time of closing any of the conditions of closing in favour of Westaim have not been satisfied in full;

(b) by KFS, if, at the time of closing any of the conditions of closing in favour of KFS have not been satisfied in full;

(c) by written agreement of KFS and Westaim;

(d) by either Westaim or KFS, if the closing has not occurred by April 30, 2010, which date may be extended with the written consent of both parties; or

(e) by KFS, if all conditions specified in the TSX Approval have not been satisfied on or before March 26, 2010, provided that in such event KFS's right to indemnity, if applicable, is limited to KFS's actual out-of-pocket costs, charges or expenses (including amounts incurred but not yet paid) in connection with the Purchase Agreement and the transactions contemplated thereby.

If the Purchase Agreement is terminated pursuant to the termination provisions specified at paragraphs (c) and (d) above, all obligations of Westaim and KFS pursuant to the Purchase Agreement will terminate without further liability, except for provisions relating to expenses and public announcements, provided that termination shall not relieve the parties from liability for any breach of the Purchase Agreement occurring before its termination.

Indemnification and Remedies

The Purchase Agreement contains indemnities of each of KFS and Westaim in favour of the other for breach of any of its representations and warranties (unless the other party had actual knowledge of such breach prior to closing), breach or non-fulfillment of any covenant, condition or obligation of it contained in the Purchase Agreement, or any claim for brokerage or finder's fees, commissions or similar payments based upon any agreement or understanding made or alleged to have been made with it or a person acting on its behalf in connection with any of the transactions contemplated in the Purchase Agreement. KFS will also indemnify

Westaim for any claim made by a third party against Jevco that arises from action taken by KFS or any affiliate of KFS, other than Jevco.

Unless notice of an indemnity claim has been delivered prior to such date, liability for breaches or non-fulfillment of the representations and warranties of, and the obligations, conditions and covenants to be performed prior to the closing by, KFS and Westaim contained in the Purchase Agreement will terminate at 11:59 p.m. (Toronto local time) on December 31, 2011, except with respect to the representations and warranties of KFS relating to Jevco's tax liability (which shall terminate ninety (90) days after the expiration of the last of the limitation periods contained in the applicable tax law to which such representation or warranty relates) and the representations and warranties of KFS with respect to the purchased shares, which will survive indefinitely. Any liability with respect to fraud, intentional misrepresentation or deliberate or wilful breach will continue indefinitely.

For most purposes, the liability of KFS and Westaim is limited to the amount by which claims exceed $250,000. KFS and Westaim's respective overall liability shall not exceed 35% of the Purchase Price. However, with respect to liability for breach of its representations and warranty with respect to its title to Jevco's shares, KFS's liability may not exceed, in the aggregate (and when combined with the 35% general indemnity threshold), one hundred percent (100%) of the Purchase Price;

THE FINANCING

HMQ Commitment and GMP Engagement

In connection with the execution of the Purchase Agreement, Westaim received a commitment letter dated January 24, 2010 (the "**AIMCo Letter**") from AIMCo, on behalf of HMQ, to provide equity funding of $148 million. AIMCo is one of Canada's largest institutional investment fund managers managing $69 billion for Alberta public sector pension plans, endowments and government funds. AIMCo was established as a Crown corporation on January 1, 2008 and its sole shareholder is the Province of Alberta.

On January 25, 2010, Westaim and GMP entered into a letter agreement (the "**GMP Engagement Letter**") pursuant to which GMP agreed to underwrite a private placement of 100 million subscription receipts ("**Subscription Receipts**") and to offer on a best efforts basis an additional 119 million Subscription Receipts at a price per Subscription Receipt of $0.50 (the "**Issue Price**") for aggregate gross proceeds of up to $109.5 million. In the AIMCo Letter, HMQ agreed to backstop the best efforts portion of the GMP Offering such that if and to the extent that less than 119 million Subscription Receipts were purchased in the best efforts portion of the GMP Offering, HMQ would purchase the number of Subscription Receipts representing the shortfall (the "**AIMCo Backstop**").

The GMP Engagement Letter provided that each Subscription Receipt would entitle the holder thereof to receive without further consideration or action: (i) one Westaim Share upon satisfaction of the Escrow Release Conditions (as defined below) provided that such conditions have been satisfied at or prior to the earlier of 4:30 p.m. (Toronto time) on April 30, 2010 and the time and date, if any, that the Purchase Agreement is terminated (the "**Termination Time**"); or (ii) if the Escrow Release Conditions are not satisfied at or prior to the Termination Time, an amount equal to the Issue Price plus the holder's pro rata entitlement to the interest earned or income generated, if any, on such amount. Pursuant to the AIMCo Letter, HMQ agreed that its total voting interest in Westaim Shares after completion of the transactions contemplated therein would be limited to 40% of all of the votes attached to the outstanding Westaim Shares and that any additional equity interest held by HMQ would be held in non-voting equity shares. Accordingly, the AIMCo Letter provided that the Subscription Receipts to be issued to HMQ would be exercisable for a mix of Westaim Shares and a class of non-voting participating shares of Westaim to be created which shares would be convertible into Westaim Shares on a one-for-one basis. The terms of such non-voting participating shares were to provide that Westaim could refuse a request to convert such shares into Westaim Shares if as a result of such conversion, HMQ would own more than 40% of the then outstanding Westaim Shares.

As consideration for providing the AIMCo Backstop, Westaim agreed to issue to HMQ 10 million warrants ("**HMQ Warrants**") to purchase an equal number of the non-voting participating shares at an exercise price of $0.50 per share for a period of three years following the closing of the GMP Offering.

Completion of the Financing

Pursuant to an underwriting and agency agreement dated February 9, 2010 and subscription agreements with certain investors, including HMQ, at closings held on February 9, 2010 and February 19, 2010, Westaim issued and sold, on a private placement basis, an aggregate of 254 million class A subscription receipts (the "**Class A Subscription Receipts**") at the Issue Price, each entitling the holder thereof to receive upon the conversion thereof one Westaim Share, and 296 million class B subscription receipts (the "**Class B Subscription Receipts**" and together with the Class A Subscription Receipts, the "**Subscription Receipts**") at the Issue Price, each entitling the holder thereof to receive upon the conversion thereof either one Westaim Share or one Series 1 Class A non-voting, participating preferred share of Westaim (each a "**Non-Voting Share**" and each Westaim Share or Non-Voting Share issuable upon the conversion of a Subscription Receipt, an "**Underlying Share**"), for aggregate gross proceeds of $275 million. In connection with the GMP Financing, GMP is entitled to receive a commission (the "**GMP Commission**") equal to 5.5% of the gross proceeds from the sale of the 100 million Subscription Receipts sold in the underwritten portion of the GMP Offering and to 4% of the gross proceeds from the sale of the 119 million Subscription Receipts sold in the best efforts portion of the GMP Offering and an advisory fee (the "**Advisory Fee**") equal to 1% of the gross proceeds from the sale of the remaining 331 million Subscription Receipts. The GMP Commission and the Advisory Fee (less an amount equal to the retail broker's fees payable by GMP which were released at closing) plus certain expenses of GMP will be paid to GMP upon the satisfaction of the Escrow Release Conditions. Also on February 9, 2010, the HMQ Warrants were issued to HMQ.

The Class B Subscription Receipts were purchased by HMQ on behalf of certain Alberta public sector pension plans, endowments and government funds and the Class A Subscription Receipts were purchased by investors other than HMQ. The Class A Subscription Receipts were offered to purchasers pursuant to exemptions from the prospectus and registration requirements of applicable securities laws of each of the provinces of Canada as well as in the United States on a private placement basis pursuant to an exemption from the registration requirements of the *United States Securities Act of 1933*, as amended, and in certain other jurisdictions.

An aggregate of 23,335,000 Class A Subscription Receipts were purchased by certain directors and executive officers of Westaim, investment funds managed by Goodwood Inc., executive officers of Goodwood and certain of their respective associates (collectively, the "**Related Purchasers**").

The Subscription Receipts

The Subscription Receipts were issued pursuant to a subscription receipt indenture dated February 9, 2010 (the "**Indenture**") among Westaim, GMP and Equity Transfer & Trust Company (the "**Receipt Agent**"). The following summary of the Indenture is not complete and is qualified in its entirety by reference to the Indenture which is available for review on the SEDAR website located at www.sedar.com under Westaim's profile.

Upon conversion, each Class A Subscription Receipt entitles the holder thereof to acquire one Westaim Share and each Class B Subscription Receipt entitles the holder thereof to acquire either one Westaim Share or one Non-Voting Share, in each case for no additional consideration. No fractional Underlying Shares will be issued. The number of Westaim Shares issuable upon conversion will be subject to adjustment in certain circumstances, as more fully described below. The Indenture does not provide for adjustments to be made to the number of Non-Voting Shares issuable upon the conversion of the Class B Subscription Receipts as the Articles of Amendment pursuant to which the Non-Voting Shares were created contain their own anti-dilution provisions. See "*The Financing – Non-Voting Shares*".

The gross proceeds from the sale of the Subscription Receipts, less an amount equal to retail broker's fees payable by GMP and the costs and expenses of GMP, were deposited into escrow with the Receipt Agent pursuant to the terms of the Indenture. A total of $274,492,339 was deposited into escrow with the Receipt Agent under the Indenture pending the receipt of notices from (i) Westaim and GMP and (ii) Westaim and HMQ, confirming that all of the conditions to the release of the proceeds from escrow (the "**Escrow Release Conditions**") have been satisfied or waived by Westaim. The Escrow Release Conditions include, without limitation, the following:

(a) Shareholders having approved the issuance of the Underlying Shares issuable upon the conversion of the Subscription Receipts including the Underlying Shares issuable to the Related Purchasers;

(b) all conditions required to complete the Acquisition (other than payment of the purchase price) having been satisfied or waived by Westaim;

(c) the TSX having approved the listing on the TSX of the Westaim Shares issuable upon the conversion of the Subscription Receipts and upon the conversion of the Non-Voting Shares;

(d) receipt, as applicable, of documents evidencing the approval by OSFI of the Acquisition; and

(e) HMQ being satisfied, acting reasonably, that Westaim has adopted governance arrangements (including those relating to management compensation) appropriate for a public company of a size and focus comparable to Westaim.

Provided that the Escrow Release Conditions are satisfied or waived prior to the Termination Time, the Receipt Agent shall (i) release to GMP an amount equal to the aggregate Commission and Advisory Fee payable to GMP, including any interest accrued thereon, and the expenses of GMP in connection with the GMP Offering, (ii) retain an amount equal to the Receipt Agent's reasonable fees for its services under the Indenture and associated disbursements incurred, and (iii) release to Westaim the balance of the funds held in escrow by the Receipt Agent.

If the Escrow Release Conditions are not satisfied prior to the Termination Time, within two business days following the Termination Time:

(a) the Receipt Agent shall wire or forward by first class mail a cheque representing the Issue Price plus a pro rata portion of any interest earned thereon, less any withholding tax required to be withheld in respect thereof, to holders of Subscription Receipts; and

(b) any remaining proceeds shall be released by the Receipt Agent to Westaim (provided that, in the event that the amount of the proceeds, including any interest accrued thereon, is not sufficient to fully reimburse the holders of such Subscription Receipts the Issue Price, the Receipt Agent shall promptly notify Westaim of such shortfall and, forthwith upon receiving such notification from the Receipt Agent, Westaim shall pay to the Receipt Agent the amount of such shortfall).

The Indenture provides for adjustment in the number of Westaim Shares issuable upon the conversion of the Subscription Receipts upon the occurrence of certain events, including:

(a) the issuance of Westaim Shares or securities exchangeable for or convertible into Westaim Shares to all or substantially all of the holders of the Westaim Shares as a stock dividend or other distribution (other than a distribution of Westaim Shares upon the exercise of the Subscription Receipts, the exercise of the HMQ Warrants or pursuant to the exercise of directors, officers or employee stock options granted under Westaim's stock option plans);

(b) the subdivision, redivision or change of the Westaim Shares into a greater number of shares;

(c) the reduction, combination or consolidation of the Westaim Shares into a lesser number of shares;

(d) the issuance to all or substantially all of the holders of the Westaim Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Westaim Shares, or securities exchangeable for or convertible into Westaim Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the "current market price", as defined in the Indenture, for the Westaim Shares on such record date; and

(e) the issuance or distribution to all or substantially all of the holders of the Westaim Shares of shares of any class other than the Westaim Shares, rights, options or warrants to acquire Westaim Shares or securities exchangeable or convertible into Westaim Shares, of evidences of indebtedness or cash, securities or any property or other assets.

The Indenture also provides for adjustment in the class or number of securities issuable upon the exercise of the Subscription Receipts in the event of the following: (1) reclassifications of the Westaim Shares; (2) consolidations, amalgamations, plans of arrangement or mergers with or into another entity (other than consolidations, amalgamations, plans of arrangement or mergers which do not result in any reclassification of the Westaim Shares or a change of the Westaim Shares into other shares); or (3) the transfer (other than to one of Westaim's subsidiaries) of the undertaking or assets of Westaim as an entirety or substantially as an entirety to another company or other entity.

No adjustment in the number of Westaim Shares issuable upon the exercise of the Subscription Receipts will be required to be made unless the cumulative effect of such adjustment or adjustments would change the number of Westaim Shares to be received upon exchange by at least one one-hundredth of a Westaim Share.

No fractional Westaim Shares will be issuable upon the exercise of Subscription Receipts, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Subscription Receipts will not have any voting or pre-emptive rights or any other rights which a holder of Westaim Shares would have.

From time to time, Westaim, GMP and the Receipt Agent, without the consent of the holders of Subscription Receipts, may amend or supplement the Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Subscription Receipts. Any amendment or supplement to the Indenture that adversely affects the interests of the holders of the Subscription Receipts may only be made by "extraordinary resolution", which is defined in the Indenture as a resolution either (1) passed at a meeting of the holders of Subscription Receipts (at which there are holders of Subscription Receipts present in person or represented by proxy representing at least 25% of the aggregate number of the then outstanding Subscription Receipts) by the affirmative vote of holders of Subscription Receipts representing not less than two-thirds of the number of then outstanding Subscription Receipts represented at the meeting and voted on such resolution or (2) adopted by an instrument in writing signed by the holders of Subscription Receipts representing not less than two thirds of the number of then outstanding Subscription Receipts.

Non-Voting Shares

The authorized capital of Westaim consists of an unlimited number of common shares, an unlimited number of Class A preferred shares, issuable in series, and an unlimited number of Class B preferred shares, issuable in series. In connection with the sale of Class B Subscription Receipts to HMQ, Westaim filed the Articles of Amendment for the purpose of creating the Non-Voting Shares. The rights, privileges, restrictions and conditions applicable to the Non-Voting Shares are summarized below. The summary is not complete and is qualified in its entirety by reference to the Articles of Amendment which are available for review on the SEDAR website located at www.sedar.com under Westaim's profile.

Authorized Number

Westaim is authorized to issue an unlimited number of Non-Voting Shares.

Voting Rights

Except as required by law, the holders of the Non-Voting Shares as a series shall not be entitled to receive notice of, to attend or to vote at any meeting of the shareholders of Westaim.

Ranking

The Non-Voting Shares (i) rank equally with the Class A preferred shares of every other series with respect to dividends and return of capital, (ii) are entitled to such dividends as the directors may declare; provided, however, that no dividend on the Non-Voting Shares shall be declared unless the directors shall declare an equal dividend on the Westaim Shares, and (iii) are entitled to a preference as to $0.0001 per Non-Voting Share over the Class B preferred shares and the Westaim Shares and over any other shares ranking junior to the Non-Voting Shares, following which the Non-Voting Shares shall rank equally with the Westaim Shares with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of Westaim, whether voluntary or involuntary, or any other distribution of the assets of Westaim for the purpose of winding up its affairs.

Restrictions for the Protection of the Non-Voting Shares

So long as any of the Non-Voting Shares are outstanding, Westaim shall not, without the approval of the holders of the Non-Voting Shares (i) declare or pay any dividend on the Westaim Shares unless the directors also declare an equal dividend on the Non-Voting Shares, (ii) declare, or pay any dividend on any shares ranking junior to the Non-Voting Shares as to the payment of dividends, or (iii) subject to certain exceptions, issue any additional Non-Voting Shares or any shares ranking equally with the Non-Voting Shares, unless, in each such case, all dividends then payable on the Non-Voting Shares then outstanding and on all other shares of Westaim ranking as to dividends on a parity with the Non-Voting Shares shall have been declared and paid.

Conversion Privilege

Any holder of Non-Voting Shares may, subject to the restrictions described below, convert any or all Non-Voting Shares held by such holder into Westaim Shares based on the then applicable exercise number ("**Exercise Number**") which at the date hereof is one Westaim Share for each Non-Voting Share. No Westaim Share may be issued upon the conversion of a Non-voting Share if the conversation would result in the holder together with such holder's "associates" and "affiliates" (as such terms are defined in the *Securities Act* (Alberta)) and any person or company acting jointly or in concert with such parties (i) being the registered holder of, (ii) being the beneficial owner of and/or (iii) exercising control or direction over, greater than forty percent (40%) of the issued and outstanding Westaim Shares (the "**Ownership Limit**").

Anti-dilution Protection

The Articles of Amendment provide for adjustment in the Exercise Number upon the occurrence of certain events, including:

(a) the issuance of Westaim Shares or securities exchangeable for or convertible into Westaim Shares to all or substantially all of the holders of the Westaim Shares as a stock dividend or other distribution (other than (i) a distribution of Westaim Shares pursuant to the exercise of directors, officers or employee stock options granted under Westaim's stock option plans, (ii) Westaim Shares issued upon the conversion of Non-Voting Shares, (iii) Westaim Shares issued to holders of Westaim Shares who elect to receive a dividend in Westaim Shares in lieu of cash, or (iv) Westaim Shares issuable upon the conversion of Subscription Receipts);

(b) the subdivision, redivision or change of the Westaim Shares into a greater number of shares;

(c) the reduction, combination or consolidation of the Westaim Shares into a lesser number of shares;

(d) the issuance to all or substantially all of the holders of the Westaim Shares of rights, options or warrants under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Westaim Shares, or securities exchangeable for or convertible into Westaim Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the "current market price", as defined in the Articles of Amendment, for the Westaim Shares on such record date; and

(e) the issuance or distribution to all or substantially all of the holders of the Westaim Shares of shares of any class other than the Westaim Shares, rights, options or warrants to acquire Westaim Shares or securities exchangeable or convertible into Westaim Shares, of evidences of indebtedness or cash, securities or any property or other assets.

The Articles of Amendment also provide for adjustment in the class or number of securities issuable upon the conversion of the Non-Voting Shares in the event of the following: (1) reclassifications of the Westaim Shares; (2) consolidations, amalgamations, plans of arrangement or mergers with or into another entity (other than consolidations, amalgamations, plans of arrangement or mergers which do not result in any reclassification of the Westaim Shares or a change of the Westaim Shares into other shares); or (3) the transfer (other than to one of Westaim's subsidiaries) of the undertaking or assets of Westaim as an entirety or substantially as an entirety to another company or other entity.

No adjustment in the Exercise Number will be required to be made unless the cumulative effect of such adjustment or adjustments would change the number of Westaim Shares to be received upon conversion by at least one one-hundredth of a Westaim Share.

Take-over Protection

Subject to certain exceptions described below, if an Exclusionary Offer is made, any holder of Non-Voting Shares may, at any time or from time to time during the Conversion Period and notwithstanding the Ownership Limit, convert any or all of the Non-Voting Shares held by such holder into Westaim Shares on the basis of the then applicable Exercise Number. For the purpose of this section, the following terms have the following meanings:

(a) "**Offeror**" means a person or company that makes an offer to purchase Westaim Shares (the "**bidder**"), and includes any associate or affiliate of the bidder or any person or company that is disclosed in the offering document to be acting jointly or in concert with the bidder;

(b) "**Conversion Period**" means the period of time commencing on the eighth day after the Offer Date and terminating on the Expiry Date;

(c) "**Exclusionary Offer**" means an offer to purchase Westaim Shares that:

(A) must, by reason of applicable securities legislation or the requirements of a stock exchange on which the Westaim Shares are listed, be made to all or substantially all holders of Westaim Shares who are residents of a province of Canada to which the requirement applies; and

(B) is not made concurrently with an offer to purchase Non-Voting Shares that is identical to the offer to purchase Westaim Shares in terms of price per share and percentage of outstanding shares to be taken up exclusive of shares owned immediately prior to the offer by the Offeror, and in all other material respects,

and for the purposes of this definition if an offer to purchase Westaim Shares is not an Exclusionary Offer as defined above but would be an Exclusionary Offer if it were not for sub-clause (B) above, the varying of any term of such offer shall be deemed to constitute the making of a new offer unless an identical variation concurrently is made to the corresponding offer to purchase Non-Voting Shares;

(d) "**Expiry Date**" means the last date upon which holders of Westaim Shares may accept an Exclusionary Offer; and

(e) “**Offer Date**” means the date on which an Exclusionary Offer is made.

An election by a holder of Non-Voting Share to convert such shares into Westaim Shares in connection with an Exclusionary Offer shall be deemed to constitute an irrevocable election by such holder to deposit the Non-Voting Shares pursuant to the Exclusionary Offer and to elect to rescind the conversion of all Non-Voting Shares in respect of which such holder exercises his right of withdrawal from the Exclusionary Offer or which are not otherwise ultimately taken up under the Exclusionary Offer.

Exclusionary Non-Voting Share Offer

In the event that there is an offer for the Non-Voting Shares which must, by reason of applicable securities legislation or the requirements of a stock exchange, be made to all or substantially all holders of Non-Voting Shares who are residents of a province of Canada to which the requirement applies and that is not made concurrently with an offer to purchase Westaim Shares that is identical to the offer to purchase Non-Voting Shares in terms of price per share and percentage of outstanding shares to be taken up exclusive of shares owned immediately prior to the offer by the offeror, and in all other material respects, no Non-Voting Shares shall be transferred pursuant to such offer and no such transfer shall be effected or registered by the transfer agent for the Non-Voting Shares or recognized by Westaim.

Modification

The approval of the holders of the Non-Voting Shares to add to, change or remove any right, privilege, restriction or condition attaching to the Non-Voting Shares as a class or in respect of any other matter requiring the consent of the holders of the Non-Voting Shares may be given in such manner as may then be required by law, subject to a minimum requirement that such approval be given by resolution signed by all the holders of the Non-Voting Shares or passed by the affirmative vote of at least two-thirds of the votes cast at a meeting of the holders of the Non-Voting Shares duly called for that purpose.

Redemption

The Non-Voting Shares are not redeemable at the option of either Westaim or the holder of any such Non-Voting Shares.

Toronto Stock Exchange Requirements and Listing

The Toronto Stock Exchange (the “**TSX**”) has detailed rules governing the issuance of shares by listed issuers generally and in particular the issuance of shares by private placement. These rules deal with the price at which such shares may be sold, the maximum number of shares which may be issued by private placement during any six month period, the participation in any private placement by insiders of the issuer and the impact of the transaction on the control of the issuer. Where a private placement is proposed which exceeds any of the limitations prescribed by the TSX, the issuer cannot proceed with such placement without obtaining shareholder approval for such transaction. However, the TSX will generally permit a private placement to proceed provided that the funds are held in escrow and the terms of escrow provide that the underlying shares cannot be issued unless and until shareholder approval is obtained.

As at February 9, 2010, there were a total of 94,220,632 Westaim Shares issued and outstanding. The total number of Westaim Shares which may be issued upon the conversion of the Subscription Receipts and the exercise of the HMQ Warrants (including the conversion of all Non-Voting Shares into Westaim Shares) is 560 million Westaim Shares or approximately 594% of the number of Westaim Shares outstanding. In addition, it is expected that following the conversion of the Subscription Receipts, HMQ will be Westaim’s largest shareholder owning 232,147,088 Westaim Shares (40% of the number of Westaim Shares and 36% of the aggregate number of Westaim Shares and Non-Voting Shares expected to be outstanding but without giving effect to the exercise of any HMQ Warrants) and 63,852,912 Non-Voting Shares (9.9% of the aggregate number of Westaim Shares and Non-Voting Shares expected to be outstanding but without giving effect to the exercise of any HMQ Warrants). Accordingly, for the purposes of the rules of the TSX, HMQ's ownership of Westaim Shares will represent a material change in the control of Westaim. As well, an aggregate of 23,335,000 Class A Subscription Receipts were purchased by the Related Purchasers (an aggregate of 13,545,600 purchased by directors of Westaim as a group, 9,139,400 purchased by investment funds managed by Goodwood Inc., 500,000 purchased by officers of Goodwood Inc. and 150,000 purchased by officers of Westaim, in each case including their respective associates) each of whom is considered to be an insider of Westaim under the TSX rules. This represents approximately 24.7% of the number of Westaim Shares outstanding which exceeds the TSX's 10% maximum participation by insiders.

As a result of the foregoing, the Subscription Receipts cannot be converted unless and until the Financing Resolution is approved by the existing Shareholders. In order to be effective, the Financing Resolution must be approved by a simple majority of the votes cast thereon by holders of Westaim Shares represented in person or by proxy at the Meeting other than the votes attaching to an aggregate of 20,925,306 Westaim Shares held by the Related Purchasers and parties who may be considered to be acting jointly or in concert with the Related Purchasers.

The TSX has conditionally approved the listing of the Westaim Shares issuable upon conversion of the Subscription Receipts and upon the conversion of the Non-Voting Shares, subject to Westaim fulfilling all of the standard listing conditions, including Shareholders having approved the Financing.

Multilateral Instrument 61-101

Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**") of certain of the Canadian Securities Administrators imposes various requirements on issuers that intend to effect certain types of non-arm's length transactions including insider bids, issuer bids, business combinations and related party transactions. These requirements include enhanced disclosure to the public and shareholders, the requirement to prepare and summarize the results of a formal valuation of the subject matter of the transaction and the requirement to have the transaction approved by a simple majority of disinterested shareholders.

The purchase of Subscription Receipts by the Related Purchasers who are related parties of Westaim each constituted a "related party transaction" for the purposes of MI 61-101. In this regard, Westaim relied on an exemption from the valuation requirement of MI 61-101 provided by subsection 5.5(c) of MI 61-101 as, at the time of the purchase of the Subscription Receipts, neither Westaim nor, to the knowledge of Westaim after reasonable inquiry, the Related Purchasers had knowledge of any material information concerning Westaim or its securities that had not been generally disclosed. As the votes attaching to Westaim Shares held by the Related Purchasers and parties who may be considered to be acting jointly or in concert with the Related Purchasers will be excluded in determining whether the Financing Resolution has been approved, Westaim will be complying with the requirements of MI 61-101 relating to minority approval.

INFORMATION CONCERNING WESTAIM

Name and Incorporation

Westaim was incorporated under the ABCA by Articles of Incorporation dated May 7, 1996 (the "**Articles**"), as a wholly-owned subsidiary of Viridian Inc. ("**Viridian**" means Viridian Inc. and its predecessors). The Articles were amended effective June 26, 1996 to remove the private company restrictions on the transfer of securities, to create preferred share classes designated as Class A preferred shares and Class B preferred shares and to increase the maximum number of directors to fifteen. Restated Articles of Incorporation were issued under the ABCA on April 17, 2000 and the Articles were further amended on May 24, 2000 to permit meetings of shareholders to be held in certain specified cities outside of Alberta, or in any other city in Canada or the United States and to allow the board of directors to appoint additional directors between annual meetings, subject to certain limitations. The

Articles were amended again on February 8, 2010 and February 26, 2010 in connection with the creation of the Non-Voting Shares.

On June 26, 1996, Westaim, through a reorganization, issued 75,000,000 common shares to Viridian in exchange for cash and the assets of its specialty materials businesses and related research and development activities. As a result of an initial public offering by prospectus dated June 26, 1996, Westaim became a publicly traded company. On July 8, 1996 and September 16, 1996, Viridian distributed to holders of its common shares, as dividends-in-kind, an aggregate total of 70,923,248 Westaim Shares. Viridian subsequently disposed of the remainder of its Westaim Shares through market sales.

Westaim's registered office is located at 12th Floor, Fifth Avenue Place, 425 - 1st Street SW, Calgary, Alberta, T2P 3L8 and its head office is located at 212 King Street West, Suite 201, Toronto, Ontario, M5H 1K5.

Summary Description of the Business

Westaim invests, directly and indirectly, through acquisitions, joint ventures and other arrangements, with the objective of providing its shareholders with capital appreciation and real wealth preservation.

General Development of the Business

Westaim was established with a view to produce and market products for global applications based on its advanced industrial materials expertise. At the time of its initial public offering, it had a portfolio of development stage new business opportunities which included: coking-resistant coatings, electroluminescent flat panel displays (through its subsidiary, iFire Technology Inc.), biomedical coatings (through its subsidiary NUCRYST Pharmaceuticals Corp.), electronic ceramics and structural ceramics.

In February 2000, iFire Technology Inc. ("**iFire**") entered into a US$25-million strategic business arrangement with Japan-based TDK Corporation for technology collaboration and production of iFire™ flat panel displays. In addition, TDK Corporation purchased a 2.5% equity stake in iFire for US$7.5 million.

In a series of transactions completed in the second quarter of 2000, Westaim purchased an equity interest in Savvion, Inc. ("**Savvion**") for US$15.8 million through the purchase of a combination of outstanding shares and treasury stock. At the time, Savvion was a private, California-based company in the e-business management software and services business.

In May 2001, NUCRYST Pharmaceuticals Corp. ("**Nucryst**") sold its North American burn dressing business and entered into an exclusive global licensing agreement with Smith & Nephew plc ("**S&N**") for the sale and marketing of Acticoat™ burn and wound care dressings.

On May 29, 2002, Westaim announced its intention to close or sell non-core assets to increase the focus of its management and financial resources on its two high-potential emerging businesses, iFire and Nucryst.

In January 2003, Westaim's board of directors retained investment bankers to undertake a review of its operations and to advise on strategic alternatives. A special committee of Westaim's board of directors was established for this purpose and led the review process. The comprehensive review reaffirmed Westaim's commitment to iFire and Nucryst.

In the fourth quarter of 2005, Nucryst completed an initial public offering of its common shares which were also listed on the NASDAQ Stock Market and the TSX. Following Nucryst's initial public offering, Westaim owned approximately 75% of the outstanding common shares of Nucryst.

In the third quarter of 2007, Nucryst signed amended agreements with S&N for the manufacture and sale of Acticoat™ products.

In April 2007, Westaim announced that it was undertaking a review of its business strategy and in the second quarter of 2007, it announced a significant reduction in staff and in research and development spending at iFire. In the fourth quarter of 2007, Westaim announced that it would actively seek a buyer for the iFire business and assets and would discontinue further development of iFire's thick film dielectric electroluminescent technology for application in the flat panel television market. Corporate management and administrative staff levels in Fort Saskatchewan and Calgary were also reduced as part of the broader reorganization.

In the first quarter of 2008, Westaim determined that maximum value would be realized by selling the individual assets of iFire including buildings, equipment and intellectual property. On October 17, 2008, Westaim announced a purchase and sale agreement for the sale of iFire's equipment, patents and intellectual property. The sale of the iFire equipment was completed later in the fourth quarter of 2008 and the sale of the patents and intellectual property was completed in the first quarter of 2009.

On October 3, 2008, Westaim announced that it had entered into a reorganization agreement under which it would acquire several closely-held businesses that provide products and services in the western Canadian construction industry. The proposed reorganization was subject to certain conditions and to approval of the shareholders of Westaim. Conditions to the reorganization were not met and, as a result, on November 4, 2008, the reorganization agreement was terminated and a shareholders' meeting called for November 21, 2008 was cancelled.

On December 1, 2008, Westaim requisitioned a special meeting of shareholders of Nucryst to consider a reduction of the stated capital of Nucryst for the purpose of distributing US$0.80 cash per common share to the shareholders of Nucryst. At a special meeting of shareholders held on February 12, 2009, shareholders approved the return of capital totaling approximately US$14.7 million which was distributed to shareholders on February 25, 2009.

On April 3, 2009, Westaim announced that it planned to pursue strategic investment opportunities designed to maximize the value of its strong balance sheet and non-cash resources. To implement this strategy, Westaim entered into a management services agreement (the "**MSA**") with Goodwood Management Inc. ("**Goodwood Management**"), an affiliate of Goodwood Inc., to manage the day-to-day affairs of Westaim and to present strategic investment opportunities for the board of directors to consider. At the time, Goodwood Inc., as portfolio manager to certain investment funds, exercised control or direction over an aggregate of 18,747,000 Westaim Shares, which represented approximately 19.9 per cent of the issued and outstanding Westaim Shares. Under the MSA, Goodwood Management provides the services of two directors, one of whom is also the President and Chief Executive Officer, as well as the services of a Chief Financial Officer. See also "*Management Services Agreement*" below.

On November 10, 2009, Nucryst entered into an asset purchase agreement with S&N under which it agreed to sell all of its operations and assets including all rights to its proprietary nanocrystalline silver technology to S&N. The sale transaction was completed on December 22, 2009. Also on November 10, 2009, a wholly-owned subsidiary of Westaim, 1499642 Alberta Ltd. ("**1499642**"), entered into an amalgamation agreement with Nucryst. Under the agreement, Nucryst agreed to amalgamate with 1499642 (the "**Amalgamation**"). Under the terms of the Amalgamation, each holder of Nucryst common shares (other than Westaim) would receive one redeemable preferred share in the capital of the amalgamated company, which would be redeemed for US$1.77 in cash upon completion of the Amalgamation. Pursuant to the Amalgamation, Westaim would receive all of the common shares of the amalgamated company. The Amalgamation was completed on February 8, 2010.

In November 2009, Westaim completed the sale of a wholly-owned subsidiary that held iFire's land and building.

In December 2009, all of the outstanding shares in the capital of Savvion (including those held by Westaim) were acquired by Progress Software Corporation, a leading software provider.

On January 25, 2010, Westaim announced that it had agreed to purchase all of the issued and outstanding shares of Jevco from KFS (the "**Acquisition**") and had arranged financing of $275 million for the purpose of completing the Acquisition. At closings held on February 9, 2010 and February 19, 2010, Westaim issued and sold, on a private placement basis, an aggregate of 550 million Subscription Receipts for aggregate gross proceeds of $275 million.

Capitalization

The following table sets forth the capitalization of Westaim as at September 30, 2009, both before and after giving effect to the conversion of the Subscription Receipts:

Designation	Authorized	As at September 30, 2009 before giving effect to the Conversion of the Subscription Receipts	As at September 30, 2009 after giving effect to the Conversion of the Subscription Receipts
		($000)	($000)
Common Shares[1]	Unlimited	$426,282 (94,220,632 shares)	$662,283 (580,367,720 shares)
Non-Voting Shares[2]	Unlimited	nil	$30,999 (63,852,912 shares)
Shareholders' Equity	n/a	$46,018	$313,018

(1) As at September 30, 2009, Westaim had outstanding options to purchase 2,913,165 Westaim Shares with a weighted average exercise price of $5.92.

(2) Does not include 10 million Non-Voting Shares issuable pursuant to the HMQ Warrants at an exercise price of $0.50 per share.

(3) The table above does not give effect to the completion of the Acquisition. For information regarding the effect of the Acquisition, see the *pro forma* financial statements of Westaim attached as Appendix F to this Information Circular.

Market for Securities

The Westaim Shares are listed and posted for trading on the TSX under the symbol "WED". The closing price of the Westaim Shares on the TSX on February 25, 2010 was $0.60. The following table sets forth the reported high and low closing prices and the aggregate volume of trading of the Westaim Shares on the TSX for the periods indicated:

Month	High	Low	Volume
2009			
January	$0.255	$0.235	2,998,470
February	$0.290	$0.245	5,186,871
March	$0.280	$0.230	9,493,557
April	$0.270	$0.245	2,453,603
May	$0.290	$0.265	2,369,336
June	$0.305	$0.275	7,485,998
July	$0.360	$0.300	4,210,918
August	$0.365	$0.325	4,647,535
September	$0.360	$0.345	2,060,326
October	$0.355	$0.350	2,772,575
November	$0.445	$0.350	9,106,890
December	$0.430	$0.405	1,208,207
2010			
January	$0.650	$0.400	10,297,500
February 1 to February 25	$0.600	$0.580	9,875,000

Management Services Agreement

Pursuant to the MSA, Goodwood Management agreed to manage the day to day affairs of Westaim and to present strategic investment opportunities to the Board for its consideration. Goodwood Management is an affiliate of Goodwood Inc., a portfolio manager to certain investment funds, which exercises control or direction over an aggregate of 18,747,000 Westaim Shares or approximately 19.9% of the outstanding Westaim Shares.

The services to be provided by Goodwood Management include the following: (a) implementing Board decisions; (b) complying with Westaim's strategic plan, business plan and budget; (c) providing all internal accounting, audit and legal services; (d) providing office facilities, supplies and services; (e) providing services of certain officers and directors of Westaim; (f) organizing and holding meetings of the Board and of the Shareholders; (g) authorizing payment of corporate expenses; (h) negotiating contracts with third party service providers and banks; (i) maintaining corporate records; (j) determining the assets of Westaim to be managed by Goodwood Inc.; (k) preparing all public disclosure documents; and (l) performing such other managerial and administrative services or such other duties as may be reasonably required for the ongoing business and administration of Westaim.

In consideration of the services provided by Goodwood Management to Westaim pursuant to the MSA, Westaim has agreed to pay to Goodwood Management: (a) a monthly services fee equal to 0.1667% of Westaim's consolidated net book value (the "**Services Fee**"); and (b) an annual incentive fee (the "**Incentive Fee**") of 20% of Westaim's consolidated net income before taxes (the "**NIBT**"), provided that the NIBT for a fiscal year divided by the average of Westaim's consolidated net book values (the "**Average CNBV**") as at the last day of each calendar quarter of the year (such quotient being referred to herein as the "**Return**") is greater than 10%. In the event that the Return is greater than 8% but less than or equal to 10%, the Incentive Fee shall be equal to the NIBT minus the product of the Average CNBV multiplied by 8%. If the Return is equal to or less than 8%, no Incentive Fee shall be payable. If in any year no Incentive Fee is payable because the Return for such year was less than 8%, Goodwood Management will be required to make up any shortfall in the Return for such year prior to any Incentive Fee being payable in subsequent years.

While the MSA was considered to be appropriate for a company of the size and focus of Westaim at the time of its execution, in connection with its consideration of the Acquisition and the Financing, the Board considered it prudent to evaluate whether it would continue to be appropriate following the completion of the Acquisition. Accordingly, Mr. Ian W. Delaney, on behalf of the independent members of the Board and in consultation with Mr. Brian Gibson, Senior Vice President, Public Equities of AIMCo, entered into discussions with Messrs. MacDonald and Puccetti, on behalf of Goodwood Management, with a view to restructuring the terms of the MSA. In this regard, the parties have agreed in principle and subject to the execution of a definitive amending agreement, to amend the MSA by (i) eliminating the Incentive Fee entirely and (ii) changing the Services Fee from 2% (annually) of Westaim's consolidated net book value to a fixed fee (the "**Revised Services Fee**") that will be determined annually by an independent committee of the Board based on the recommendations of an independent compensation consultant. The amount of the Revised Services Fee will be designed to compensate Goodwood Management for the time and attention of its officers and employees incurred in furtherance of Westaim's business as well as for the office space, equipment, supplies and other facilities provided or made available by Goodwood Management to Westaim. Goodwood Management will also be entitled to participate in an annual incentive bonus plan for the purpose of recognizing the contribution of Goodwood Management to Westaim's business and affairs over the preceding year.

In addition to the foregoing, in connection with its annual meeting expected to occur in May 2010, it is expected that Westaim will submit to its Shareholders for approval a comprehensive share compensation plan which will, among other things, provide for the granting of stock options, the issuance of restricted stock units ("**RSUs**") and/or deferred stock units ("**DSUs**") and the implementation of a share purchase plan (the "**Combined Plan**"). The Combined Plan is expected to replace Westaim's current compensation plans. Under the Combined Plan, it is expected that a pool of stock options, RSUs and/or DSUs will be available to the directors, senior officers and employees of Westaim and its subsidiaries as well as to certain designated service providers including Goodwood Management and/or its officers and employees.

The particulars of the Revised Services Fee, the annual incentive bonus plan and the Combined Plan have not yet been finalized. Such particulars will be determined by an independent committee of the Board and Goodwood

Management with input from AIMCo. Details of the Revised Services Fee, the annual incentive bonus plan and the Combined Plan as well as any grants of stock options, RSUs or DSUs under the Combined Plan are expected to be disclosed in connection Westaim's annual meeting.

Pro Forma Consolidated Financial Statements

Pro forma consolidated financial statements of Westaim for the year ending December 31, 2008 and for the nine-month period ending September 30, 2009 are attached at Appendix F. Such consolidated financial statements give effect to Financing and the Acquisition, in each case as if they had taken place as at the date of such pro forma consolidated financial statements.

INFORMATION CONCERNING JEVCO

Jevco (also referred to as the "**Company**") provides specialty insurance for individuals and businesses. Jevco's primary business is the insuring of drivers who do not qualify for standard automobile insurance coverage and providing insurance for recreational vehicles such as motorcycles, snowmobiles and all terrain vehicles (ATVs).

Jevco's vision is to be a first choice specialty insurer while striving to become a recognized alternative to the large players in certain insurance markets. Established in 1980, Jevco is an open market company that provides specialized insurance.

Jevco operates in Canada, distributing its insurance products through a network of independent brokers to both individual and corporate customers. The insurance products offered by Jevco consist of (a) non-standard automobile insurance, (b) insurance for recreational vehicles and motorcycles in Ontario, Quebec and Alberta, and ATV and snowmobile insurance in Quebec, (c) Quebec standard automobile insurance, (d) commercial automobile insurance, (e) property and liability insurance, and (f) surety products.

Commutation, Business Transfer and Assumption Reinsurance Transactions

Effective October 1, 2009, Jevco completed several significant transactions that, together, resulted in a material increase in the size of Jevco's business. First, Jevco commuted its reinsurance treaties with two sister companies owned by KFS, namely, Kingsway Reinsurance (Bermuda) Ltd. ("**KRL**") and Kingsway General Insurance Company ("**KGIC**"). Subsequent to the commutation of the reinsurance treaties with KRL and KGIC, but effective October 1, 2009, Jevco entered into a Business Transfer Agreement and an Assumption Reinsurance Agreement with KGIC pursuant to which Jevco assumed all the policy liabilities and supporting assets of KGIC and purchased certain other assets of KGIC.

The transactions were effective as of October 1, 2009 in accordance with the terms of the Business Transfer Agreement, the Assumption Reinsurance Agreement and the Commutation and Release Agreement between Jevco and KGIC, and the Commutation and Release Agreement between Jevco and KRL and the Commutation and Release Agreement between KGIC and KRL.

Pursuant to the Assumption Reinsurance Agreement dated October 1, 2009 between KGIC and Jevco, Jevco assumed all insurance policies issued or assumed by KGIC, including all liabilities of KGIC under such policies. Pursuant to the Business Transfer Agreement, Jevco also acquired various other assets and liabilities including the broker agreements, an office lease, fixed assets, bank accounts, tax receivables and a partnership interest with respect to the office building. The consideration paid for the assumed insurance business was the assumption by Jevco of policy liabilities in an amount equal to the value of the assets less a reinsurance commission in the amount of $5 million.

KGIC's business was similar to the business of Jevco described herein and strengthened Jevco's position in the Ontario non-standard automobile insurance market, the motorcycle insurance business in Ontario and Alberta and in other lines of business.

Except (i) as otherwise specified in this Information Circular and (ii) in respect of information provided for or as at a period prior to October 1, 2009, information provided with respect to Jevco includes information with respect to the assumed assets and liabilities of KGIC.

Industry Overview

The insurance industry is price competitive in all markets in which Jevco competes. Jevco strives to employ disciplined underwriting practices with the objective of rejecting underpriced risks including terminating or repricing unprofitable business and focusing on good risks within specialty markets where limited competition allows for a good spread of risk.

Overall Jevco competes on the basis of numerous factors such as distribution strength, pricing, agency and broker relationships, service, reputation and financial strength. Many of the Company's larger competitors have greater financial and other resources than Jevco does, more favourable ratings and offer more diversified insurance coverages.

Competitors include other companies that, like Jevco, serve the independent broker market, as well as companies that sell insurance directly to customers. Direct underwriters typically operate in standard lines of personal automobile and property insurance where they have certain competitive advantages over brokerage underwriters. These advantages include increased name recognition obtained through extensive media advertising, loyalty of the customer base to the insurer rather than to an independent agency and, potentially, reduced policy acquisition costs and increased customer retention.

Jevco's niche markets attract competition from time-to-time from new entrants. In some cases, these entrants may, because of inexperience, desire for growth or other reasons, price their insurance below the rates that Jevco believes provide an acceptable premium for the related risk. Jevco believes that it is generally not in the Company's best interest to compete solely on price, and may from time-to-time experience a loss of market share during periods of intense price competition or "soft" market conditions.

Jevco believes that its ability to compete successfully in its industry will be based on its:

- ability to identify specialty markets that are more likely to produce an underwriting profit;
- disciplined underwriting approach;
- diversified products and geographic platforms;
- prudent claims management;
- best practice approach to reserving for unpaid claims; and
- services and competitive commissions it provides to its independent brokers.

Any new, proposed or potential legislative or industry developments could increase competition in Jevco's markets or reduce its ability to price risks appropriately. New competition from these developments could cause the prices for insurance to fall, which would adversely affect the Company's underwriting profitability.

Jevco's underwriting philosophy stresses receiving an adequate premium and spread of risks for the business the Company accepts. Rather than attempt to select individual risks, Jevco seeks to set premium rates at levels that should generate profitable underwriting. Once Jevco has set premium rates that it believes are adequate, Jevco is generally willing to accept as much business within its underwriting guidelines as is available. Jevco regularly monitors premium adequacy and makes adjustments as required. Jevco does not reduce pricing when competitors offer to underwrite certain classes of business at premium rates that are below what Jevco believes are acceptable levels. Instead, Jevco elects to maintain premium per risk rather than write a large number of risks at premiums that it considers inadequate. In such instances, premium volumes may decrease. Underwriting profitability is primarily dependent on the claims amounts incurred on the policies sold in relation to net premiums earned. At the time premium levels are established, the claims amounts to be incurred on the policies sold are unknown and the process for estimating claims is inherently uncertain and imprecise.

Jevco regularly considers and implements various initiatives to address adverse profitability trends in its business. These initiatives vary, but include tightening of underwriting requirements, price increases, termination of underperforming programs, policy non-renewals (where permitted) and other administrative changes. Many of its lines of insurance must have their premium rates approved by the applicable insurance regulatory authority. Once these rates are approved, an insurance company is prohibited from altering them without regulatory approval for new rates.

For most lines Jevco maintains an "open market" approach which allows brokers to place business with Jevco with no minimum commitments and provides the Company with a broad, flexible and easily scalable distribution network. Jevco focuses on developing and maintaining strong relationships with its independent brokers. Jevco continually strives to provide excellent service and to communicate with such brokers through a variety of channels as the Company looks for opportunities to increase efficiency and reduce operating costs.

Insurance Operations

Personal Lines

Personal Automobile

Jevco is a leading writer of personal non-standard automobile insurance in the Province of Ontario and writes non-standard policies in Alberta and standard and non-standard automobile insurance in the Province of Quebec. The Company began writing non-standard auto insurance in Ontario effective October 1, 2009 after assuming the policy liabilities of KGIC. Non-standard automobile insurance is principally provided to individuals who do not qualify for standard automobile insurance coverage because of their payment history, driving record, vehicle type or other factors. Such drivers typically represent higher than normal risks and pay higher insurance rates for comparable coverage.

Non-standard automobile insurance is generally accompanied by increased loss exposure, higher claims experience and a higher incidence of consumer and service provider fraud. These factors, however, are mitigated to some extent by higher premium rates, the tendency of high-risk individuals to own low value automobiles, and generally lower limits of insurance coverage as insureds tend to purchase coverage at the minimum prescribed limits. The insuring of non-standard drivers is often transitory. When their driving records improve, insureds may qualify to obtain insurance in the standard market at lower premium rates. As a result, Jevco's non-standard automobile insurance policies experience a retention rate that is lower than that experienced for standard market risks. Most of the insureds pay their premiums on a monthly installment basis and Jevco typically limits its risk of non-payment of premiums by requiring a deposit for future insurance premiums and the prepayment of subsequent installments.

Automobile insurers are generally required to participate in various involuntary residual market pools and assigned risk plans that provide automobile insurance coverage to individuals or other entities that are unable to purchase such coverage in the voluntary market. For example, in Ontario and Alberta every insurer is required to be a member of those provinces' Facility Association pools, which were created to ensure the availability of automobile insurance to every motorist. Facility Association pools select designated carriers to provide coverage and claims handling services to drivers who are unable to purchase insurance through private carriers, in return for an administration fee. Participation in these pools in most jurisdictions is in proportion to the writing of automobile business in that jurisdiction.

Jevco sells both standard and non standard automobile insurance in Quebec. Standard automobile insurance provides coverage for standard risk drivers of private passenger automobiles. Premiums for these types of policies are usually lower than premiums charged in the non-standard market for comparable coverages. The frequency and severity of accidents and other loss events, however, are also typically lower. The retention on the non-standard business in Quebec is higher than in Ontario because, in Quebec, once a customer's driving record improves Jevco can offer standard coverage.

Motorcycle and Recreational Vehicles

Jevco writes motorcycle insurance in the provinces of Ontario, Alberta and Quebec and is the leading writer of motorcycle insurance in Canada. Motorcycle insurance consists primarily of liability, physical damage and personal injury insurance coverages. Jevco also writes insurance for ATVs and snowmobiles in the Province of Quebec.

Effective October 1, 2009, the Company assumed the policy liabilities associated with KGIC's motorcycle business in Ontario and Alberta. Also, on October 1, 2009, Jevco implemented new underwriting and pricing methodology (consistent with current Jevco standards) for all KGIC policy renewals. As a result, it is expected that Jevco will retain a portion, but not all of the policies assumed from KGIC. This was done in an effort to maintain the historic underwriting profitability of this line of business for Jevco.

Commercial Lines

Surety

Jevco writes contract, commercial, fiduciary and customs and excise bonds. Contract bonds (which include performance and labour and material) guarantee the performance of a construction contract while commercial bonds, which are primarily license type bonds, satisfy the needs of provincial governments who require contractors to be licensed in the province in which they operate. Customs and excise bonds provide security for the benefit of the Canada Revenue Agency in the event there is a failure to remit payment of any duties and taxes.

Commercial Auto

Jevco focuses on specialty or niche types of products such as taxi, driver training, light commercial business vehicles, short haul or trans-Canada trucking risks and other specialty risks such as sand and gravel, logging and tow trucks. Its strategy is to operate as a niche underwriter of classes that are more difficult to underwrite. Jevco sells largely through brokers who have larger books of business with it or who sell other lines of business such as surety or property and liability.

Property and Liability

This business focuses primarily on insuring against damage to property and accidents that may occur on such property. It consists of risks that are either difficult to place due to class, age, location or occupancy of the risk or are associated with risks within the Company's core lines. These risks are characterized by high premiums and limited coverage. Jevco's specialty property business includes insurance for restaurants, rental properties and garages.

Investment Operations

Overview and Strategy

Jevco manages its investment portfolio to support the liabilities of the insurance operations, to preserve capital and to generate investment returns. Jevco invests predominantly in corporate and government bonds with relatively short durations. The securities are managed by third-party investment management firms and the

Company monitors their performance and their compliance with both their individual mandate and the Company's investment policies and guidelines. Jevco considers its financed premium receivables to be a part of its investment portfolio.

Jevco's investment guidelines stress the preservation of capital, market liquidity to support payment of liabilities and the diversification of risk.

In accordance with the preservation of capital as a key component of the investment policy, Jevco undertook the strategy in early 2009 of liquidating substantially all of its common share equity portfolio with the objectives of reducing the volatility of the balance sheet and protecting the Company's capital. The proceeds from the disposal were reinvested in high quality fixed income securities.

Investment Portfolio Composition, Income and Risks

Detailed information relating to Jevco's investment portfolio, including portfolio composition, income and related risks are set out in the Jevco Management Discussion and Analysis for the year ended December 31, 2009 and 2008, which is filed with the Commissions on SEDAR (www.sedar.com) and is incorporated by reference into this Information Circular.

Provision for Unpaid Claims

A provision for unpaid claims includes several components: a provision for unpaid claims based on estimated liability on individual reported claims (more commonly known as case reserves), an estimated provision for claims that have not yet been reported and expected future development on case reserves, collectively known as the incurred but not reported claims provision ("**IBNR**"). The provision for unpaid claims also includes an estimate of allocated loss adjustment expenses (primarily defence costs) and unallocated loss adjustment expenses (primarily the adjustment handling costs by claims personnel) which Jevco expects to incur in the future.

The establishment of a provision for unpaid claims represents management's best estimate of the ultimate cost of both reported but unsettled claims and unreported claims. The provision for unpaid claims does not represent an exact calculation of the liability but instead represents management's best estimate at a given accounting date utilizing actuarial and statistical procedures. The provision for unpaid claims represents the discounted estimates of the ultimate net cost of all unpaid claims and loss adjustment expenses plus provisions for adverse deviation. Jevco's management regularly reviews its estimates and adjusts as experience develops and new information becomes available. In establishing the provision for unpaid claims, the Company also takes into account estimated recoveries, reinsurance, salvage and subrogation.

The process for establishing the provision for unpaid claims reflects the uncertainties and significant judgmental factors inherent in predicting future results of both known and unknown claims. As such, the process is inherently complex and imprecise and estimates are constantly refined. The process of establishing the provision for unpaid claims relies on the judgement and opinions of a large number of individuals, including the opinions of the external independent Appointed Actuary, Towers Watson & Co.

Factors affecting the provision for unpaid claims include the continually evolving and changing regulatory and legal environments, actuarial studies, professional experience and the expertise of Jevco's claims personnel and independent adjustors retained to handle individual claims. A change in claims handling procedures and changes in individuals involved in the reserving process can also affect the provision for unpaid 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, all affect the provision for unpaid claims.

In addition, time can be a critical part of the provision's determination, because the longer the span between the incidence of a loss and the payment or claim settlement, the more variable the ultimate settlement amount can be.

Accordingly, short-tailed claims, such as property claims, tend to be more predictable than long-tailed claims such as general liability and automobile accident benefit claims. Long-tailed claims are less predictable, whereas short-tail claims are reported and settled quickly, resulting in less estimation variability. The Company does not have exposure to asbestos or environmental liability other than pollution coverage for oil spills as required for trucking insurance. Its provision for unpaid claims is discounted to reflect the time value of expected future payouts of claims.

Any adjustments are reflected in the consolidated statement of operations in the period in which they become known and are accounted for as changes in estimates. Even after such adjustments, ultimate liability or recovery may exceed or be less than the revised estimates. A change that increases the provision for unpaid claims is known as an unfavourable development and will reduce net income.

Management has the responsibility to ensure that the provision for unpaid claims, including IBNR, is appropriate. Management establishes, maintains and evaluates its respective provisions for unpaid claims for statutory reporting purposes and evaluates all of its respective policy coverages and paid and open claim level data to ascertain claim frequency and severity trends, as well as the effects, if any, inflation or changes in operating structure or process may have on future loss settlements. Management reviews the information by its product and geographic regions to monitor emergence of any patterns. Management incorporates all of the above information to record its best estimate of the provision for unpaid claims. Management also uses actuarial and statistical procedures to allocate the IBNR by accident years and coverages, programs and/or segments.

The ICA requires the Company to have an Appointed Actuary. Pierre Laurin, an external independent actuary from Towers Watson & Co., acts as the Appointed Actuary. The Appointed Actuary ascertains whether the provision for unpaid claims as established by management is reasonably stated.

The Company has established a policy whereby, to the extent that management's estimate of its gross provision for unpaid claims at December 31 of each year is less than the actuarial estimate as recommended by its Appointed Actuary, the Company requires management to increase the gross provision for unpaid claims to an amount that is not less than the actuarial estimate as recommended by the Appointed Actuary. As part of the reserving process, the Appointed Actuary performs various quarterly reviews throughout the calendar year to assess whether the actual results of the operating insurance company are materially different than what was expected based on loss development factors previously established.

Reinsurance

Jevco purchases reinsurance from third parties in order to reduce its liability on individual risks and its exposure to catastrophic events. Reinsurance is insurance purchased by one insurance company from another for part of the risk originally underwritten by the purchasing (ceding) insurance company. The practice of ceding insurance to reinsurers allows an insurance company to reduce its exposure to loss by size, geographic area and type of risk or on a particular policy. An effect of ceding insurance is to permit an insurance company to write additional insurance for risks in greater number or in larger amounts than it would otherwise insure independently, having regard to its statutory capital, risk tolerance and other factors.

Reinsurance ceded does not relieve the Company of its ultimate liability to its insureds in the event that any reinsurer is unable to meet its obligations under its reinsurance contracts. Jevco therefore enters into reinsurance contracts with only those reinsurers which it believes have sufficient financial resources to provide the requested coverage. Reinsurance treaties are generally subject to cancellation by Jevco's reinsurers or Jevco on the anniversary date and are subject to renegotiation annually. Jevco regularly evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk to minimize its exposure to significant losses as a result of the insolvency of a reinsurer. The Company believes that the amounts it has recorded as reinsurance recoverables are appropriately established.

Additional information relating to Jevco is set out in Jevco's management discussion and analysis for the years ended December 31, 2009 and 2008, which is filed with the Commissions on SEDAR (www.sedar.com) and is incorporated by reference into this Information Circular.

Employees

As at December 31, 2009, Jevco had approximately 500 employees, of whom approximately 270 were located in Ontario, 200 in Quebec and 30 in Alberta and British Columbia. Jevco believes its relationship with its employees is good and Jevco has never experienced a work stoppage.

Dividends or Distributions

During the three most recently completed financial reports, Jevco paid no dividends other than in 2007, during which Jevco declared and paid a dividend of $25 million on its outstanding common shares.

Jevco funds its payment of dividends primarily through its premium and investment income. Jevco is required to maintain adequate capital and liquidity pursuant to the ICA. In addition, any dividend or other distribution of excess capital requires prior approval of OSFI. It is anticipated that Jevco will pay a dividend immediately prior to the closing of the Acquisition. See "*The Acquisition Agreement – Purchase Price*".

Legal Proceedings

In the ordinary course of business, Jevco is, from time-to-time, subject to various claims and legal proceedings, including class actions. It is also subject to claims and legal proceedings alleging bad faith or extra contractual damages. While it is not possible to estimate the final outcome of these various proceedings at this time, Jevco does not believe the outcome of such proceedings will have a material impact on its financial condition or results of operations.

Jevco's Financial Statements and Management's Discussions and Analysis

Jevco's audited financial statements, the notes thereto and the auditors' report thereon for the year ended December 31, 2009 with comparative figures for 2008 are set out at Appendix C.

The following documents of Jevco, filed with the Commissions by Westaim concurrently with the filing of this Information Circular, are specifically incorporated by reference in and form a part of this Information Circular and are available on SEDAR (www.sedar.com):

(a) Jevco's management discussion and analysis for the year ended December 31, 2009;

(b) Jevco's audited financial statements, the notes thereto and the auditors report thereon for the years ended December 31, 2008 and 2007; and

(c) Jevco's management discussion and analysis for the year ended December 31, 2008.

KGIC's Financial Statements and Management's Discussion and Analysis

KGIC's audited financial statements, the notes thereto and the auditors' report thereon for the year ended December 31, 2008 with comparative figures for 2007 are attached at Appendix D.

KGIC's unaudited interim financial statements, and the notes thereto for the nine months ended September 30, 2009 with comparative figures for 2008 are attached at Exhibit E.

The following documents of KGIC, filed with the Commissions by Westaim concurrently with the filing of this Information Circular, are specifically incorporated by reference in and form a part of this Information Circular and are available on SEDAR (www.sedar.com):

(a) KGIC's management discussion and analysis for the nine month period ended September 30, 2009;

(b) KGIC's management discussion and analysis for the years ended December 31, 2008;

(c) KGIC's audited financial statements, the notes thereto and the auditors report thereon for the years ended December 31, 2007 and 2006; and

(d) KGIC's management discussion and analysis for the years ended December 31, 2007.

Directors and Officers

Assuming completion of the Acquisition, the following table and the notes thereto set out the name and province of residence of each proposed director and executive officer of Jevco, their respective principal occupations during the five preceding years and the number and approximate percentage of Westaim Shares that each director or executive officer (together with their respective associates) is expected to beneficially own, directly or indirectly, or over which control or direction is expected to be exercised by each such person assuming the conversion of all of the Subscription Receipts.

Name and Location of Residence	Existing or Proposed Position or Office with Jevco	Principal Occupation During Past 5 Years	Number of Westaim Shares / Class A Subscription Receipts Beneficially Owned, Directly or Indirectly, or over which Control or Direction is Exercised[1]	Percentage of Outstanding Westaim Shares[2]
William R. Andrus[3] Ontario, Canada	Director	President of Hartford Consulting Services, Inc.	1,000,000 Subscription Receipts	0.17%
Ian W. Delaney[4] Ontario, Canada	Director	Chairman and Chief Executive Officer of Sherritt International Corporation	579,106 Westaim Shares/6,000,000 Subscription Receipts	1.13%
John W. Gildner[5] Ontario, Canada	Director	Independent businessman since January 2009; prior thereto employed by CIBC World Markets from 1983 to December 2008, most recently as Managing Director and global head of the equity proprietary trading group	465,000 Westaim Shares/2,000,000 Subscription Receipts	0.42%
Scot Hopkins Ontario, Canada	Chief Operating Officer	Chief Operating Officer of Jevco since October 2009; prior thereto Chief Financial Officer of KGIC commencing July 2007; prior thereto President of GeniSys Management Solutions	300,000 Subscription Receipts	0.05%
Robert T. Kittel Ontario, Canada	Director	Associate Portfolio Manager of Goodwood Inc.	400,000 Subscription Receipts	0.07%
J. Cameron MacDonald[6] Ontario, Canada	Director	President and Chief Executive Officer of Goodwood Inc.	1,200,000 Subscription Receipts	0.21%
Jean La Couture[7] Quebec, Canada	Director	President of Huis Clos Ltee.	200,000 Westaim Shares / 200,000 Subscription Receipts	0.07%

Name and Location of Residence	Existing or Proposed Position or Office with Jevco	Principal Occupation During Past 5 Years	Number of Westaim Shares / Class A Subscription Receipts Beneficially Owned, Directly or Indirectly, or over which Control or Direction is Exercised(1)	Percentage of Outstanding Westaim Shares(2)
Serge Lavoie(8) Quebec, Canada	President, CEO and Director	President and Chief Executive Officer of Jevco since October 2007; prior thereto Vice President and General Manager of Jevco	1,050,000 Subscription Recipts	0.18%
Jean-Guy Leclerc Quebec, Canada	Chief Financial Officer	Chief Financial Officer of Jevco since July 2006; prior thereto Vice President – Finance of Jevco	100,000 Subscription Receipts	0.02%
J. Brian Reeve(9) Ontario, Canada	Director	Partner of Cassels Brock & Blackwell LLP	2,000,000 Subscription Receipts	0.34%
Bruce V. Walter(10) Ontario, Canada	Director	Chief Executive Officer of Four Mile Investments Inc. since August 1993; President and Chief Executive Officer of Dynatec Corporation from January 2005 to June 2007	907,300 Westaim Shares/ 2,000,000 Subscription Receipts	0.50%

Notes:

1. Includes Class A Subscription Receipts held by the named directors and executive officers and their respective associates.
2. Assuming 580,367,720 Westaim Shares outstanding following the conversion of (i) 254 million Class A Subscription Receipts into Westaim Shares, (ii) 232,147,088 Class B Subscription Receipts into Westaim Shares and (iii) 63,852,912 Class B Subscription Receipts into Non-Voting Shares.
3. Director of KFS since 2009.
4. Currently non-executive chairman of Westaim and a director of Westaim since 1996.
5. Director of Westaim since 2009.
6. Currently President and Chief Executive Officer of Westaim and a director of Westaim since 2008.
7. Director of Jevco since 2009.
8. Director of Jevco since 2006.
9. Director of KFS from 2002-2009 and of Jevco from 1997-2009.
10. Director of Westaim since 1997.

Auditor

The auditor for Jevco's financial statements for the years ended December 31, 2009, 2008 and 2007 was KPMG LLP. KPMG LLP's address is Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario M5H 2S5. KPMG LLP has informed the Audit Committee of Westaim that it was not engaged to perform the procedures set forth in the CICA Handbook relating to Involvement with Offering Documents of Public and Private Entities. Accordingly, KPMG LLP has disclaimed any responsibility with respect to this Information Circular and has advised that it does not consent to the use of its audit report with respect to such financial statements in the Information Circular.

Material Contracts

Jevco is party to a management services agreement with KFS pursuant to which KFS provides certain management services to Jevco. It is a condition to the completion of the Acquisition that such agreement will be terminated prior to closing of the Acquisition.

RISK FACTORS

Investors should carefully consider the risks described below and all other information contained in this Information Circular, the documents incorporated by reference, as well as the financial statements and accompanying notes. The risks and uncertainties described below are those believed to be material, but they may not be the only ones faced by Westaim or Jevco. If any of the following risks, or any other risks and uncertainties that have not yet been identified by Westaim or Jevco or that Westaim or Jevco currently considers not to be material, actually occur or become material risks, the business, prospects, financial condition, results of operations and cash flows of Westaim and/or Jevco could be materially and adversely affected.

See also "*Cautionary Statements Regarding Forward Looking Information*" above.

Risk Factors Related to Jevco

Financial Risk

Difficult conditions in the economy may materially adversely affect Jevco's business, results of operations, and statement of financial position and these conditions may not improve in the near future.

Current market conditions and the instability in the global credit markets present risks and uncertainties for Jevco's business. In particular, deterioration in the public debt and equity markets could lead to investment losses and an erosion of capital as a result of a reduction in the fair value of investment securities.

The severe downturn in the public debt and equity markets, reflecting uncertainties associated with the mortgage crisis, worsening economic conditions, widening of credit spreads, bankruptcies and government intervention in large financial institutions contributed to significant realized and unrealized losses in Jevco's investment portfolio. Depending on market conditions going forward, Jevco could incur substantial realized and unrealized losses in future periods, which could have an adverse impact on its results of operations and financial condition. Jevco could also experience a reduction in capital below levels required by the regulators in the jurisdictions in which it operates. Certain trust accounts and letters of credit for the benefit of related companies and third parties have been established with collateral on deposit under the terms and conditions of the relevant trust and letter of credit agreements. The value of collateral could fall below the levels required under these agreements.

Financial disruption or a prolonged economic downturn may materially and adversely affect Jevco's business.

Worldwide financial markets have recently experienced extraordinary disruption and volatility, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. Moreover, many companies are experiencing reduced liquidity and uncertainty as to their ability to raise capital. In the event that these conditions persist or result in a prolonged economic downturn, Jevco's results of operations, financial position and/or liquidity could be materially and adversely affected. These market conditions may affect Jevco's ability to access debt and equity capital markets. In addition, as a result of recent financial events, Jevco may face increased regulation.

Jevco may not be able to realize its investment objectives, which could significantly reduce Jevco's net income.

Jevco depends on income from its investment portfolio for a substantial portion of its earnings. A significant decline in investment yields in Jevco's investment portfolio or an impairment of securities that Jevco owns could have a material adverse effect on its business, results of operations and financial condition. Jevco currently maintains and intends to continue to maintain an investment portfolio comprising primarily fixed income securities. Due to fluctuations in the yields on fixed income securities, Jevco faces reinvestment risk as these securities mature because the funds may be reinvested at rates lower than those of the maturing securities.

Jevco's ability to achieve its investment objectives is affected by general economic conditions that are beyond its control. General economic conditions can adversely affect the markets for interest rate sensitive securities, including the extent and timing of investor participation in such markets, the level and volatility of interest rates and, consequently, the value of fixed income securities.

In addition, changing economic conditions can result in increased defaults by the issuers of securities that Jevco owns. Interest rates are highly sensitive to many factors, including monetary policies, domestic and international economic and political conditions and other factors beyond Jevco's control. General economic conditions, stock market conditions and many other factors can also adversely affect the securities markets and, consequently, the value of the securities Jevco owns. Jevco may not be able to realize its investment objectives, which could reduce its net income significantly.

Jevco's liquid assets may prove to be insufficient to meet future obligations.

Jevco manages its cash and liquid assets in an effort to ensure there is sufficient cash to meet all of its financial obligations as they fall due. As a federally regulated insurance company, Jevco is required to maintain an asset base comprised of liquid securities that can be used to satisfy its ongoing commitments. Jevco believes that internally generated funds provide the financial flexibility needed to fulfill cash commitments on an ongoing basis. However, there can be no assurances that Jevco's cash on hand and liquid assets will be sufficient to meet any future obligations that may come due.

Strategic Risk

The insurance and related industries and businesses in which Jevco operates may be subject to periodic negative publicity which may negatively impact its financial results.

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

The highly competitive environment in which Jevco operates could have an adverse effect on its business, results of operations and financial condition.

The markets in which Jevco operates are highly competitive. Jevco competes with major insurers, many of which have more financial, marketing and management resources than Jevco. There may also be other companies of which Jevco is not aware that may be planning to enter the insurance industry. Insurers in Jevco's markets generally compete on the basis of price, consumer recognition, coverages offered, claims handling, financial stability, customer service and geographic coverage. Although Jevco's pricing is influenced to some degree by that of Jevco's competitors, Jevco generally believes that it is not in its best interest to compete solely on price, and may from time-to-time experience a loss of market share during periods of intense price competition. Jevco's business could be adversely impacted by the loss of business to competitors offering competitive insurance products at lower prices. This competition could affect Jevco's ability to attract and retain profitable business.

In Jevco's non-standard automobile business, Jevco competes with both large national underwriters and smaller regional companies. Jevco's competitors include other companies that, like Jevco, serve the independent agency market, as well as companies that sell insurance directly to customers. Direct underwriters may have certain competitive advantages over agency underwriters, including increased name recognition, loyalty of the customer base to the insurer rather than to an independent agency and reduced costs to acquire policies. Any new, proposed or potential legislative or industry developments could further increase competition in Jevco's markets. New competition from these developments could cause the demand for Jevco's products to decrease, which would adversely affect Jevco's profitability.

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

If Jevco is unable to maintain its current claims-paying ratings, Jevco's ability to write insurance and to compete with other insurance companies may be adversely impacted.

Third party rating agencies assess and rate the claims-paying ability of insurers and reinsurers based upon criteria that they have established. Periodically these rating agencies evaluate Jevco to confirm that it continues to meet the criteria of the ratings previously assigned to it. Financial strength ratings are an important factor in establishing the competitive position of insurance companies and may be expected to have an effect on an insurance company's premiums.

Jevco is rated B-(Fair) by A.M. Best, which issues independent opinions of an insurer's financial strength and its ability to meet policyholder obligations. Several of the ratings for companies owned by KFS are a result of downgrades by A.M. Best announced on November 24, 2009. Jevco believes that this rating was predicated on Jevco's affiliation with KFS and the execution risk involved in the sale of Jevco by KFS.

There can be no assurances that A.M. Best will not further downgrade Jevco's ratings in the future. If Jevco is unable to maintain its current ratings, its ability to write insurance business and compete with other insurance companies may be adversely affected. Rating agencies evaluate insurance companies based on financial strength and the ability to pay claims, factors that are more relevant to policyholders than to investors. Financial strength ratings by rating agencies are not ratings of securities or recommendations to buy, hold or sell any security and should not be relied upon as such.

Jevco's business could be adversely affected as a result of changing political, regulatory, economic or other influences.

The insurance industry is subject to changing political, economic and regulatory influences. These factors affect the practices and operation of insurance and reinsurance organizations. The governments in jurisdictions in which Jevco operates have periodically considered programs to reform or amend their respective insurance and reinsurance systems. Recently, the insurance and reinsurance regulatory framework has been subject to increased scrutiny in many jurisdictions.

Changes in current insurance regulation may include increased governmental involvement in the insurance industry, initiatives aimed at premium controls, changes to minimum capital requirements, changes in loss transfer legislation, or initiatives that may otherwise change the business and economic environment in which insurance industry participants operate. Historically, the insurance industry has been under pressure from time-to-time from regulators, legislators or special interest groups to reduce, freeze or set rates at levels that are not necessarily related to underlying costs or risks, including initiatives to roll back automobile and other personal line rates. These changes may limit Jevco's ability to price insurance adequately and could require

Jevco to discontinue unprofitable product lines, make unplanned modifications to its products and services, or result in delays or cancellations of sales of its products and services. Jevco cannot predict the future impact of changing laws or regulations on its operations and any changes could have a material adverse effect on its results of operations or financial condition.

Operational Risk

Jevco's provision for unpaid claims may be inadequate, which would result in a reduction in its net income and might adversely affect its financial condition.

Jevco's provisions for unpaid claims do not represent an exact calculation of its actual liability, but are estimates involving actuarial and statistical projections at a given point in time of the expected cost of the ultimate settlement and administration of known and unknown claims incurred prior to period end. The process for establishing the provision for unpaid claims reflects the uncertainties and significant judgmental factors inherent in estimating future results of both known and unknown claims and as such, the process is inherently complex and imprecise. These estimates are based upon various factors, including:

- actuarial projections of the cost of settlement and administration of claims reflecting facts and circumstances then known;
- estimates of future trends in claims severity and frequency;
- judicial theories of liability;
- variability in claims handling procedures;
- economic factors such as inflation;
- judicial and legislative trends, and actions such as class action lawsuits and judicial interpretation of coverages or policy exclusions; and
- the level of insurance fraud.

Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact Jevco's ability to accurately assess the risks of the policies that it writes. In addition, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer and additional lags between the time of reporting and final settlement of claims.

Jevco regularly refines its estimates in an ongoing process as claims are reported and settled. The following factors may have a substantial impact on Jevco's future claims incurred and reported:

- the amounts of claims payments;
- the expenses that Jevco incurs in resolving claims;
- legislative and judicial developments;
- changes in economic conditions, including inflation; and
- provision for adverse deviation and discount rate assumptions.

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

Actual claims and claim adjustment expenses that Jevco incurs under insurance policies that Jevco writes may deviate, perhaps substantially, from the amounts of provisions reflected in its financial statements. To the extent that actual claims incurred exceed its expectations and exceed the provision for unpaid claims reflected on Jevco's financial statements, Jevco will be required to reflect those changes by increasing its provision for unpaid claims. In addition, government regulators could require that Jevco increase its provisions if they determine that Jevco's provisions for unpaid claims are understated. When Jevco increases the provision for unpaid claims, its pre-tax increases to the provision for unpaid claims cause a reduction in its surpluses which could cause a downgrading of its ratings. Any such downgrade could, in turn, adversely affect Jevco's ability to sell insurance policies. See the risk factors regarding claims-paying ratings above for a more detailed discussion of the impact of a ratings downgrade.

Jevco relies on independent brokers and is exposed to risks in connection with such reliance.

Jevco markets and distributes insurance products through a network of independent brokers across Canada. As a result, it relies heavily on these brokers to attract new business. These brokers typically represent more than one insurance company, which may expose Jevco to competition within the agencies and, therefore, Jevco cannot rely on their commitment to its insurance products. In some markets, Jevco operates pursuant to "open market" arrangements in which it has no formal relationships with the brokers who place its risk in these markets. Loss of all or a substantial portion of the business provided by these intermediaries could have a material adverse effect on Jevco's business, results of operations and financial condition.

In accordance with industry practice, Jevco's customers often pay the premiums for their policies to brokers for payment to Jevco. These premiums are considered paid when received by the broker and thereafter the customer is no longer liable to Jevco for those amounts, whether or not Jevco has actually received the premiums from the broker. Consequently, Jevco assumes a degree of risk associated with its reliance on independent brokers in connection with the settlement of insurance balances.

The majority of Jevco's direct premiums written are derived from the non-standard automobile and recreational vehicle insurance markets. If the demand for insurance in these markets declines, Jevco's results of operations could decline significantly.

Jevco is one of the largest writers of non-standard auto insurance in Ontario and of recreational vehicle insurance in Canada. The size of both of these insurance markets can be affected significantly by many factors outside of Jevco's control, such as the underwriting capacity and underwriting criteria of standard automobile insurance carriers, and Jevco may be specifically affected by these factors. Additionally, an economic downturn in one or more of Jevco's principal markets could result in fewer automobile or recreational vehicle sales, resulting in less demand for these insurance products. To the extent that these insurance markets are affected adversely for any reason, Jevco's direct premiums written will be disproportionately affected due to Jevco's substantial reliance on these insurance markets.

If reinsurance rates rise significantly or reinsurance becomes unavailable or reinsurers are unable to pay Jevco's claims, Jevco may be adversely affected.

Jevco purchases reinsurance from third parties in order to reduce its liability on individual risks. Reinsurance does not relieve Jevco of its primary liability to its insureds. A third party reinsurer's insolvency or inability or unwillingness to make payments under the terms of a reinsurance treaty could have a material adverse effect on Jevco's financial condition or results of operations. The majority of Jevco's recoverables from third party reinsurers and other insurers are unsecured.

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

Compliance Risk

Jevco's business is subject to risks related to litigation and regulatory actions.

Jevco is a defendant in a number of claims relating to its insurance and other related business operations. Jevco may from time-to-time be subject to a variety of legal and regulatory actions relating to its current and past business operations, including, but not limited to:

- disputes over coverage or claims adjudication;
- disputes regarding sales practices, disclosure, premium refunds, licensing, regulatory compliance and compensation arrangements;
- disputes with its agents, producers or network providers over compensation and termination of contracts and related claims;
- disputes relating to customers regarding the ratio of premiums to benefits in its various business lines;
- disputes with taxing authorities regarding its tax liabilities; and
- disputes relating to certain businesses acquired or disposed of by it.

In addition, plaintiffs continue to bring new types of legal claims against insurance and related companies. Current and future court decisions and legislative activity may increase Jevco's exposure to these types of claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant damage award or a judicial ruling that was otherwise detrimental, could create a precedent in the insurance industry that could have a material adverse effect on Jevco's results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult to obtain. Jevco cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on its business.

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

If Jevco fails to comply with applicable insurance laws or regulatory requirements, Jevco's business, results of operations and financial condition could be adversely affected.

Jevco is subject to numerous laws and regulations. These laws and regulations delegate regulatory, supervisory and administrative powers to federal and provincial agencies. Such regulation generally is designed to protect policyholders rather than shareholders, and is related to matters including:

- rate setting;
- risk-based capital and solvency standards;
- restrictions on the amount, type, nature, quality and quantity of investment securities;

- the maintenance of adequate reserves for unearned premiums and unpaid claims;
- restrictions on the types of terms that can be included in insurance policies;
- standards for accounting;
- marketing practices;
- claims settlement practices;
- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations;
- the licensing of insurers and their agents;
- limitations on dividends and transactions with affiliates;
- approval of certain reinsurance transactions; and
- insolvency proceedings.

In addition, these regulations typically require Jevco to periodically file financial statements and annual reports, prepared on a statutory accounting basis, and other information with insurance regulatory authorities, including information concerning its capital structure, ownership, financial condition and general business operations. Jevco allocates considerable time and resources to comply with these requirements.

Any failure to comply with applicable laws or regulations could result in the imposition of fines or significant restrictions on Jevco's ability to do business, which could adversely affect its results of operations or financial condition. In addition, any changes in laws or regulations, including the adoption of consumer initiatives regarding rates charged for automobile or other insurance coverage or claims handling procedures, could materially adversely affect Jevco's business, results of operations and financial condition.

OSFI has solvency requirements and uses the Minimum Capital Test or MCT ratio as its benchmark. If Jevco does not comply with these minimum capital requirements, it may be restricted or prohibited from operating. If Jevco is required to increase its reserves in the future, as a result of unexpectedly poor claims experience or otherwise, Jevco may violate these minimum capital requirements unless it is able to take actions to improve its solvency. As a result, its business, results of operations, and financial condition may be materially adversely affected.

It is not possible to predict the future impact of changing federal, state and provincial regulation on Jevco's operations, and there can be no assurance that laws and regulations enacted in the future will not be more restrictive than existing laws and regulations.

Human Resources Risk

Jevco's business depends upon key employees, and if Jevco is unable to retain the services of these key employees or to attract and retain additional qualified personnel, Jevco's business may suffer.

Jevco's success has been, and will continue to be, dependent on its ability to retain the services of its existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of any of its key employees, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of Jevco's business operations.

Risk Factors Relating to the Acquisition and Westaim

The issuance of a significant number of Westaim Shares could adversely affect the market price of such shares.

If the Acquisition is completed, a significant number of additional Westaim Shares will be available for trading in the public market. The increase in the number of Westaim Shares may lead to sales of such shares or the perception that such sales may occur, either of which may adversely affect the market for, and the market price of, Westaim Shares.

Failure to satisfy closing conditions may delay or prevent completion of the Acquisition.

Completion of the Acquisition is conditioned upon the receipt of certain regulatory authorizations, consents, or other approvals, including required approvals under the ICA and the *Competition Act* (Canada) as well as the satisfaction of other conditions. Westaim and KFS have agreed to pursue all required approvals and to otherwise satisfy the conditions of closing in accordance with the Purchase Agreement. These approvals may impose conditions or obligations on Westaim or Jevco and such conditions may jeopardize or delay completion of the Acquisition. Further, no assurance can be given that the required approvals will be obtained or conditions satisfied and, even if all such approvals are obtained, no assurance can be given as to the terms, conditions and timing of the approvals or that they will satisfy the terms of the Purchase Agreement.

Failure to complete the Acquisition could negatively impact the stock price and the future business and financial results of Westaim.

If the Acquisition is not completed, the business of Westaim may be adversely affected. Additionally, if the Acquisition is not completed, Westaim may be required to reimburse KFS for its expenses related to the Acquisition or may be liable to KFS for damages, and will have to pay its own costs relating to the Acquisition, such as legal, accounting, financial advisor, filing, printing and mailing fees. Any of the foregoing, or other risks arising in connection with the failure of the Acquisition, including the diversion of management attention from pursuing other opportunities during the pendency of the Acquisition, may have an adverse effect on the business, financial results and stock price of Westaim.

The pendency of the Acquisition could adversely affect the business and operations of Westaim and/or Jevco.

In connection with the pending Acquisition, third parties utilized or relied on by Westaim or Jevco may make decisions, which could negatively impact Westaim or Jevco regardless of whether the Acquisition is completed. For example, current and prospective employees or customers of Jevco may experience uncertainty about the future of Jevco following the Acquisition or in the event that the Acquisition is not completed, which may materially and adversely affect the ability of each of Jevco and Westaim to attract and retain key personnel or to retain or attract customers.

Jevco may have undisclosed liabilities.

Although Westaim has conducted investigations in connection with Jevco and its business, risks remain regarding any undisclosed or unknown liabilities of the acquired business or assets. Westaim may discover that it has acquired substantial undisclosed liabilities. Westaim may have little effective recourse against KFS if any of the representations or warranties provided in connection with the Purchase Agreement prove to be inaccurate. Such liabilities could have an adverse impact on Westaim's business, financial conditions, results of operations, or cash flows.

HMQ will be able to exert significant control over Westaim's affairs.

Following the completion of the Acquisition, HMQ is expected to hold 40% of the outstanding Westaim Shares and will also hold a significant number of Non-Voting Shares and HMQ Warrants entitling it to purchase additional Non-Voting Shares. Accordingly, HMQ will have significant influence over the business and affairs of

Westaim and may have the ability to take shareholder actions irrespective of the vote of any other shareholders, including the ability to prevent certain transactions that it does not believe are in its best interest. This significant influence may discourage transactions involving a change of control of Westaim, including transactions in which minority shareholders of Westaim might otherwise receive a premium for their shares over the then-current market price.

Furthermore, HMQ will generally have the right (subject to applicable securities laws) at any time to sell Westaim Shares held by it or to sell their interest in Westaim to a third party without the approval of the minority shareholders and without providing for a purchase of such shareholders' shares. Accordingly, Westaim Shares held by minority shareholders may be less liquid and worth less than they would be if HMQ did not have the ability to influence matters affecting Westaim.

Westaim may require significant additional funding.

Westaim's future capital requirements will depend upon many factors, including the expansion of Jevco's sales and marketing efforts, the status of competition and potential acquisitions. There can be no assurance that any additional financing will be available to Westaim on acceptable terms, or at all. If additional funds are raised by issuing equity securities, further dilution to the existing Shareholders will result. If adequate funds are not available, Westaim or Jevco may be required to delay, scale back or eliminate its programs. Accordingly, the inability to obtain such financing could have a material adverse effect on Westaim's business, financial condition and results of operations.

OTHER BUSINESS

As of the date of this Information Circular, the Board of directors and the management of Westaim are not aware of any matter to come before the Meeting other than those matters specifically identified in the accompanying Notice of Meeting. However, if such other matters properly come before the Meeting or any adjournment(s) thereof, the persons designated in the accompanying proxy will vote thereon in accordance with their judgment pursuant to the discretionary authority conferred by the proxy with respect to such matters.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Except as disclosed herein, management of Westaim is not aware of any material interest of any director or senior officer, or anyone who held office as such since the beginning of Westaim's last financial year, or of any associate or affiliate of any of the foregoing persons, in any matter to be acted upon at the Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

As of the Record Date, Westaim had 94,220,632 issued and outstanding Westaim Shares. Each Shareholder is entitled to one vote on all matters to come before the Meeting for each Westaim Share shown as registered in his or her name on the list of Shareholders which is available for inspection during usual business hours at Computershare Trust Company of Canada, 600, 530-8th Avenue S.W., Calgary, Alberta, T2P 3S8 and at the Meeting. The list of Shareholders is as of February 23, 2010, the Record Date fixed for determining Shareholders entitled to notice of the Meeting. If a person has acquired ownership of Westaim Shares since that date, he or she may establish such ownership and request, not later than 10 days before the Meeting, that his or her name be included in the list of Shareholders.

To the knowledge of the directors and officers of Westaim, as of the Record Date, the following entities own beneficially, or exercise control or direction over, Westaim Shares carrying more than 10% of the voting rights attached to all Westaim Shares:

1. Goodwood Inc. – 18,747,000 Westaim Shares or 19.9% of the outstanding Westaim Shares; and
2. National Bank Financial Ltd. ("**NBF**") – 16,414,210 Westaim Shares or 17.4%.

The information regarding the ownership or exercise of control or direction of Westaim Shares by NBF set out above has been obtained from publicly filed documents.

There are no cumulative or similar voting rights attached to the Westaim Shares.

SOLICITATION OF PROXIES

This Information Circular is furnished in connection with the solicitation by the management of Westaim of proxies to be used at the Meeting at the time and place and for the purposes set forth in the enclosed Notice of Meeting. The Westaim board has fixed the close of business on February 23, 2010 as the Record Date, being the date for the determination of the shareholders entitled to notice of the Meeting, and any adjourned or postponement thereof. It is expected that solicitations of proxies will be made primarily by mail and possibly supplemented by telephone or other personal contact by directors, officers and employees of Westaim without special compensation. Proxies may also be solicited personally by employees of Westaim at nominal cost. In some instances, Westaim has distributed copies of the Meeting Materials to clearing agencies, securities dealers, banks and trust companies, or their nominees (collectively "**Intermediaries**", and each an "**Intermediary**") for onward distribution to Shareholders whose Westaim Shares are held by or in the custody of those Intermediaries ("**Non-registered Shareholders**"). The Intermediaries are required to forward the Meeting Materials to Non-registered Shareholders.

Westaim has retained the services of Kingsdale Shareholder Services Inc. ("**Kingsdale**"), as proxy solicitation agent, for assistance in connection with the solicitation of proxies and anticipates paying a fee to Kingsdale of approximately $50,000. The cost of the solicitation will be borne directly by Westaim. Interested securityholders of Westaim in North America may contact Kingsdale Shareholder Services Inc. at 1-888-518-6813.

Solicitation of proxies from Non-registered Shareholders will be carried out by Intermediaries, or by Westaim if the names and addresses of Non-registered Shareholders are provided by the Intermediaries. The cost of the solicitation will be borne by Westaim.

Non-registered Shareholders who have received the Meeting Materials from their Intermediary should follow the directions of their Intermediary with respect to the procedure to be followed. Generally, Non-registered Shareholders will either:

1. be provided with an Instrument of Proxy executed by the Intermediary but otherwise uncompleted. The Non-registered Shareholder may complete the proxy and return it directly to Westaim's transfer agent, Computershare Investor Services Inc. or to Westaim's proxy solicitation agent, Kingsdale, or
2. be provided with a request for voting instructions. The Intermediary is required to send Westaim an executed Instrument of Proxy completed in accordance with any voting instructions received by the Intermediary.

If you are a Non-registered Shareholder, and Westaim or its agent has sent these materials directly to you, your name and address and information about your holdings of securities have been obtained from your Intermediary in accordance with applicable securities regulatory requirements.

By choosing to send the Meeting Materials to you directly, Westaim (and not your Intermediary) has assumed responsibility for (i) delivering the Meeting Materials to you, and (ii) executing your proper voting instructions. Please return your voting instructions as specified in the request for voting instructions.

Record Date

The Board has fixed the close of business on February 23, 2010 as the Record Date, being the date for the determination of the registered holders of securities (each a "**Shareholder**" or "**Westaim Shareholder**") entitled to receive notice of the Meeting. Duly completed and executed proxies must be returned to Computershare Trust Company of Canada, Attention: Proxy Department, 9th Floor, 100 University Avenue, Toronto, ON M5J 2Y1 or by fax to 1-866-249-7775/416-263-9524, or to Kingsdale Shareholder Services Inc. at 130 King Street West, Suite 2950, P.O. Box 361, Toronto, Ontario, M5X 1E2 or by fax to 416-867-2271 or toll-free 1-866-545-5580 in each case to arrive no later than 10:00 a.m. (Toronto time) on March 23, 2010, or not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays in the City of Toronto, Ontario) prior to the time set for the Meeting or any adjournment or adjournments thereof.

VOTING OF PROXIES

The common shares of Westaim ("**Westaim Shares**") represented by the accompanying Instrument of Proxy (if same is properly executed and is received at the offices of Computershare Trust Company of Canada, Attention: Proxy Department, 9th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1 or by fax to 1-866-249-7775 or 416-263-9524, or to Kingsdale Shareholder Services Inc. at 130 King Street West, Suite 2950, P.O. Box 361, Toronto, Ontario, M5X 1E2 or by fax to 416-867-2271 or toll-free 1-866-545-5580 in each case to arrive no later than 10:00 a.m. (Toronto time) on March 23, 2010, or not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays in the City of Toronto, Ontario) prior to the time set for the Meeting or any adjournment or adjournments thereof), will be voted at the Meeting, and, where a choice is specified in respect of any matter to be acted upon, will be voted or withheld from voting in accordance with the specification made. The enclosed Instrument of Proxy confers discretionary authority on the persons named therein with respect to amendments or variations to matters identified in the Notice or other matters which may properly come before the Meeting. At the time of printing of this Information Circular, management knows of no such amendments, variations or other matters to come before the Meeting. However, if any other matters that are not now known to management should properly come before the Meeting, the Instrument of Proxy will be voted on such matters in accordance with the best judgment of the named proxies.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed Instrument of Proxy are officers and/or directors of Westaim. **A Shareholder desiring to appoint some other person, who need not be a Shareholder, to represent him or her at the Meeting, may do so by inserting such person's name in the blank space provided in the enclosed Instrument of Proxy or by completing another proper form of proxy and, in either case, depositing the completed and executed proxy at the offices of Computershare Trust Company of Canada Attention: Proxy Department, 9th Floor, 100 University Avenue, Toronto, Ontario M5J 2Y1** or by fax to 1-866-249-7775 or 416-263-9524, or to Kingsdale Shareholder Services Inc. at 130 King Street West, Suite 2950, P.O. Box 361, Toronto, Ontario, M5X 1E2 or by fax to 416-867-2271 or toll-free 1-866-545-5580 in each case to arrive no later than 10:00 a.m. (Toronto time) on March 23, 2010, or not later than forty-eight (48) hours (excluding Saturdays, Sundays and statutory holidays in the City of Toronto, Ontario) prior to the time set for the Meeting or any adjournment or adjournments thereof, provided, however, that the chairman of the Meeting may, in his sole discretion, accept proxies delivered to him up to the time when any vote is taken at the Meeting or any adjournment thereof, or in accordance with any other manner permitted by law. A Shareholder forwarding the enclosed Instrument of Proxy may indicate the manner in which the appointee is to vote with respect to any specific item by checking the appropriate space. If the Shareholder giving the proxy wishes to confer a discretionary authority with respect to any item of business, then the space opposite the item is to be left blank. Westaim Shares represented by the Instrument of Proxy submitted by a Shareholder will be voted in accordance with the directions, if any, given in the Instrument of Proxy. **Westaim Shares represented by properly executed proxies in favour of persons designated in the printed portion of the enclosed Instrument of Proxy will, unless otherwise indicated, be voted for the Financing Resolution as stated under the heading "*Voting of Proxies*" in the Information Circular.**

A proxy given pursuant to this solicitation may be revoked by an instrument in writing executed by a Shareholder or by a Shareholder's attorney duly authorized in writing or, if the Shareholder is a body corporate, under its corporate seal, or by a duly authorized officer or attorney and deposited with Computershare Trust Company of Canada, Attention: Proxy Department, 9th Floor, 100 University Avenue, Toronto, ON M5J 2Y1 so that it arrives at any time up to and including the last Business Day preceding the day of the Meeting or with the Chairman of the Meeting on the day of the Meeting or in any other manner permitted by law. Such instrument will not be effective with respect to any matter on which a vote has already been cast pursuant to such proxy.

GLOSSARY

The following is a glossary of the defined terms used in this Information Circular. Words importing the singular, where the context requires, include the plural and vice-versa, and words importing any gender include all genders.

"ABCA" means the *Business Corporations Act* (Alberta), including the regulations promulgated thereunder;

"Acquisition" means the purchase by Westaim of all of the issued and outstanding shares of Jevco from KFS pursuant to the Purchase Agreement;

"Actual Dividend" means the actual dividend paid by Jevco to KFS prior to the closing of the Acquisition;

"Advisory Fee" means the advisory fee paid to GMP by Westaim upon the satisfaction of the Escrow Release Conditions and delivery of the joint notice of Westaim and GMP;

"AIMCo" means Alberta Investment Management Corporation;

"AIMCo Backstop" means HMQ's agreement to acquire any Subscription Receipts forming part of the best efforts portion of the GMP Offering not otherwise purchased at the closing of the GMP Offering;

"AIMCo Letter" means the commitment letter dated January 24, 2010 between Westaim and AIMCo, on behalf of HMQ;

"Amalgamation" means the amalgamation of Nucryst and 1499642 Alberta Ltd. (a wholly-owned subsidiary of Westaim) under the ABCA with an effective date of February 9, 2010 to create Westaim Holdings Limited;

"Annual Information Form" means Westaim's annual information form dated as of March 23, 2009 for the year ended December 31, 2008;

"Articles" means the restated articles of incorporation of Westaim under the ABCA, dated April 17, 2000, as amended;

"Articles of Amendment" means the articles of amendment of Westaim filed on February 8, 2010 and February 26, 2010 under the ABCA for the purpose of creating and amending the terms of the Non-Voting Shares;

"Book Value" means the amount determined pursuant to OSFI requirements for "Total Equity" on Schedule 20.20, Line 49 on the P&C-1 Annual Return of Jevco;

"Carrying Value" means the value of the property located at 7120 Hurontario St., Mississauga, Ontario, as reflected in the audited annual financial statements of Jevco for the year ended December 31, 2009;

"Class A Subscription Receipts" means the 254 million class A subscription receipts issued pursuant to the Indenture;

"Class B Subscription Receipts" means the 296 million class B subscription receipts issued pursuant to the Indenture;

"Commissions" means securities commissions or similar authorities in Canada;

"Corporation" means The Westaim Corporation, a corporation existing under the ABCA;

"Escrow Agent" means an Escrow Agent to be agreed upon by Westaim and KFS to hold the escrowed portion of the Purchase Price pursuant to the terms of the Escrow Agreement;

"Escrow Release Conditions" means the conditions to the release of the proceeds from escrow in accordance with the Indenture;

"Estimated Value" means the estimated value of the property located at 7120 Hurontario St., Mississauga, Ontario;

"Financing" means the creation, issue and sale of 550 million Subscription Receipts for aggregate gross proceeds of $275 million primarily to finance the Acquisition;

"Financing Resolution" means an ordinary resolution of the Shareholders in the form attached as Appendix A to the Information Circular;

"GMP" means GMP Securities L.P.;

"GMP Commission" means the commission payable to GMP upon the satisfaction of the Escrow Release Conditions and delivery of the joint notice of Westaim and GMP;

"GMP Engagement Letter" means the engagement letter dated January 24, 2010 between GMP and Westaim relating to the GMP Offering;

"GMP Offering" means the offering of up to 219 million Class A Subscription Receipts for aggregate gross proceeds of up to $109.5 million through GMP;

"Goodwood Management" means Goodwood Management Inc.;

"HMQ" means Her Majesty the Queen in Right of the Province of Alberta acting for and on behalf of certain Alberta public sector pension plans, endowments and government funds;

"HMQ Warrants" means 10 million warrants to purchase an equal number of the Non-Voting Shares at an exercise price of $0.50 per share for a period of three years following the closing of the GMP Offering, issued to HMQ as consideration for providing the AIMCo Backstop;

"ICA" means the *Insurance Companies Act* (Canada);

"Indenture" means the subscription receipt indenture dated February 9, 2010 among Westaim, the Receipt Agent and GMP pursuant to which the Subscription Receipts were issued;

"Information Circular" means this management information circular of Westaim forming part of the Notice of Meeting, dated February 26, 2010;

"Instrument of Proxy" means the form of proxy included in the Meeting Materials;

"Intermediary" means clearing agencies, securities dealers, banks and trust companies, or their nominees;

"Jevco" or the **"Company"** means JEVCO Insurance Company, an insurance company governed by the ICA;

"KFS" means Kingsway Financial Services Inc.;

"KGIC" means Kingsway General Insurance Company;

"KGIC Claims Reserve Development" means the reserves for the business of Kinsgway General Insurance Company assumed by Jevco and the K-Plus Insurance business written by Jevco from December 31, 2009 until December 31, 2012;

"Kingsdale" means Kingsdale Shareholder Services Inc., Westaim's proxy solicitation agent;

"Material Adverse Effect" means conduct that could result in a material adverse effect upon the business, operation or conditions (financial or otherwise) of Jevco;

"Meeting" means the special meeting of the shareholders of The Westaim Corporation to be held on March 25, 2010 (including any adjournment or adjournments thereof) for the purpose of considering the Financing Resolution;

"Meeting Materials" means the Information Circular, the Notice and the Instrument of Proxy;

"Non-registered Shareholders" means holders of Westaim Shares whose Westaim Shares are held by or in the custody of Intermediaries;

"Non-Voting Shares" the Series 1 Class A non-voting, participating preferred shares in the capital of Westaim created by the Articles of Amendment;

"Notice" means the notice of the special meeting of the shareholder of Westaim;

"Nucryst" means Nucryst Pharmaceuticals Corp. prior to the Amalgamation;

"OSFI" means the Office of the Superintendent of Financial Institutions Canada;

"Partnership New Lease Agreement" means the new lease agreement to be entered into between KFS and 7120 Hurontario Limited Partnership prior to closing of the Acquisition;

"Purchase Agreement" means the agreement between KFS and Westaim to purchase the issued and outstanding shares of Jevco, made as of January 25, 2010;

"Purchase Price" means the price to be paid at the closing of the Acquisition;

"Receipt Agent" means Equity Transfer & Trust Company in its capacity as receipt agent pursuant to the Indenture;

"Record Date" means the date for the determination of shareholders entitled to receive notice of and to vote at the Meeting or any adjournment of the Meeting, that is February 23, 2010;

"Related Purchasers" means certain directors and executive officers of Westaim, certain investment funds managed by Goodwood Inc. and certain officers of Goodwood Inc., in each case together with their respective associates that collectively purchased an aggregate of 23,335,000 Class A Subscription Receipts;

"Shareholders" means the registered holders of Westaim Shares;

"Subscription Receipts" means the Class A Subscription Receipts and Class B Subscription Receipts;

"Termination Time" means the earlier of 4:30 p.m. (Toronto time) on April 30, 2010 and the time and date, if any, that the Purchase Agreement is terminated pursuant to its terms;

“Transition Services Agreement” means the transition services agreement to be entered into between KFS and Westaim prior to closing of the Acquisition;

“TSX” means the Toronto Stock Exchange;

“TSX Approval” means the conditional approval letter from the Toronto Stock Exchange in respect of the Financing dated February 5, 2010;

“Underlying Shares” means the Non-Voting Shares and the Common Shares issuable upon the conversion of the Subscription Receipts;

“Westaim” means The Westaim Corporation, a corporation existing under the ABCA; and

“Westaim Shares” means common shares in the capital of Westaim.

APPROVAL

The contents and sending of this Information Circular have been approved by the board of directors of Westaim.

DATED at Toronto, the 26TH day of February 2010.

BY ORDER OF THE BOARD OF DIRECTORS

(signed) “*Jeffrey A. Sarfin*”

Jeffrey A. Sarfin
Chief Financial Officer

AUDITORS' CONSENT

We have read the information circular of The Westaim Corporation (the "**Corporation**") dated February 26, 2010 regarding the acquisition of JEVCO Insurance Company and the related financing. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference, in the above mentioned information circular, of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss, deficit and cash flow for each of the years then ended. Our report is dated February 12, 2009.

(signed) Deloitte & Touche LLP

Chartered Accountants
Edmonton, Alberta
February 26, 2010

Appendix A

FINANCING RESOLUTION

"BE IT RESOLVED, AS AN ORDINARY RESOLUTION, THAT:

1. the issuance of up to 550 million common shares of the Corporation ("**Westaim Shares**") issuable upon the conversion of (i) 254 million class A subscription receipts (the "**Class A Subscription Receipts**") issued pursuant to the terms of a subscription receipt indenture among the Corporation, GMP Securities LP and Equity Transfer & Trust Company dated as of February 9, 2010 (the "**Indenture**") and (ii) 296 million class B subscription receipts (the "**Class B Subscription Receipts**" and together with the Class A Subscription Receipts, the "**Subscription Receipts**") issued pursuant to the Indenture, including any Westaim Shares issuable upon the conversion of any Series 1 Class A non-voting, participating, convertible preferred shares of the Corporation issuable upon the conversion of the Class B Subscription Receipts, all as further detailed in the Corporation's management information circular dated February 26, 2010 be and is hereby authorized and approved; and

2. any one director or officer of the Corporation is hereby authorized and directed, acting for, in the name of and on behalf of the Corporation, to execute or cause to be executed, under the seal of the Corporation or otherwise, and to deliver or to cause to be delivered, all such other documents and instruments, and to do or cause to be done all other such acts and things, as in the opinion of such director or officer of the Corporation may be necessary or desirable to carry out the intent of the foregoing resolutions, such necessity to be conclusively evidenced by the execution and delivery of any such documents or instruments or the taking of any such actions."

Appendix B

CORMARK FAIRNESS OPINION

February 26, 2010

Board of Directors
The Westaim Corporation
212 King St. W.
Suite 201
Toronto, ON M5H 1K5

To the Board of Directors:

Cormark Securities Inc. (“Cormark”) understands that The Westaim Corporation (“Westaim”) has entered into a purchase agreement dated January 25, 2010 (the “Purchase Agreement”) with Kingsway Financial Services Inc. (“Kingsway”), pursuant to which Westaim has agreed to purchase all of the issued and outstanding shares of JEVCO Insurance Company (“JEVCO”) from Kingsway (the “Acquisition”). Under the terms of the Purchase Agreement, Kingsway will be entitled to receive a cash payment for JEVCO (the “Consideration”), representing approximately 94.5% of the adjusted book value of JEVCO as at December 31, 2009.

Cormark also understands that Westaim has arranged for an offering (the “Offering” and together with the Acquisition, the “Transactions”) of 550 million subscription receipts (the “Subscription Receipts”) for gross proceeds of $275.0 million which amount, less certain expenses, is being held in escrow pending completion of the Acquisition. The Offering was priced at $0.50 per Subscription Receipt and included: (i) a commitment of $148.0 million from Alberta Investment Management Corporation on behalf of Her Majesty the Queen in Right of the Province of Alberta (“HMQ”); (ii) a commitment of up to $17.5 million from investment funds managed by Goodwood Inc. (“Goodwood”), directors and officers of Westaim (collectively, the “Related Shareholders”), JEVCO management and certain other designated investors; (iii) a $50.0 million bought deal private placement; and (iv) a $59.5 million best efforts private placement backstopped by HMQ. Each Subscription Receipt will, subject to adjustment and except as described below, entitle the holder thereof to receive upon the conversion thereof one common share of Westaim (each a “Westaim Share”). The Subscription Receipts issued to HMQ are exercisable for a mix of Westaim Shares and a class of non-voting participating shares of Westaim designated as Series 1 Class A non-voting, participating, convertible preferred shares which are convertible into Westaim Shares on a one-for-one basis designed to ensure that following the exercise of all Subscription Receipts, HMQ will own not more than 40% of the outstanding Westaim Shares.

The specific terms and conditions of, and other matters related to, the Transactions will be more fully described in the management information circular (the “Circular”) to be mailed to holders of Westaim Shares (the “Westaim Shareholders”) in connection with the Transactions.

The board of directors of Westaim (the “Board”) has retained Cormark to provide advice and assistance to the Board in connection with the Transactions, including the preparation and delivery to the Board of Cormark’s opinion as to the fairness, from a financial point of view, to the Westaim Shareholders, other than the Related Shareholders, of the Consideration to be paid by Westaim pursuant to the Purchase Agreement and the terms of the Offering (the “Fairness Opinion”).

ENGAGEMENT OF CORMARK

The Board initially contacted Cormark with respect to acting as its financial advisor in connection with the Transactions on January 26, 2010, and Cormark was formally engaged by the Board pursuant to a letter of agreement dated January 29, 2010 (the "Engagement Agreement"), which provides the terms upon which Cormark has agreed to act as the Board's financial advisor in connection with the Transactions, including the provision of the Fairness Opinion. The terms of the Engagement Agreement provide that Cormark is to be paid a fee for its services as financial advisor, including the delivery of the Fairness Opinion, and that such fees are not contingent in whole or in part on the completion of the Transactions or on the conclusions reached in the Fairness Opinion. In addition, Cormark is to be reimbursed for its reasonable out-of-pocket expenses and is to be indemnified by Westaim, in certain circumstances, against certain expenses, losses, claims, actions, damages and liabilities incurred in connection with the provision of its services under the Engagement Agreement.

CREDENTIALS OF CORMARK

Cormark is an independent Canadian investment dealer providing investment research, equity sales and trading and investment banking services to a broad range of institutions and corporations. Cormark has participated in a significant number of transactions involving public and private companies and has extensive experience in preparing fairness opinions.

The Fairness Opinion expressed herein represents the opinion of Cormark and its form and content have been approved for release by a committee its directors and officers, each of whom are experienced in merger, acquisition, divestiture, fairness opinion and capital market matters.

RELATIONSHIP WITH INTERESTED PARTIES

Neither Cormark, nor any of its affiliates, is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario)) of Westaim, JEVCO, Kingsway, Goodwood or any of their respective associates or affiliates (collectively, the "Interested Parties"). Cormark has not been engaged to provide any financial advisory services nor has it participated in any financings involving Westaim, JEVCO, Kingsway, Goodwood or any of their respective affiliates or associates, within the past two years, other than services provided under the Engagement Agreement. There are no understandings, agreements or commitments between Cormark and Westaim, JEVCO, Kingsway, Goodwood or any other Interested Party, with respect to any future business dealings. Cormark may, in the future, in the ordinary course of its business, perform financial advisory or investment banking services for Westaim, JEVCO, Kingsway, Goodwood or any other Interested Party.

In the ordinary course of its business, Cormark acts as a securities trader and dealer, both as principal and agent, in major financial markets and, as such, may have had, may have and may in the future have long or short positions in securities of Westaim, Kingsway or other Interested Parties and, from time to time, may have executed or may execute transactions on behalf of such companies or clients for which it may have received or may receive compensation. As an investment dealer, Cormark conducts research on securities and may, in the ordinary course of business, provide research reports and investment advice to its clients on investment matters, including with respect to Westaim, Kingsway or the Transactions.

SCOPE OF REVIEW

In connection with rendering the Fairness Opinion, Cormark has reviewed and relied upon (without verifying or attempting to verify independently the completeness or accuracy thereof) or carried out, among other things, the following:

1. the execution copy of the Purchase Agreement;
2. the most recent draft of the Circular dated February 26, 2010;

3. public filings submitted by Westaim and Kingsway to securities commissions or similar regulatory authorities in Canada which are available on the System for Electronic Document Analysis and Retrieval (“SEDAR”), including annual reports, audited annual financial statements, management information circulars, annual information forms, prospectuses and interim financial statements;
4. press releases issued by Westaim and Kingsway through commercial newswires over the past three years;
5. certain internal financial, operational, corporate and other information prepared or provided by the management of Goodwood, including internal operating and financial projections prepared by Goodwood’s management;
6. certain internal financial, operational, corporate and other information prepared or provided by the management of Westaim, including internal operating and financial projections prepared by Westaim’s management;
7. certain internal financial, operational, corporate and other information prepared or provided by the management of JEVCO, including internal operating and financial projections prepared by JEVCO’s management;
8. discussions with certain members of, and advisors to, Goodwood’s senior management team with respect to the information referred to herein and other issues considered relevant;
9. current and historical market trading information with respect to Westaim, Kingsway and other selected public companies, to the extent considered by us to be relevant;
10. certain public information relating to the business, financial and operating performance and financial position of Westaim, Kingsway, JEVCO, KGIC and other selected public companies, to the extent considered by us to be relevant;
11. the financial terms, to the extent they are publicly available, of certain transactions of a comparable nature which Cormark considered to be relevant;
12. selected research reports published by equity research analysts and industry sources regarding Kingsway and other public property and casualty (“P&C”) insurance companies or the P&C insurance industry, to the extent deemed relevant by us;
13. representations contained in a certificate addressed to Cormark dated as of the date hereof, from senior officers of Westaim as to, among other things, certain factual matters including the completeness, accuracy and fair presentation of the information upon which the Fairness Opinion is based;
14. representations contained in a certificate addressed to Cormark dated as of the date hereof, from senior officers of JEVCO as to, among other things, certain factual matters including the completeness, accuracy and fair presentation of the information upon which the Fairness Opinion is based; and
15. such other economic, financial market, industry, and corporate information, investigations and analyses as Cormark considered necessary or appropriate in the circumstances.

Cormark has not, to the best of its knowledge, been denied access by Westaim, Goodwood or JEVCO to any information requested by Cormark.

PRIOR VALUATIONS

JEVCO has represented to Cormark that there have not been any prior valuations (as defined in Canadian Securities Administrators’ Multilateral Instrument 61-101) of JEVCO or its material assets or its securities in the past twenty-four month period.

ASSUMPTIONS AND LIMITATIONS

Cormark has not been asked to prepare and has not prepared a formal valuation of Westaim, JEVCO, Kingsway, Goodwood or any of their respective securities or assets, and the Fairness Opinion should not be construed as such. Cormark has, however, conducted such analyses as it considered necessary in the circumstances. In addition, the Fairness Opinion is not, and should not be construed as, advice as to the price at which the Westaim Shares may trade at any future date. Cormark was similarly not engaged to review any legal, tax or accounting aspects of the Transactions. Cormark has relied upon, without independent verification or investigation, the assessment by Westaim and its legal, tax, regulatory and accounting advisors with respect to legal, tax, regulatory and accounting matters. In addition, the Fairness Opinion does not address the relative merits of the Transactions as compared to any other transaction involving Westaim, the prospects or likelihood of any alternative transaction or any other possible transaction involving Westaim, its assets or its securities.

With the approval of the Board and as is provided for in the Engagement Agreement, Cormark has relied upon the completeness, accuracy and fair presentation of all of the financial and other information, data, advice, opinions and representations obtained by it from public sources or provided to it by or on behalf of Westaim, Goodwood, JEVCO and their respective directors, officers, agents and advisors or otherwise (collectively, the "Information") and Cormark has assumed that this Information did not omit to state any material fact or any fact necessary to be stated to make that Information not misleading. The Fairness Opinion is conditional upon the completeness, accuracy and fair presentation of such Information including as to the absence of any undisclosed material change. Subject to the exercise of professional judgment and except as expressly described herein, Cormark has not attempted to independently verify or investigate the completeness, accuracy or fair presentation of any of the Information.

With respect to financial and operating forecasts, projections, estimates and/or budgets provided to Cormark and used in the analyses supporting the Fairness Opinion, Cormark has noted that projecting future results of any company is inherently subject to uncertainty. Cormark has assumed that such forecasts, projections, estimates and/or budgets were reasonably prepared consistent with industry practice on a basis reflecting the best currently available assumptions, estimates and judgments of management of Westaim, Goodwood and JEVCO as to the future financial performance of JEVCO and are (or were at the time and continue to be) reasonable in the circumstances. In rendering the Fairness Opinion, Cormark expresses no view as to the reasonableness of such forecasts, projections, estimates and/or budgets or the assumptions on which they are based.

Senior officers of Westaim, Goodwood and JEVCO, as the case may be, have represented to Cormark in certificates delivered as of the date hereof, among other things, that (a) the Information provided by, or on behalf, of Westaim, Goodwood and JEVCO, as the case may be, or any of their affiliates or their representatives and agents to Cormark for the purpose of preparing the Fairness Opinion was, at the date such information was provided to Cormark, and is now, complete, true and correct in all material respects, and did not and does not contain any untrue statement of a material fact in respect of Westaim, Goodwood and JEVCO and its affiliates or the Transactions and did not and does not omit to state a material fact in relation to Westaim, Goodwood and JEVCO or their affiliates or the Transactions necessary to make the Information not misleading in light of the circumstances under which it was provided; (b) since the dates on which the Information was provided to Cormark, there has been no material change, financial or otherwise, in the financial condition, assets, liabilities (contingent or otherwise), business, operations or prospects of Westaim, Goodwood and JEVCO or any of their affiliates and no material change has occurred in the Information or any part thereof which would have or which would reasonably be expected to have a material effect on the Fairness Opinion; (c) to the best of JEVCO's knowledge, information and belief after due inquiry, there are no independent appraisals or valuations or material non-independent appraisals or valuations relating to JEVCO or any of its affiliates or any of their respective material assets or liabilities which have been prepared as of a date within the two years preceding the date hereof and which have not been provided to Cormark; and (d) since the dates on which the Information was provided to Cormark by Westaim, Goodwood and JEVCO, no material transaction has been entered into by Westaim, Goodwood or JEVCO or any of their affiliates which has not been disclosed in complete detail to Cormark.

In its analyses and in preparing the Fairness Opinion, Cormark has made numerous assumptions with respect to expected industry performance, general business and economic conditions and other matters, many of which are beyond the control of Cormark or any party involved in the Transactions. Cormark has also assumed that the disclosure provided or incorporated by reference in the Circular and any other documents in connection with the Transactions will be accurate in all material respects and will comply with the requirements of all applicable laws, that all of the conditions required to implement the Transactions will be met, that the procedures being followed to implement the Transactions are valid and effective, and that the Circular will be distributed to Westaim Shareholders in accordance with applicable laws.

This Fairness Opinion is rendered on the basis of securities markets, economic, financial and general business conditions prevailing as at the date hereof and the condition and prospects, financial and otherwise, of Westaim and JEVCO and their affiliates, as they were reflected in the Information and as they have been represented to Cormark in discussions with management of the Westaim, Goodwood and JEVCO.

This Fairness Opinion has been provided for the exclusive use of the Board and may not be used or relied upon by any other person including, without limitation, any purchaser of Subscription Receipts. The Fairness Opinion is not to be reproduced, disseminated, quoted from or referred to (in whole or in part) without the express prior written consent of Cormark. Cormark hereby consents to the reference to Cormark and the description of, reference to and reproduction of the Fairness Opinion in the Circular prepared in connection with the Transactions for delivery to Westaim Shareholders and filing with the securities commissions or similar regulatory authorities in each province and territory of Canada.

Cormark believes that the Fairness Opinion must be considered and reviewed as a whole and that selecting portions of the analyses or factors considered by Cormark, without considering all the analyses and factors together, could create a misleading view of the process underlying the Fairness Opinion. The preparation of a fairness opinion is a complex process and is not necessarily amenable to partial analysis or summary description. Any attempt to do so could lead to undue emphasis on any particular factor or analysis. The Fairness Opinion is not to be construed as a recommendation to any Westaim Shareholder as to whether or not such holder should vote in favour of the Transactions.

The Fairness Opinion is given as of the date hereof and Cormark disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Fairness Opinion which may come or be brought to Cormark's attention after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Fairness Opinion after the date hereof, Cormark reserves the right to change, modify or withdraw the Fairness Opinion.

FAIRNESS OPINION

Based upon and subject to the foregoing, Cormark is of the opinion that, as of the date hereof, that the Consideration to be paid by Westaim pursuant to the Purchase Agreement and the terms of the Offering are fair**,** from a financial point of view, to Westaim Shareholders, other than the Related Shareholders.

Yours very truly,

Cormark Securities Inc.

CORMARK SECURITIES INC.

Appendix C

Financial Statements of

JEVCO INSURANCE COMPANY

Year ended December 31, 2009

AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Jevco Insurance Company as at December 31, 2009 and the statements of operations, changes in shareholder's equity, comprehensive income (loss), and cash flows for the year then ended. 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 audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

/s/ KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

February 17, 2010

APPOINTED ACTUARY'S REPORT

To the Shareholder of
Jevco Insurance Company

I have valued the policy liabilities of Jevco Insurance Company for its balance sheet at December 31, 2009 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholders' obligations, and the financial statements fairly present the results of the valuation.

Pierre G. Laurin, FCIA, FCAS
Principal and Head of the Canadian P&C Practice

February 17, 2010

JEVCO INSURANCE COMPANY
Balance Sheet

As at December 31, 2009, with comparative figures for 2008
(In thousands of dollars)

	2009	2008
Assets		
Cash	$ 65,325	$ 26,025
Investments (notes 4 and 5)	895,590	280,703
Accrued investment income	6,275	2,405
Financed premiums	53,958	9,235
Claims recoverable from other insurers (note 9)	26,950	6,618
Accounts receivable and other assets	26,527	16,212
Income taxes recoverable	—	4,743
Due from related parties (note 12)	13,932	10,208
Due from reinsurers (notes 10 and 14)	46,911	93,642
Deferred policy acquisition costs	31,503	34,594
Future income taxes (note 13)	9,821	5,470
Capital assets (note 7)	52,666	25,365
Intangible assets (note 8)	1,361	—
	$1,230,819	$515,220
Liabilities		
Accounts payable and accrued liabilities	$ 10,193	$ 3,034
Income taxes payable	5,565	—
Due to related parties (note 12)	—	3,973
Unearned premiums	151,683	124,361
Unpaid claims (notes 10 and 14)	779,013	271,027
Unearned reinsurance commissions	38	8,299
	946,492	410,694
Shareholder's Equity		
Share capital (note 11)	29,390	29,390
Contributed surplus (note 11)	208,330	21,725
Retained earnings	47,023	58,262
Accumulated other comprehensive loss	(416)	(4,851)
	284,327	104,526
	$1,230,819	$515,220

Commitments and contingent liabilities (note 15)
See accompanying notes to financial statements.

On behalf of the Board:

/s/ Jean La Couture Director

/s/ Serge Lavoie Director

JEVCO INSURANCE COMPANY
Statement of Operations

Year ended December 31, 2009, with comparative figures for 2008
(In thousands of dollars)

	2009	2008
Premiums written:		
Direct	$184,982	$155,526
Assumed	14,328	116,862
	$199,310	$272,388
Net premiums written (note 10)	$171,767	$203,979
Revenue:		
Net premiums earned (notes 10 and 12)	$213,946	$203,920
Investment income	18,278	17,428
Net realized gain (loss) on sales of investments	4,355	(24,066)
	236,579	197,282
Expenses:		
Claims incurred (notes 10, 12 and 14)	175,340	143,886
Commissions and premium taxes (notes 10 and 12)	51,588	45,826
Management fees (note 12)	22,604	19,636
General and administrative expenses (recovery)	2,382	(251)
	251,914	209,097
Loss before income taxes	(15,335)	(11,815)
Income tax provision (recovery) (note 13):		
Current	32	(3,081)
Future	(4,128)	(1,021)
	(4,096)	(4,102)
Loss for the year	$ (11,239)	$ (7,713)

See accompanying notes to financial statements.

JEVCO INSURANCE COMPANY
Statement of Changes in Shareholder's Equity

Year ended December 31, 2009, with comparative figures for 2008
(In thousands of dollars)

	2009	2008
Share capital		
Balance at beginning of year	$ 29,390	$ 29,390
Issued during the year	—	—
Balance at end of year	29,390	29,390
Contributed surplus		
Balance at beginning of year	$ 21,725	$ 44,500
Contribution (withdrawal) during the year	186,605	(22,775)
Balance at end of year	208,330	21,725
Retained earnings		
Balance at beginning of year	$ 58,262	$ 65,975
Loss for the year	(11,239)	(7,713)
Balance at end of year	47,023	58,262
Accumulated other comprehensive loss		
Balance at beginning of year	$ (4,851)	$ (3,622)
Other comprehensive income (loss)	4,435	(1,229)
Balance at end of year	(416)	(4,851)
Total shareholder's equity at end of year	$284,327	$104,526

See accompanying notes to financial statements

JEVCO INSURANCE COMPANY
Statement of Comprehensive Income (Loss)

Year ended December 31, 2009, with comparative figures for 2008
(In thousands of dollars)

	2009	2008
Loss for the year	$(11,239)	$(7,713)
Other comprehensive income (loss), net of taxes:		
• Change in unrealized gains (losses) on available-for sale securities:		
Unrealized gains/(losses) arising during the year, net of income taxes[1]	2,534	(2,630)
Reclassification of net realized gains to net income, net of income taxes[2]	1,901	1,401
Other comprehensive income (loss)	4,435	(1,229)
Comprehensive loss	$ (6,804)	$(8,942)

[1] Net of income tax of $1,413 (2008 – $(1,155))

[2] Net of income tax of $579 (2008 – $715)

See accompanying notes to financial statements

JEVCO INSURANCE COMPANY
Statement of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008
(In thousands of dollars)

	2009	2008
Cash provided by (used in):		
Operating activities:		
Loss for the year	$ (11,239)	$ (7,713)
Adjustments for:		
Net realized (gain) loss on sale of securities and assets	(4,355)	24,066
Future income taxes	(4,351)	(1,769)
Amortization of bond premiums (discounts)	1,913	(1,335)
Amortization of capital and intangible assets	1,708	999
	(16,324)	14,248
Changes in non-cash balances:		
Due from reinsurers	46,731	11,055
Deferred policy acquisition costs	3,091	2,505
Unearned premiums	27,322	(2,152)
Unpaid claims	507,986	(29,112)
Unearned reinsurance commissions	(8,261)	(728)
Net change in other non-cash balances	(71,461)	(25,762)
	489,084	(29,946)
Financing activities:		
Contributed (withdrawn) surplus	186,605	(22,775)
	186,605	(22,775)
Investing activities:		
Purchase of securities	(1,620,264)	(341,748)
Proceeds from sale of securities	1,014,703	424,839
Proceeds from sale of capital assets	15	6
Purchase of capital assets	(30,843)	(10,339)
	(636,389)	72,758
Increase in cash during the year	39,300	20,037
Cash, beginning of year	26,025	5,988
Cash, end of year	$ 65,325	$ 26,025
Supplementary disclosure of cash information:		
Cash received for:		
Interest	$ 24	$ 213
Income taxes	8,060	538

See accompanying notes to financial statements.

Jevco Insurance Company (the "Company") was incorporated under the Insurance Companies Act on April 10, 1980. The Company is licensed in all provinces and territories in Canada to write all classes of insurance, other than life. At December 31, 2009 the Company is a wholly-owned subsidiary of Kingsway Financial Services Inc. ("Kingsway Financial" or "Parent Company"), whose shares are listed on the Toronto and New York Stock Exchanges (refer to note 17).

1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and also comply with the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI").

(a) Changes in accounting policies:

(i) Current year changes:

On January 1, 2009, the Company adopted amendments to CICA HB Section 3862, Financial Instruments – Disclosures. These amendments include additional disclosure requirements for the fair value of financial instruments and enhanced liquidity risk disclosure. The Company also adopted further amendments to Section 3862 which requires all financial instruments to be disclosed within these levels that prioritize the quality and reliability of the information used in estimating the fair value of these instruments. The fair values for the three levels are based on:

Level 1 – quoted prices in active markets

Level 2 – models using observable inputs other than market prices

Level 3 – models using inputs that are not based on observable market data.

See note 5 for further details.

During 2009 the Company adopted CICA's new accounting standard, Section 3064, Goodwill and Intangible Assets, which replaced Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. The new standard establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The new standard also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally generated. See note 8 for further details.

(ii) Future changes:

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that a profit-oriented publicly accountable enterprise will be required to adopt IFRS. IFRS will replace current Canadian GAAP for those enterprises. For the Company, IFRS will be effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures. The Company has established a changeover plan in order to transition its financial statement reporting, presentation and disclosure under IFRS to meet the January 1, 2011 deadline. The impact of IFRS on the financial statements at the time of transition and on implementation is being assessed.

As accounting standards and interpretations continue to change prior to the transition, the Company has and will continue to adjust its implementation plan accordingly. The Company has been monitoring the development of the standards as issued by the International Accounting Standards Board (IASB), as well as regulatory developments as issued by the Canadian Securities Administrators and OSFI.

(b) Investments:

Consistent with the guidance in CICA Handbook Section 3855 the Company has classified the securities held in its investment portfolio as available for sale. During the year, the Company concluded that it had both the intent and ability to hold a portion of the Company's fixed income investments to maturity and accordingly reclassified a portion of its investment portfolio to the held-to maturity category. See note 4 for further details.

The Company accounted for the transfer of these fixed income investments from the available-for-sale to the held-to-maturity category at the estimated fair value of the investments at the date of transfer which represents their amortized cost as held-to-maturity investments. Any unrealized gains or losses, net of taxes, at the date of transfer continue to be reported as a component of accumulated other comprehensive income, and will be amortized over the remaining life of the investments through other comprehensive income. The original premium or discount will continue to be amortized as an adjustment to yield as a component of investment income.

Available-for-sale fixed income and equity investments are carried at their fair value whereby the unrealized gains and losses are included in Accumulated Other Comprehensive Income ("AOCI") until sale or other-than-temporary impairment is recognized, at which point cumulative unrealized gains or losses are transferred to the statement of operations. Realized gains and losses on sale, determined on an average cost basis, and write-downs to reflect other-than-temporary impairments in value are included in "Net realized gain (loss) on sales of investments". Held-to-maturity investments are carried at amortized cost.

Dividends and interest income from these securities are included in "Investment income". Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date.

The Company accounts for all financial instruments using settlement date accounting. Transaction costs are capitalized and, when applicable, amortized over the expected life of the instrument using the effective interest rate method.

The Company conducts a quarterly review to identify and evaluate securities (both debt and equity) that show objective indications of possible impairment. Impairment is charged to income if the fair value of a security falls below its cost/amortized cost, and the decline is considered other-than-temporary. Factors considered in determining whether a loss is other-than-temporary include length of time and extent to which fair values has been below cost; financial condition and near-term prospects of the issuer; and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

(c) 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 2009. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs.

(d) Capital assets:

Capital assets are reported in the financial statements at amortized cost. Amortization of capital assets has been provided by the straight-line method over the estimated useful lives of such assets. The useful lives are 30 years for the buildings, 5 years for the leasehold improvements, 5 to 7 years for furniture and equipment, 3 to 5 years for computers, and 3 to 5 years for automobiles.

(e) Intangible assets:

Intangible assets are comprised of software purchased and internally developed software. Amortization of the intangible assets has been provided by the straight-line method over the estimated useful lives, which are 3 to 5 years.

(f) Premium revenue and unearned premiums:

The Company earns motorcycle premiums over the period of risk covered by the policy based on the Company's experience. The Company earns premium revenue on all other lines evenly over the period covered by each individual insurance contract. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the year-end. A premium deficiency is established if the unearned premiums are less than the estimated future claims and expenses to be incurred less investment income to be earned during the period premiums are earned.

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.

In Canada, automobile insurance premium rates other than for fleet automobile are regulated by the provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. Accordingly, a significant portion of the Company's revenue is subject to regulatory approvals.

(g) Unpaid claims:

The provision for unpaid claims includes adjustment expenses and represents an estimate of 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 takes into consideration the time value of money using discount rates based on projected investment income from the assets supporting the provisions and includes an explicit provision for adverse deviation. Expected reinsurance recoveries on unpaid claims are recognized as amounts recoverable at the same time using principles consistent with the Company's method for establishing the related liability.

(g) Unpaid claims:

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.

(h) Claims recoverable from other insurers:

The expected recoveries from other insurers on claims are recognized as amounts receivable at the same time as the related liability, using principles consistent with the Company's method for establishing the related liability.

These estimates are subject to uncertainty. The resulting changes in estimates of the ultimate recoveries are recorded as incurred.

(i) Reinsurance ceded:

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 related estimated amounts payable to policyholders. Unearned premiums and deferred policy acquisition costs are also reported before reduction for business ceded to reinsurers and the reinsurer's portion is classified with amounts due from reinsurers and unearned reinsurance commissions, respectively.

Amounts recoverable from reinsurers are estimated in a manner consistent with liabilities associated with the reinsured policy.

(j) Use of estimates:

The preparation of financial statements 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. Key areas where management has made difficult, complex or subjective judgments, often as a result of matters inherently uncertain include income taxes, unpaid claims and investment impairment. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

2. Role of the actuary and 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. With respect to the preparation of these financial statements, the independent actuary, Towers Watson carries out a review of management's valuation of the unpaid claim liabilities and provides an opinion to the Board of Directors and the shareholders regarding the appropriateness of the unpaid claim liabilities recorded by management to meet all policyholder claim 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 independent 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.

(Tabular amounts in thousands of dollars)

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 appointed actuary's report outlines the scope of the review and the opinion.

Role of the auditors

The external auditors have been appointed by the shareholder, pursuant to the Insurance Companies Act of Canada. 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 his report on the policy liabilities of the Company. The auditors' report to the shareholder outlines the scope of their audit and their opinion.

3. Reinsurance transactions with related parties:

Effective October 1, 2009 the Company commuted its reinsurance treaties with commonly controlled entities. The effect of the commutation on the Company is shown below:

Assets:	
Decrease in cash and investments	$133,816
Decrease in recoverable from reinsurers	90,983
Decrease in deferred policy acquisition costs	11,153
Decrease in due from related parties	4,472
	$240,424
Liabilities and Shareholder's Equity:	
Decrease in unearned reinsurance commissions	$ 7,246
Decrease in unpaid claims	192,508
Decrease in deferred policy acquisition costs	37,177
Decrease in Shareholder's Equity	3,493
	$240,424

(Tabular amounts in thousands of dollars)

The decrease in the Shareholder's Equity relates to a risk premium on the commutation of $4,721,000 paid by the Company to a commonly controlled entity and $1,228,000 received by the Company from a commonly controlled entity which is included in the net loss for the year.

Effective October 1, 2009 but subsequent to the commutation of the reinsurance treaties as described above, the Company entered into an Assumption Reinsurance agreement whereby the Company assumed all the policy liabilities and supporting assets of the commonly controlled entity. The effect of the Assumption Reinsurance agreement on the Company is shown below:

Assets:	
Increase in cash and investments	$620,876
Increase in recoverable from reinsurers(1)	50,111
Increase in claim recoverable(1)	22,875
Increase in capital assets	30,610
Increase in accounts receivable and other assets	59,622
Increase in deferred policy acquisition costs	14,749
	$798,843
Liabilities and Shareholder's Equity:	
Increase in unpaid claims(1)	$707,047
Increase of unearned premium	96,796
Decrease in Shareholder's Equity	(5,000)
	$798,843

(1) Net unpaid claims of $634,061 transferred through the assumption agreement (note 14)

The decrease in Shareholder's Equity relates to a commission on the assumption reinsurance agreement of $5,000,000 paid by the Company to a related party which is included in the net loss for the year.

4. Investments:

Summary:

	2009	2008
Available-for-sale investments carried at fair value	$797,655	$280,703
Held-to-maturity investments carried at amortized cost	97,935	—
	$895,590	$280,703

(Tabular amounts in thousands of dollars)

The table below provides details of the amortized cost and fair value of available-for-sale investments:

		December 31, 2009			
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Term deposits:		$ 12,463	$ 2	$ —	$ 12,465
Bonds:					
Canadian	– Government	219,284	92	2,306	217,070
	– Corporate	454,280	5,799	1,934	458,145
	– Mortgage backed	5,527	3	61	5,469
	– Other asset backed	27,563	61	149	27,475
U.S.	– Corporate	52,801	393	178	53,016
Other	– Corporate	16,397	—	72	16,325
Sub-total		788,315	6,350	4,700	789,965
Common Shares	– Canadian	1,026	869	—	1,895
	– U.S	—	—	—	—
Preferred shares	– Canadian	8,000	—	2,205	5,795
		$797,341	$7,219	$6,905	$797,655

		December 31, 2008			
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Term deposits:		$ 34,750	$ 124	$ 15	$ 34,859
Bonds:					
Canadian	– Government	58,918	3,742	8	62,652
	– Corporate	85,128	758	4,106	81,780
	– Mortgage backed	36,507	9	3,085	33,431
	– Other asset backed	—	—	—	—
U.S.	– Corporate	15,407	4	1,807	13,604
Other	– Corporate	4,860	200	134	4,926
Sub-total		235,570	4,837	9,155	231,252
Common Shares	– Canadian	43,855	1,646	—	45,501
	– U.S	170	81	—	251
Preferred shares	– Canadian	8,086	—	4,387	3,699
		$286,681	$6,564	$13,542	$280,703

During the year a portion of available-for-sale investments was transferred from the available-for-sale category to the held-to-maturity category as the Company concluded that it had both the intent and ability to hold these investments to maturity. Accordingly, the Company transferred fixed income investments, with an estimated fair value of approximately $98,100,000 at the date of transfer, from the available-for-sale category to the held-to-maturity category.

(Tabular amounts in thousands of dollars)

The following table shows the amortized cost, gross unrecognized gains and losses, as well as the fair value of the Company's held-to-maturity investments portfolio as at December 31 2009. The amortized cost at December 31, 2009 includes approximately $900,000 of unrealized gains as a result of a transfer of investments from the available-for-sale to the held-to-maturity category during the year. These unrealized gains continue to be reported as a component of accumulated other comprehensive income in the accompanying Balance Sheet, and are being amortized over the remaining life of the securities through comprehensive income.

	December 31, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds:				
Canadian – Government	$74,057	$ 8	$102	$73,963
– Corporate	23,878	301	—	24,179
Sub-total	$97,935	$309	$102	$98,142

Fair values of term deposit, bonds and common and preferred shares are considered to approximate quoted market values based on the latest bid prices in active markets.

Management performs a quarterly analysis of the Company's investment holdings to determine if declines in market value are other than temporary. The analysis includes some or all of the following procedures as deemed appropriate by management:

- Assessing the Company's intent to sell those investments;
- Assessing whether it is more likely than not that the Company will be required to sell those investments before the recovery of its amortized cost basis;
- Assessing if any credit losses are expected for those investments. The assessment includes considering of, among other things, all available information and factors having a bearing upon collectability of security such as changes to credit rating by rating agencies, financial condition of the issuer, expected cash flows and value of any underlying collateral;
- Identifying all security holdings in unrealized loss positions that have existed for at least six months or other circumstances that management believes may impact the recoverability of the investment;
- Obtaining a valuation analysis from third party investment managers regarding the intrinsic value of these holdings based on their knowledge, experience and other market based valuation techniques;
- Reviewing the trading range of certain investments over the preceding calendar period;
- Assessing if declines in market value are other than temporary for debt investment holdings based on their investment grade credit ratings from third party security rating agencies;
- Assessing if declines in market value are other than temporary for any debt investment holdings with non-investment grade credit rating based on the continuity of its debt service record; and
- Determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed.

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

- The opinion of professional investment managers could be incorrect;
- The past trading patterns of individual investments may not reflect future valuation trends;
- The credit ratings assigned by independent credit rating agencies may be incorrect due to unforeseen or unknown facts related to a company's financial situation; and
- The debt service pattern of non-investment grade investments may not reflect future debt service capabilities and may not reflect the company's unknown underlying financial problems.

As a result of the above analysis performed by management to determine declines in market value that are other than temporary, write downs for other-than-temporary impairments were $1,400,000 (2008—$19,700,000) and the entire amount of other-than-temporary impairments has been recognized in earnings as a component of net realized gain (loss) of investment income.

Management has reviewed currently available information regarding other investments whose estimated fair values are less than their carrying amounts and believes that 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 does not intend to sell those investments and it is not more likely than not that it will be required to sell those securities before recovery of its amortized cost.

5. Financial instruments:

(a) Financial risk management objectives and policies:

By virtue of the nature of the Company's business activities, financial instruments make up the majority of the balance sheet. The risks which arise from holding financial instruments include credit risk, market risk, liquidity risk and cash flow risk. These risks may be caused by factors specific to an individual instrument or factors affecting all instruments traded in the market. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

Further details are provided below on the risk management objectives and policies as they relate to specific financial risks:

Credit risk:

The Company is exposed to credit risk principally through its investments and balances receivable from policyholders and reinsurers. The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of Canadian government bonds) as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company's credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by agents, program managers and brokers who manage cash collection on its behalf. The Company has policies to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer's insolvency.

(Tabular amounts in thousands of dollars)

The table below summarizes the credit exposure of the Company from its investments in fixed income securities and term deposits by rating.

Available-for-sale (measured at fair value)

	2009		2008	
AAA/Aaa	$175,291	22.2%	$110,548	47.8%
AA/Aa2	175,487	22.2%	28,695	12.4%
A/A2	331,146	41.9%	69,823	30.2%
BBB/Baa2	102,586	13.0%	14,600	6.3%
BB/Ba2	4,283	0.6%	2,969	1.3%
B/B2	—	0.0%	1,482	0.6%
CCC/Caa or lower, or non rated	1,172	0.1%	3,135	1.4%
Total available-for-sale	$789,965	100.0%	$231,252	100.0%

Held-to-maturity (measured at amortized cost)

	2009		2008	
AAA/Aaa	$18,964	19.4%	$—	$—
AA/Aa2	65,738	67.1%	—	—
A/A2	13,233	13.5%	—	—
Total held-to-maturity	$97,935	100.0%	$—	$—

At December 31, 2009, 86.3% (2008 – 90.4%) of the available-for-sale fixed income portfolio and 100.0% (2008 not applicable) of held-to-maturity fixed income portfolio is rated “A” or better. Changes in this balance period over period are primarily due to the credit profile of the securities portfolio assumed through reinsurance commutation and on assumption reinsurance agreement.

The table below summarizes the credit exposure of the Company for amounts receivable from reinsurers, by the rating, as assigned by A.M. Best to the applicable reinsurers.

	2009		2008	
A++	$ 3,289	7.1%	$ 163	0.2%
A+	6,409	13.6%	1,215	1.3%
A	36,928	78.7%	1.221	1.3%
B++	85	0.2%	90,736	96.9%
Not Rated	200	0.4%	307	0.3%
Total	$46,911	100.0%	$93,642	100.0%

Market risk:

The market risk exposure of the Company is, primarily, to the changes in interest rates and equity prices. Market risk is subject to risk management. The Investment Committee of the Board of the parent company and senior management of the Company monitor the Company’s market risk exposures and activities that give rise to these exposures.

Interest rate risk:

The Company's primary market risk exposure is changes in interest rates. Because substantially all of the investments are comprised of fixed income securities, periodic changes in interest levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. Also, during periods of rising interest rates, the market value of the existing fixed income securities will generally decrease and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that:

(i) An immediate hypothetical 100 basis point or 1 percent parallel increase in interest rates would decrease the market value of the available-for-sale fixed income securities by $40,100,000 (2008 – $8,700,000), representing 5.1% (2008 – 3.8%) of the $790,000,000 (2008 – $231,300,000) fair value of available-for-sale fixed income securities portfolio.

(ii) An immediate hypothetical 100 basis point or 1 percent parallel decrease in interest rates would increase the market value of the unpaid claims liabilities by $15,400,000 (2008 – $4,100,000), representing 2.2% (2008 – 1.5%) of the $706,400,000 (2008 – $199,300,000) of net unpaid claims liabilities carried on the balance sheet.

During 2009, the Company purchased U.S. dollar denominated provincial bonds with a market value of $76,200,000 as at December 31 2009. The Company is exposed to changes in the Canadian dollar value of its U.S. dollar denominated securities to the extent that the Canadian to U.S. dollar exchange rate changes. An increase in the value of the U.S. dollar relative to the Canadian dollar increases the market value of these holdings. A 1 cent increase in the value of the U.S. dollar increases the market value of these holdings by $800,000. The reverse is true during periods of a weakening U.S dollar.

Computation of the prospective effect of hypothetical interest rate changes are based on numerous assumptions, including, maintenance of existing level and composition of fixed income security assets at the indicated date and should not be relied on as indicative of expected future results. The analysis is based on the following assumptions:

- The securities in the Company's portfolio are not impaired;
- Credit and liquidity risks have not been considered;
- Interest rates and equity prices move independently; and
- Shifts in the yield curve are parallel.

In addition, it is important to note that available-for-sale securities in an unrealized loss position as reflected in Other Comprehensive Income, may at some point in the future be realized through a sale or right down to recognize an other-than-temporary impairment.

Equity prices risk:

The Company is exposed to changes in the value of equity securities as a result of market conditions. This is the risk of loss due to adverse movement in equity prices and comprises of two key components i.e. general equity risk, which refers to fluctuations in value of the equity securities due to changes in general economic or stock market conditions and specific equity risk which refers to equity price volatility that is determined by entity specific characteristics.

Fluctuation in value of the entity affects the carrying value of these securities and the level and timing of recognition of gains and losses on securities held, causing changes in realized and unrealized gains and losses.

Equity price risk is mitigated through diversification. The equity portfolio is managed through the use of services of third party professional investment management firms and their performance is actively monitored by management and the Investment Committee of the Board of Directors. In early 2009, the Company elected to significantly reduce this equity price risk by divesting off substantially all the equity securities portfolio.

At December 31, 2009, management estimates that a 10% increase in prices of equity securities held as available-for-sale, with all other variable held constantly, would increase Other Comprehensive Income and Comprehensive Income before tax by $800,000 (2008 – $4,900,000). A 10% decrease in equity prices would have the corresponding opposite effect on Other Comprehensive Income and Comprehensive Income. Equities comprise 1.0% (2008 – 17.6%) of the Company's available-for-sale investments portfolio at December 31, 2009.

Liquidity risk and cash flow risk:

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavorable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. There is the risk of loss to the extent that that the sale of a security prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows. Cash flow risk arises from risk that future inflation of policyholder cash flows exceeds returns on long-dated investment securities. The purpose of liquidity and cash flow management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity and cash flow requirements of the Company's business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements. To meet these cash requirements, the Company has policies to limit and monitor its exposure to individual issuers or related groups and to ensure that assets and liabilities are broadly matched in terms of their duration and currency. The Company believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill the cash requirements during the current financial year and also to satisfy regulatory capital requirements.

(Tabular amounts in thousands of dollars)

The following table summarizes carrying amounts of financial instruments by contractual maturity or expected cash flow dates (the actual repricing dates may differ from contractual maturity because certain securities and debentures have the right to call or prepay obligations with or without call or prepayment penalties):

As at December 31, 2009	One year or less	One to five years	Five to ten years	More than ten years	No Specific Date	Total
Assets:						
Cash & cash equivalents	65,325	—	—	—	—	65,325
Securities (Available for sale)	23,219	370,709	384,364	11,673	7,690	797,655
Securities (Held to maturity)	—	—	97,935	—	—	97,935
Accrued investment income	6,275	—	—	—	—	6,275
Finance premiums	53,958	—	—	—	—	53,958
Claims recoverable	8,616	15,399	2,730	205	—	26,950
Accounts receivable & other assets	26,527	—	—	—	—	26,527
Due from related parties	13,932	—	—	—	—	13.932
Due from reinsurers	14,997	26,805	4,752	357	—	46,911
Total:	**212,849**	**412,913**	**489,781**	**12,235**	**7,690**	**1,134,468**
Liabilities:						
Accounts payable & accrued liabilities	10,193	—	—	—	—	10,193
Unpaid claims	249,050	445,128	78,914	5,921	—	779,013
Total:	**259,243**	**445,128**	**78,914**	**5,921**	**—**	**789,206**

(Tabular amounts in thousands of dollars)

The Company's investment portfolio is liquid, providing sufficient flexibility to generate cash to meet short term operational needs that are not met through cash flows from operations.

As at December 31, 2008	One year or less	One to five years	Five to ten years	More than ten years	No Specific Date	Total
Assets:						
Cash & cash equivalents	26,025	—	—	—	—	26,025
Securities (Available for sale)	55,895	82,355	81,011	11,991	49,451	280,703
Securities (Held to maturity)	—	—	—	—	—	—
Accrued investment income	2,405	—	—	—	—	2,405
Finance premiums	9,235	—	—	—	—	9,235
Claims recoverable	2,308	3,476	741	93	—	6,618
Accounts receivable & other assets	16,212	—	—	—	—	16,212
Due from related parties	10,208	—	—	—	—	10,208
Due from reinsurers	32,662	49,190	10,479	1,311	—	93,642
Total:	**154,950**	**135,021**	**92,231**	**13,995**	**49,451**	**445,048**
Liabilities:						
Accounts payable & accrued liabilities	3,034	—	—	—	—	3,034
Due to related parties	3,973	—	—	—	—	3,973
Unpaid claims	94,534	142,370	30,328	3,795	—	271,027
Total:	**101,541**	**142,370**	**30,328**	**3,795**	**—**	**278,034**

The coupon rates for the fixed term investments range from 2.1% to 11.9% at December 31, 2009 (4.0% to 15.0% at December 31, 2008). The average effective yield (using amortized cost and the contractual interest rates, adjusted for any amortization of premiums and discounts) is 3.8% (2008 – 4.5%).

(b) Fair value:

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and are best evidenced by quoted market prices, if they exist. 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.

(Tabular amounts in thousands of dollars)

Refer to Note 4 with respect to fair value disclosure on investments. The Company uses fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information (Level 3) in the valuation of investments as at December 31, 2009 was as follows:

Description		December 31, 2009	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Available for sale investments:					
Term deposits:		$ 12,465	$ —	$ 12,465	$—
Fixed income investments:					
Canadian	– Government	217,070	—	217,070	—
	– Corporate	458,145	—	458,145	—
	– Commercial mortgage backed	5,469	—	5,469	—
	– Other asset backed	27,475	—	27,475	—
U.S.	– Corporate	53,016	—	53,016	—
Other	– Corporate	16,325	—	16,325	—
Equity Investments:					
Canadian		1,895	1,895	—	—
Preferred Investments:				—	—
Canadian		5,795	5,795		
		$797,655	$7,690	$789,965	$—
Held to Maturity investments:					
Fixed income investments:					
Canadian	– Government	73,963	—	73,963	—
	– Corporate	24,179	—	24,179	—
Total		$895,797	$7,690	$888,107	$—

The provision for policy liabilities is based on the present value of future cash flows plus provisions for adverse development and is considered to be an indicator of fair value as there is no ready market for the trading of insurance policy liabilities.

The carrying value of all other financial instruments approximates their fair value due to the short term to maturity of those financial instruments.

(Tabular amounts in thousands of dollars)

6. Capital Management:

Objectives, policies & procedures:

The Company has three capital management objectives: Meet regulatory requirements, maintain strong credit rating and maximize returns to the shareholder. Towards achievement of these objectives, the Company employs a strong and efficient capital base and it manages capital in accordance with policies established by the Board of Directors. These policies relate to capital strength, capital mix, dividends and return on capital. The Company has a capital management process in place to measure, deploy and monitor its available capital to assess its adequacy on a continuous basis. Management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics. The Company's capital is primarily derived from common shares, contributed surplus and retained earnings.

There were no significant changes made in the objectives, policies and procedures in the year.

Regulatory capital requirements & ratios:

The Company is regulated by the Office of the Superintendent of Financial Institutions (OSFI) and is required to maintain a level of capital sufficient to support the volume and risk profile of the Company's business. Generally, OSFI requires insurers to achieve a ratio of at least 150% of a minimum capital test (MCT) formula. As at December 31, 2009 the MCT ratio of the Company is 229% (2008 – 190%).

7. Capital Assets:

	2009		
	Cost	Accumulated amortization	Net book value
Land	$ 5,008	$ —	$ 5,008
Buildings	49,915	5,012	44,903
Furniture and equipment	3,253	1,308	1,945
Computers	1,155	363	792
Automobiles	42	24	18
	$59,373	$6,707	$52,666

	2008		
	Cost	Accumulated amortization	Net book value
Land	$ 1,252	$ —	$ 1,252
Buildings	25,774	2,854	22,920
Furniture and equipment	1,765	723	1,042
Computers	396	268	128
Automobiles	55	32	23
	$29,242	$3,877	$25,365

(Tabular amounts in thousands of dollars)

Amortization expense of capital assets during the year-ended December 31, 2009 was $1,708 (2008 – $999). The Company recognized a loss of $471 (2008 – $nil) on the portion of the building it owned in the joint venture (note 16) prior to the October 1, 2009 assumption reinsurance agreement (note 3) based on the fair value of the building.

8. Intangible Assets:

	2009		
	Cost	Accumulated amortization	Net book value
Software development	$1,857	$495	$1,361
	$1,857	$495	$1,361

The intangible assets related to software development were reclassified from capital assets to intangible assets effective January 1, 2009, in accordance with the requirements of the CICA Handbook Section 3064.

9. Claims recoverable from other insurers:

In accordance with the Insurance Act of Ontario (the “Act”), the Company has a right of indemnification for certain benefits paid to its own insured from the insurer of a third party at fault. The Act also provides for an arbitration process when the two insurers are not in agreement as to the amount of losses to be transferred.

Failure of other insurers to honor their obligations could result in losses to the Company.

10. Underwriting policy and reinsurance ceded:

In the normal course of business, the Company seeks to reduce the loss that may arise from a catastrophe or other events that cause unfavorable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers.

Failure of reinsurers to honor their obligations could result in losses to the Company.

Underwriting risk:

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic risk, catastrophic loss risk and reinsurance coverage risk.

The Company’s underwriting objective is to develop business within its target market on a prudent and diversified basis and to achieve profitable underwriting results.

Pricing risk:

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market. The market cycle is affected by the frequency and severity of losses, levels of capacity and demand, general economic conditions and price competition. The Company focuses on profitable underwriting using a combination of experienced underwriting staff, pricing models and price adequacy monitoring tools. We price our products taking into account numerous factors including claims frequency and severity trends, product line expense ratios, special risk factors the capital required to support the product line, and the investment income earned on that capital. Our pricing is designed to ensure an appropriate return on capital while also providing long-term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

(Tabular amounts in thousands of dollars)

Reinsurance risk:

The Company relies on reinsurance to manage the underwriting risk; however, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. In addition, the Company has minimum rating requirements for its reinsurers. The Company tenders reinsurance requirements on a regular basis to ensure that the best price possible is obtained. The Company works with well established reinsurers that have expertise in their field as well as an understanding of the business. Management reviews reinsurance programs to manage cost-efficiency and reduce the likelihood of coverage gaps.

The due from reinsurers is detailed as follows:

	2009	2008
Unearned premiums	$ 1,193	$28,488
Unpaid claims and adjustment expenses	45,718	65,154
	$46,911	$93,642

	2009	2008
Related reinsurers	$ —	$90,626
Unrelated reinsurers	46,911	3,016
	$46,911	$93,642

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.

Until October 1, 2009 when the related party reinsurance treaties were commuted the Company entered into reinsurance arrangements with related companies which are commonly controlled, whereby the Company assumed 40% of related companies' net premiums and ceded 22.5% of its net premiums to a related company. Each of these arrangements limits the maximum amount on any one loss to $750,000 in the event of a liability claim, and $375,000 in the event of a property claim.

(Tabular amounts in thousands of dollars)

In addition, the Company has obtained catastrophe reinsurance, which together with related companies, provides coverage in the event of a series of claims arising out of a single occurrence, which limited this exposure to $1,500,000 (2008 – $1,500,000) per occurrence for the Canadian subsidiaries of the parent to a maximum of $125,000,000 (2008 – $125,000,000). After October 1 2009, the exposure per occurrence increased from $1,500,000 to $2,500,000 and is subject to a maximum of $125,000,000.

The effect of reinsurance transactions on items disclosed in the statement of operations are as follows:

	2009	2008
Net premiums earned:		
Assumed – Related	$66,489	$147,393
Ceded – Related	45,194	66,923
Ceded – Other	9,643	3,698
Claims incurred:		
Assumed – Related	59,645	108,218
Ceded – Related	28,923	41,400
Ceded – Other	(4,299)	(1,157)
Commissions and premium taxes:		
Assumed – Related	16,395	36,239
Ceded – Related	10,282	18,082
Ceded – Other	73	36

11. Share capital and contributed surplus:

Share capital consists of the following:

	2009	2008
Authorized:		
Unlimited number of common shares, without nominal or par value		
Issued:		
194,257 common shares	$29,390	$29,390

In order to support the capital requirements related to the commutation and assumption reinsurance agreement that took place on October 1, 2009 (note 3), the parent company injected $186,605,000 in cash which was accounted for as contributed surplus.

(Tabular amounts in thousands of dollars)

12. Related party transactions:

In the normal course of business, the Company enters into reinsurance transactions on commercial terms with related parties. Effective October 1, 2009 the Company entered into commutation and assumption reinsurance agreements with these commonly controlled entities as described in note 3. Details of the impact of these transactions on the financial statements are provided in note 11. In addition, the Company had the following transactions with the parent company:

	2009	2008
Management fees paid to Kingsway Financial	$32,319	$25,891
Less management fees relating to internal loss adjustment expenses charged to claims incurred	(9,130)	(5,649)
Less management fees relating to investment management expenses charged to investment income	(585)	(606)
	$22,604	$19,636

The Company has a management agreement with its parent company, whereby the Company pays a management fee of 115% of the direct costs and expenses incurred or paid by the parent in the provision of goods and services, facilities, supplies, equipment, premises and repairs in accordance with the said agreement.

During 2009, the Company paid $102,762 (2008 – $11,769) for adjusting fees to a commonly controlled company and received $nil (2008 – $353,547) for leasing arrangements from a controlled company.

Amounts due from (to) related parties are summarized as follows:

	2009	2008
Due from (to) the parent company	$ 787	$(2,807)
Due from an affiliated companied	13,145	9,042
	$13,932	$ 6,235

All related party balances are non-interest bearing and are payable monthly in arrears.

(Tabular amounts in thousands of dollars)

13. Income taxes payable (recoverable):

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

	2009	2008
Income before income taxes	$(15,335)	$(11,815)
Statutory tax rate	31.60%	34.60%
Provision based on statutory rate	(4,846)	(4,088)
Non-taxable investment income	(106)	(395)
Impact of changes in future tax rates	1,056	242
Other	(200)	139
Income tax recovery	$ (4,096)	$ (4,102)

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

	2009	2008
Future income tax asset (liability):		
Unpaid claims	$10,413	$3,131
Investments	(240)	2,151
Other	(352)	188
Net future income tax asset	$ 9,821	$5,470

14. Unpaid claims and claims incurred:

(a) Nature of unpaid claims:

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the 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.

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, investment rates of return, 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.

(Tabular amounts in thousands of dollars)

Consequently, the process of establishing the provision for unpaid claims relies on the judgment 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.

Reserving risk arises due to the length of time between the occurrences of a loss, the reporting of the loss to the insurer and ultimate resolution of the claim. Claim provisions are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

Variables in the reserve estimation process can be affected by receipt of additional claim information and other internal and external factors, such as changes in claims handling procedures, economic inflation, legal and judicial trends, legislative changes, inclusion of exposures not contemplated at the time of policy inception and significant changes in severity or frequency of claims relative to historical trends. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provision for claims. The Company's provision for claims are reviewed separately by, and must be acceptable to internal actuaries at the Company, the independent appointed actuary, and an external valuation actuary.

(b) Provision for unpaid claims and adjustment expenses:

The provision for unpaid claims and adjustment expenses is discounted using a rate based on the Company's projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The discount rate used is 4.10% (2008—5.24%). Reinsurance recoverable estimates are discounted based on a rate using the Company's investment portfolio yield.

Margins for adverse development are included in the provision for unpaid claims and adjustment expenses and in the reinsurance recoverable estimates to allow for possible deterioration of experience relating to asset default, reinvestment risk, claims development and recoverability of reinsurance balances.

The gross provision and reinsurance recoverable estimates are as follows:

	2009		2008	
	Undiscounted	**Discounted**	**Undiscounted**	**Discounted**
Gross provision	$763,738	$779,013	$273,014	$271,027
Reinsurance ceded	(74,178)	(72,668)	(73,180)	(71,772)

The Company has a concentration of business in motorcycle insurance in the provinces of Quebec, Alberta and Ontario.

(Tabular amounts in thousands of dollars)

An evaluation of the adequacy of policy liabilities is completed 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 provisions for unpaid claims for the years ended December 31, were as follows:

	2009	2008
Unpaid claims, beginning of year:		
Gross	$ 271,027	$ 300,139
Reinsurance ceded	(71,772)	(79,764)
Unpaid claims, beginning of year, net	199,255	220,375
Unpaid claims under an assumption reinsurance agreement (note 3)	634,061	—
Provision for claims occurring:		
In the current year	175,043	145,396
In prior years	297	(1,510)
Claims paid during the year	(302,311)	(165,006)
Unpaid claims, end of year, net	706,345	199,255
Reinsurers' share of unpaid claims	45,718	65,154
Other insurers' share of unpaid claims (note 9)	26,950	6,618
Provision for unpaid claims, end of year	$ 779,013	$ 271,027

The provision for unpaid claims by major lines of business is as follows:

	2009	2008
Personal lines	$691,374	$234,255
Commercial lines	87,639	36,772
Provision for unpaid claims – end of year	$779,013	$271,027

The Company's direct written premiums are derived from the following business lines:

	2009	2008
Personal Lines	80%	84%
Commercial Lines	20%	16%
Total Direct Premiums Written	100%	100%

15. Commitments and contingent liabilities:

(a) In connection with its operations, the Company is from time to time named as defendant 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 expenses 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.

(Tabular amounts in thousands of dollars)

(b) The Company has purchased a number of annuities in settlement of claims. These annuities have been purchased from registered Canadian life insurers with high claims paying ability ratings as determined by outside rating organizations. The total value of the annuities purchased by the Company at December 31, 2009 is $41,850,000 (2008 – $6,250,000). The Company has a contingent credit risk with respect to the failure of these life insurers which management has assessed as being immaterial. The Company has assessed the fair value of these financial guarantees to be nil based on the claim paying ability of the life insurers and historical experience.

(c) Future minimum annual lease payments under operating leases for premises/equipment for the next five years and thereafter are:

2010	$264
2011	$261
2012	$186
2013	$199
2014	$199
Thereafter	$150

(d) The Company pledges assets to third parties to collateralize liabilities incurred under its policies of insurance or for the services provided by them to the company. At December 31, 2009, the amount of such pledged assets was $5,000,000 (2008 – $5,000,000). 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.

16. Joint venture:

The Company acquired, on October 1, 2008, a 25% ownership in a real estate joint venture with a related party which is commonly controlled. The transaction was accounted for as a joint venture until October 1, 2009 when the Company acquired the remaining 75% ownership in the joint venture (note 3). The following amounts represent the Company's interest:

	2009	2008
Current assets	$ 4,398	$ 642
Capital assets	37,148	9,888
Current liabilities	118	7
Investment Income	—	1
Cash inflows (outflows) resulting from operating activities	3,928	(587)
Cash inflows (outflows) resulting from investing activities	(36)	321

The capital assets include land of $5,008,000, building of $31,177,000 and furniture and equipment of $963,000.

17. Subsequent events:

On January 25, 2010 the Company's parent entered into a "purchase and sale" agreement with The Westaim Corporation ("Westaim") whereby Westaim will acquire 100% of the ownership interests in Jevco. The finalization of the transaction is subject to completion of the terms of the purchase and sale agreement including regulatory approval and is expected to close in March 2010.

18. Comparative figures:

Certain prior year's comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

Appendix D

Financial Statements of

KINGSWAY GENERAL INSURANCE COMPANY

Year ended December 31, 2008

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the balance sheet of Kingsway General Insurance Company as at December 31, 2008 and the statements of operations, changes in shareholders' equity, comprehensive income (loss) and cash flows for the year then ended. 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 audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

/s/ KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

February 11, 2009

APPOINTED ACTUARY'S REPORT

To the Shareholders of
Kingsway General Insurance Company

I have valued the policy liabilities of Kingsway General Insurance Company for its balance sheet at December 31, 2008 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholders' obligations, and the financial statements fairly present the results of the valuation.

Pierre G. Laurin, FCIA, FCAS
Principal and Head of the Canadian P&C Practice

February 11, 2009

KINGSWAY GENERAL INSURANCE COMPANY
Balance Sheet

As at December 31, 2008, with comparative figures for 2007
(In thousands of dollars)

	2008	2007
Assets		
Cash	$ 2,324	$ 10,737
Securities (notes 6 and 7)	183,858	266,828
Accrued investment income	1,221	1,584
Financed premiums	45,676	38,166
Accounts receivable and other assets	37,698	46,390
Claims recoverable (note 9)	28,759	20,563
Income taxes recoverable	23,797	4,695
Future income taxes (note 14)	5,887	3,718
Due from related parties (note 13)	29,125	24,904
Recoverable from reinsurers (notes 12 and 15)	549,241	571,492
Deferred policy acquisition costs	21,604	25,912
Capital assets (note 10)	32,860	34,840
	$962,050	$1,049,829
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 7,364	$ 12,219
Due to related parties (note 13)	504	2,632
Unearned premiums (note 12)	134,747	154,521
Unpaid claims (notes 12 and 15)	704,609	711,625
Unearned reinsurance commissions	25,429	29,300
	872,653	910,297
Shareholders' equity:		
Share capital (note 11)	20,204	20,204
Contributed surplus	49,254	49,254
Retained earnings	20,632	65,879
Accumulated other comprehensive income (loss)	(693)	4,195
	89,397	139,532
	$962,050	$1,049,829

Commitments and contingent liabilities (note 17)
See accompanying notes to financial statements.

On behalf of the Board:

/s/ John McGlynn Director

/s/ Shaun Jackson Director

KINGSWAY GENERAL INSURANCE COMPANY
Statement of Operations

Year ended December 31, 2008, with comparative figures for 2007
(In thousands of dollars)

	2008	2007
Direct premiums written	$317,725	$392,722
Net premiums written	$102,192	$126,053
Revenue:		
Net premiums earned (notes 12 and 13)	$109,083	$120,769
Investment income	8,087	11,872
Net realized gain (loss) on sales of securities	(18,784)	8,256
Premium finance income	4,714	4,152
Gain on sale of capital assets	4	6,336
	103,104	151,385
Expenses:		
Claims incurred (notes 12, 13 and 15)	103,196	96,485
Commissions and premium taxes (recovery) (notes 12 and 13)	1,082	(15,036)
Management fees (note 13)	41,876	34,373
General and administrative expenses (note 13)	10,493	11,859
	156,647	127,681
Income (loss) before income taxes	(53,543)	23,704
Income taxes (recovery) (note 14):		
Current	(16,478)	7,241
Future	(1,818)	65
	(18,296)	7,306
Net income (loss)	$ (35,247)	$ 16,398

See accompanying notes to financial statements.

KINGSWAY GENERAL INSURANCE COMPANY
Statement of Changes in Shareholder's Equity

Year ended December 31, 2008, with comparative figures for 2007
(In thousands of dollars)

	2008	2007
Share capital		
Balance at beginning of year	$ 20,204	$ 20,204
Issued during the year	—	—
Balance at end of year	20,204	20,204
Contributed surplus		
Balance at beginning of year	$ 49,254	$ 49,254
Contributions during the year	—	—
Balance at end of year	49,254	49,254
Retained earnings		
Balance at beginning of year	$ 65,879	$ 59,481
Net income loss for the year	(35,247)	16,398
Common share dividends	(10,000)	(10,000)
Balance at end of year	20,632	65,879
Accumulated other comprehensive income (loss)[(1)]		
Balance at beginning of year	$ 4,195	$ —
Cumulative effect of adopting new accounting policies (note 1)	—	4,198
Other comprehensive income (loss)	(4,888)	(3)
Balance at end of year	(693)	4,195
Total shareholders' equity at end of year	$ 89,397	$139,532

(1) Refer to note 1 for impact of new accounting policies related to financial instruments

See accompanying notes to financial statements.

KINGSWAY GENERAL INSURANCE COMPANY
Statement of Comprehensive Income (Loss)

Year ended December 31, 2008, with comparative figures for 2007
(In thousands of dollars)

	2008	2007
Net income (loss)	$(35,247)	$16,398
Other comprehensive income (loss), net of taxes:		
• Change in unrealized gains on available-for sale securities:		
Unrealized gains/(losses) arising during the year, net of income taxes[1]	(152)	854
Reclassification of net realized gains to net income, net of income taxes[2]	(4,736)	(857)
Other comprehensive income (loss)	(4,888)	(3)
Comprehensive income (loss)	$(40,135)	$16,395

(1) Net of income tax of $(85) (2007 – 525)

(2) Net of income tax of $(2,484) (2007 – (476))

See accompanying notes to financial statements.

KINGSWAY GENERAL INSURANCE COMPANY
Statement of Cash Flows

Year ended December 31, 2008, with comparative figures for 2007
(In thousands of dollars)

	2008	2007
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ (35,247)	$ 16,398
Items not affecting cash:		
Amortization	1,061	994
Future income taxes	(2,169)	2,788
Net realized loss (gain) on sale of securities	18,784	(8,256)
Net realized gain on sale of capital assets	(4)	(6,336)
Amortization of bond premiums and discounts	(476)	(735)
	(18,051)	4,853
Change in non-cash balances:		
Deferred policy acquisition costs	4,308	(2,108)
Recoverable from reinsurers	22,251	(5,816)
Unearned premiums	(19,774)	12,743
Unpaid claims	(7,016)	(12,870)
Net change in other non-cash balances	(31,777)	(154)
	(50,059)	(3,352)
Financing activities:		
Dividends paid	(10,000)	(10,000)
	(10,000)	(10,000)
Investing activities:		
Purchase of securities	(661,446)	(656,769)
Proceeds from sale of securities	718,651	685,266
Financed premiums receivable, net	(7,510)	(13,595)
Proceeds from sale of capital assets	5	10,026
Additions to capital assets	1,946	(7,692)
	51,646	17,236
Increase (decrease) in cash position during the year	(8,413)	3,884
Cash, beginning of year	10,737	6,853
Cash, end of year	$ 2,324	$ 10,737

	2008	2007
Supplementary disclosure of cash information:		
Cash paid for:		
Interest	$ —	$ —
Income taxes	4,751	10,892

See accompanying notes to financial statements.

Kingsway General Insurance Company (the "Company") was incorporated under the Corporations Act (Ontario) on August 19, 1986, and is licensed under the Insurance Act of Ontario. The Company is licensed in all provinces and territories in Canada to write all classes of insurance, other than life. The Company is a wholly owned subsidiary of Kingsway Financial Services Inc. ("Kingsway Financial"), whose shares are listed on the Toronto and New York Stock Exchanges.

1. Change in accounting policies:

On January 1, 2008, the Company adopted CICA Handbook Section 1535 Capital Disclosures, Section 3862 Financial Instruments – Disclosures and Section 3863 Financial Instruments – Presentation.

Handbook Section 1535 requires the following disclosures: (i) qualitative information about an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity manages as capital; (iii) whether the entity has complied with any externally imposed capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. See note 8 for additional details.

Handbook Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements but not changing the existing presentation requirements for financial instruments. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Handbook Section 3862 requires qualitative and quantitative disclosure of: (i) exposures to risks arising from financial instruments, how they arose and the potential impact on the amount, timing and certainty of future cash flows; (ii) information about the risk management function and the reporting and measurement systems used; (iii) the entity's policies for hedging or mitigating risk and avoiding concentrations of risk; and (iv) the sensitivity to individual market risk factors together with the methodology for performing the analysis. Handbook Section 3863 deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. See note 7 for additional details.

2. Future accounting changes – International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that a profit-oriented publicly accountable enterprise will be required to adopt IFRS. IFRS will replace current Canadian GAAP for those enterprises. For the Company, IFRS will be effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures. The Company is currently in the process of evaluating the impacts and implications of its conversion to IFRS.

3. Accounting changes effective in 2007:

On January 1, 2007, the Company adopted the CICA's standards Section 3855, Financial Instruments – Recognition and Measurement, Section 1530, Comprehensive Income and Section 3251, Equity. As a result, effective January 1, 2007, transition adjustments were made to certain existing financial instruments to adjust their carrying value to market value, to eliminate the recognition of deferred realized gains, and with corresponding adjustments to income taxes, actuarial liabilities, accumulated other comprehensive income and retained earnings.

4. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and meet the requirements of the Financial Services Commission of Ontario (“FSCO”).

(a) Use of estimates:

The preparation of financial statements 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. Key areas where management has made difficult, complex or subjective judgments, often as a result of matters inherently uncertain include income taxes, unpaid claims and investment impairment. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

(b) Securities:

All financial instruments are designated as available-for-sale (“AFS”) securities. AFS securities are carried at fair value whereby the unrealized gains and losses are included in Accumulated Other Comprehensive Income (“AOCI”) until sale or other-than-temporary impairment is recognized, at which point cumulative unrealized gains or losses are transferred to the statement of operations. Realized gains and losses on sale, determined on an average cost basis, and write-downs to reflect other-than-temporary impairments in value are included in “Net realized gain (loss) on sales of securities”.

Dividends and interest income from these securities are included in “Investment income”. Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date.

The Company accounts for all financial instruments using settlement date accounting.

(b) Securities:

Transaction costs are capitalized and, where applicable, amortized over the expected life of the instrument using the effective interest rate method.

The Company conducts a quarterly review to identify and evaluate securities (both debt and equity) that show objective indications of possible impairment. Impairment is charged to income if the fair value of a security falls below its cost/amortized cost, and the decline is considered other-than-temporary. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been below cost; financial condition and near-term prospects of the issuer; and our ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

Prior to 2007, fixed term investments were carried at amortized cost. Investments in common and preferred shares were carried at cost.

(c) Capital assets:

Capital assets are carried at cost less accumulated amortization. Amortization is provided on the following basis:

Buildings	Declining Balance	5%
Office equipment	Declining Balance	30%
Automobiles	Straight line	3 –5 years
Furniture	Straight line	5 years
Leasehold improvements	Over the lease term	

(d) 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.

(e) Premium revenue and unearned premiums:

The Company earns motorcycle premiums over the period of risk covered by the policy based on the Company's experience. The Company earns premium revenue on all other lines evenly over the period covered by each individual insurance contract. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the year end. A premium deficiency is established if the unearned premiums are less than the estimated future claims and expenses to be incurred as premiums are earned.

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.

In Canada, automobile insurance premium rates other than for fleet automobile are regulated by the provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. Accordingly, a significant portion of the Company's revenue is subject to regulatory approvals.

(f) Unpaid claims:

The provision for unpaid claims includes adjustment expenses and represents an estimate of 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 takes into consideration the time value of money using discount rates based on projected investment income from the assets supporting the provisions and includes an explicit provision for adverse deviation. Expected reinsurance recoveries on unpaid claims are recognized as amounts recoverable at the same time using principles consistent with the Company's method for establishing the related liability.

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 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.

(g) Reinsurance ceded:

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 and unearned reinsurance commissions, respectively.

Amounts recoverable from reinsurers are estimated in a manner consistent with the policy liabilities associated with the reinsured policy.

(h) 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 carry forwards. 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.

(i) Joint Ventures:

The Company's interest in joint a venture is included in these financial statements on a proportionate consolidation basis (note 16).

5. Role of the actuary and 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. With respect to the preparation of these financial statements, the independent actuary, Towers Perrin carries out a review of management's valuation of the unpaid claim liabilities and provides an opinion to the Board of Directors and the shareholders regarding the appropriateness of the unpaid claim liabilities recorded by management to meet all policyholder claim 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 independent 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.

(Tabular amounts in thousands of dollars)

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 auditors

The external auditors have been appointed by the shareholders, pursuant to the Insurance Act of Ontario. 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 his report on the policy liabilities of the Company. The auditors' report outlines the scope of their audit and their opinion.

6. Securities:

The amortized cost and fair values of securities are summarized below:

	December 31, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Term deposits and bankers' acceptances	$ 23,163	$ 65	$ 1	$ 23,227
Bonds:				
Canadian – Government	47,567	2,001	—	49,568
– Corporate	67,744	690	2,972	65,462
US – Corporate	9,708	6	916	8,798
Others – Corporate	9,628	224	946	8,906
Common shares				
Canadian	24,810	538	—	25,348
U.S.	2,190	351	—	2,541
Preferred shares				
Canadian	13	2	7	8
	$184,823	$3,877	$4,842	$183,858

(Tabular amounts in thousands of dollars)

	December 31, 2007			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Term deposits and bankers' acceptances	$ 39,569	$ 39	$ 6	$ 39,602
Bonds:				
Canadian – Government	65,938	882	23	66,797
– Corporate	85,431	417	1,208	84,640
US – Corporate	13,941	63	437	13,567
Others – Corporate	12,417	181	94	12,504
Common shares				
Canadian	42,202	8,182	1,632	48,752
U.S.	826	130	—	956
Preferred shares				
Canadian	13	—	3	10
	$260,337	$9,894	$3,403	$266,828

Fair values of term deposits, bonds and common and preferred shares are considered to approximate quoted market values based on the latest bid prices in active markets. Fair values of securities for which no active market exists are derived from quoted market prices of similar securities or other third party evidence.

Management performs a quarterly analysis of the Company's investment holdings to determine if declines in market value are other than temporary. The analysis includes some or all of the following procedures as deemed appropriate by management:

- identifying all security holdings in unrealized loss positions that have existed for at least six months or other circumstances that management believes may impact the recoverability of the security;
- obtaining a valuation analysis from third party investment managers regarding the intrinsic value of these holdings based on their knowledge, experience and other market based valuation techniques;
- reviewing the trading range of certain securities over the preceding calendar period;
- assessing if declines in market value are other than temporary for debt security holdings based on their investment grade credit ratings from third party security rating agencies;
- assessing if declines in market value are other than temporary for any debt security holding with non-investment grade credit rating based on the continuity of its debt service record;
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed; and;
- assessing the company's ability and intent to hold these securities at least until the investment impairment is recovered.

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

- the opinion of professional investment managers could be incorrect;
- the past trading patterns of individual securities may not reflect future valuation trends;
- the credit ratings assigned by independent credit rating agencies may be incorrect due to unforeseen or unknown facts related to a company's financial situation; and
- the debt service pattern of non-investment grade securities may not reflect future debt service capabilities and may not reflect the company's unknown underlying financial problems.

In February, 2009, the Company elected to liquidate its entire common equity securities portfolio. Based upon this decision, management has concluded that the intent to hold the common equity securities portfolio to recovery no longer exists. As a result all common equity securities in an unrealized loss position as at December 31, 2008 are considered to be other than temporarily impaired.

As a result of the above analysis performed by management to determine declines in market value that are other than temporary, write downs for other-than-temporary impairments were $19.4 million (2007 – $3.5 million). These impairment charges included $19.4 million (2007-$3.5 million) from the write down of common stocks and $Nil (2007 – $Nil) from write down of debt securities.

Management has reviewed currently available information regarding other securities whose estimated fair values are less than their carrying amounts and believes that 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. Debt securities whose carrying amounts exceed fair value can be held until maturity when management expects to receive the principal amount.

7. Financial instruments:

(a) Financial risk management objectives and policies:

By virtue of the nature of the Company's business activities, financial instruments make up the majority of the balance sheet. The risks which arise from transacting financial instruments include credit risk, market risk, liquidity risk and cash flow risk. These risks may be caused by factors specific to an individual instrument or factors affecting all instruments traded in the market. The company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business. The company manages these risks using extensive risk management policies and practices.

Further details are provided below on the risk management objectives and policies as they relate to the specific financial risks:

Credit risk:

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of U.S. and Canadian government bonds) as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company's credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by agents, program managers or brokers who manage cash collection on its behalf. The Company has policies to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

(Tabular amounts in thousands of dollars)

The table below summarizes the credit exposure of the Company from its debt securities and term deposits by the rating as assigned by Standard & Poors or Moody's Investor Services, using the higher of these ratings for any security where there is a split rating.

	2008		2007	
AAA/Aaa	$ 87,652	56.2%	$106,188	48.9%
AA/Aa	21,205	13.6%	45,538	21.0%
A/A	35,635	22.9%	53,111	24.4%
BBB/Baa	10,201	6.5%	11,036	5.1%
BB/Ba	1,268	0.8%	1,237	0.6%
Total	$155,961	100.0%	$217,110	100.0%

The table below summarizes the credit exposure of the Company for amounts receivable from reinsurers by the rating as assigned by A.M. Best to the applicable reinsurers:

	2008		2007	
A++	$ 2,669	0.5%	$ 1,967	0.3%
A+	17,326	3.2%	35,335	6.2%
A	22,562	4.1%	22,779	4.0%
A-	7,559	1.4%	5,453	1.0%
B++	—	—	505,958	88.5%
B+	495,192	90.2%	—	—
Not Rated	3,933	0.7%	—	—
Total	$549,241	100%	$571,492	100.0%

Market risk:

The market risk exposure of the Company is, primarily, to the changes in interest rates and equity prices and to a smaller extent, to foreign currency exchange rates. Market risk is subject to risk management. The Investment Committee of the Board and senior management of the company monitor the Company's market risk exposures and activities that give rise to these exposures.

Interest rate risk:

The Company is exposed to changes in the value of its fixed income securities to the extent that market interest rates change. The company actively manages its interest rate exposure with the objective of enhancing net interest income within established risk tolerances and Board approved investment policies. Because most of the securities portfolio is comprised of fixed income securities that are usually held to maturity, periodic changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. Also, during periods of rising interest rates, the market value of the existing fixed income securities will generally decrease and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

Duration is a measure used to estimate the extent to which market values change with changes in interest rates. Using this measure, it is estimated that:

(i) An immediate hypothetical 100 basis point parallel increase in interest rates would decrease the market value of our fixed income securities by $6.7 million (2007 – $8.3 million), representing 4.3% (2007 – 3.8%) of the $156 million (2007 – $217.1 million) fair value fixed income securities portfolio.

(ii) An immediate hypothetical 100 basis point parallel decrease in interest rates would increase the market value of our unpaid claims by $15.0 million (2007 – $15.0 million), representing 2.1% (2007 – 2.1%) of the $704.6 million (2007 – $711.6 million) of unpaid claims liabilities carried on the balance sheet.

Computation of the prospective effect of hypothetical interest rate changes are based on numerous assumptions, including, maintenance of existing level and composition of fixed income security assets at the indicated date and should not be relied on as indicative of future results. The analysis is based on the following assumptions:

(a) The securities in the Company's portfolio are not impaired;

(b) Credit and liquidity risks have not been considered;

Market risk:

(c) Interest rates and equity prices move independently;

(d) Shifts in the yield curve are parallel.

In addition, it is important to note that available-for-sale securities in an unrealized loss position as reflected in Other Comprehensive Income, may at some point in the future be realized through a sale or impairment.

Equity prices risk:

The Company is exposed to changes in the value of equity securities as a result of market conditions. This is the risk of loss due to adverse movement in equity prices and comprises of two key components i.e. general equity risk, which refers to fluctuations in value of the equity securities due to changes in general economic or stock market conditions and specific equity risk which refers to equity price volatility that is determined by entity specific characteristics .

Fluctuation in value of the equity affect the carrying value of these securities and the level and timing of recognition of gains and losses on securities held, causing changes in realized and unrealized gains and losses.

Equity price risk is mitigated through diversification. The Equity portfolio is managed through the use of services of third party professional investment management firms and their performance is actively monitored by management and the Investment Committee of the Board of Directors.

At December 31, 2008, management estimates that a 10% increase in equity prices, with all other variables held constantly, would increase Other Comprehensive Income and Comprehensive Income before tax by $2.8 million (2007 – $5.0 million). A 10% decrease in equity prices would have the corresponding opposite effect on Other Comprehensive Income and Comprehensive Income. Equities comprise 15.2% (2007 – 18.6%) of the company's investment portfolio as at December 31, 2008.

In February 2009, the Company elected to significantly reduce this equity price risk by liquidating the entire common equity portfolio.

Liquidity risk:

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavorable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. There is the risk of loss to the extent that the sale of a security prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows. There is also risk that future inflation of policyholder cash flows exceeds returns on long-dated investment securities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity requirements of the Company's business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements. To meet these cash requirements, the Company has policies to limit and monitor its exposure to individual issuers or related groups and to ensure that assets and liabilities are broadly matched in terms of their duration and currency. The Company believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill the cash requirements during the current financial year and also to satisfy regulatory capital requirements.

(Tabular amounts in thousands of dollars)

The following table summarizes carrying amounts of financial instruments by maturity or expected cash flow dates (the actual re pricing dates may differ from contractual maturity because certain securities and debentures have the right to call or prepay obligations with or without call or prepayment penalties):

	<=1 Year	1 - 2 Years	2 - 5 Years	5 - 10 Years	> 10 Years	No Specific Date	2008 Total	2007 Total
Assets:								
Cash	2,324						2,324	10,737
Securities	26,177	9,526	54,279	57,792	8,187	27,897	183,858	266,828
Accrued investment income	1,221						1,221	1,584
Finance premiums	45,676						45,676	38,166
Accounts receivable & other assets	34,337					3,361	37,698	46,390
Claims recoverable	12,057	4,677	8,017	3,563	445		28,759	20,563
Due from related parties	3,047	24,897	1,181				29,125	24,904
Recoverable from reinsurers	200,881	97,541	167,212	74,317	9,290		549,241	571,492
Liabilities:								
Accounts payable & accrued liabilities	7,364						7,364	12,219
Due to related parties	504						504	2,632
Unpaid claims	176,153	147,968	253,659	112,737	14,092		704,609	711,625

The coupon rates for the Company's' fixed term investments range from 3.8% to 9.5% at December 31, 2008 (4.0% to 9.5% at December 31, 2007). The average effective yield (using amortized cost and the contractual interest rates, adjusted for any amortization of premiums and discounts) is 4.2% (2007 – 4.8%).

(b) Fair value:

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and are best evidenced by quoted market prices, if they exist. Some of the Company's financial liabilities lack an active trading market. Therefore, these instruments have been valued using present value or other valuation techniques and thus, may not necessarily be indicative of the amounts realizable in an immediate settlement of the instruments. 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.

(Tabular amounts in thousands of dollars)

Refer to Note 6 with respect to fair value disclosure on securities. There is no active market for policy liabilities, so, a market value is not available.

The carrying value of all other financial instruments approximates their fair value due to the short term to maturity of those financial instruments.

(c) Past due loans but not impaired:

Past due loans are loans where repayment of principal or payment of interest is contractually in arrears. There are no such loans as at December 31, 2008 (2007 – Nil).

8. Capital management:

Objectives, policies & procedures:

The company has three capital management objectives: Meet regulatory requirements, maintain strong credit rating and maximize returns to shareholders. Towards achievement of these objectives, the company employs a strong and efficient capital base. It manages capital in accordance with policies established by the Board. These policies relate to capital strength, capital mix, dividends and return on capital, and the unconsolidated capital adequacy of all regulated entities. The Company has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy on continuous basis. Senior executive management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics. The company's capital is primarily derived from common shareholders & retained earnings.

There were no significant changes made in the objectives, policies and procedures during the year.

Regulatory capital requirements & ratios:

As at December 31, 2008 the Company was adequately capitalized to support the premium volume. The Company is regulated by the Financial Services Commission of Ontario (FSCO) and is required to maintain a level of capital sufficient to achieve a ratio of 150% of a minimum capital test (MCT) formula. As at December 31, 2008 the MCT of the Company is above the required 150% MCT level.

9. Claims recoverable:

	2008	2007
Claims recoverable from policyholders	$ 6,489	$ 5,114
Claims recoverable from other insurers on unpaid claims	22,270	15,449
	$28,759	$20,563

(i) Claims recoverable from policyholders

Some policies include conditions that require the policyholder to reimburse the Company up to an amount specified in the policy for certain third-party claims payments.

(Tabular amounts in thousands of dollars)

(ii) Claims recoverable from other insurers

In accordance with the Insurance Act of Ontario (the "Act"), the Company has a right of indemnification for certain benefits paid to its own insured from the insurer of a third party at fault. The Act also provides for an arbitration process when the two insurers are not in agreement as to the amount of losses to be transferred.

Failure of other insurers to honor their obligations could result in losses to the Company.

10. Capital assets:

	2008		
	Cost	**Accumulated amortization**	**Net book value**
Land (note 16)	$ 4,363	$ —	$ 4,363
Buildings (note 16)	29,726	2,476	27,250
Office equipment	1,093	1,005	88
Automobiles	349	301	48
Furniture	1,173	64	1,109
Leasehold improvements	29	27	2
	$36,733	$3,873	$32,860

	2007		
	Cost	**Accumulated amortization**	**Net book value**
Land (note 16)	$ 4,363	$ —	$ 4,363
Buildings (note 16)	30,437	1,512	28,925
Office equipment	1,093	968	125
Automobiles	383	271	112
Furniture	1,426	128	1,298
Leasehold improvements	29	12	17
	$37,731	$2,891	$34,840

11. Share capital:

Share capital consists of the following:

	December 31,	
	2008	**2007**
Authorized:		
50,000,000 common shares at $1 par value		
Issued:		
178,010 common shares (2007 – 178,010)	$20,204	$20,204

12. 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 unfavorable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers.

Failure of reinsurers to honor their obligations could result in losses to the Company.

Underwriting risk:

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic risk, catastrophic loss risk and reinsurance coverage risk.

Our underwriting objective is to develop business within our target market on a prudent and diversified basis and to achieve profitable underwriting results (i.e. a combined ratio between 95% and 100%)

Pricing risk:

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market. The market cycle is affected by the frequency and severity of losses, levels of capacity and demand, general economic conditions and price competition. The Company focuses on profitable underwriting using a combination of experienced underwriting staff, pricing models and price adequacy monitoring tools. We price our products taking into account numerous factors including claims frequency and severity trends, product line expense ratios, special risk factors the capital required to support the product line, and the investment income earned on that capital. Our pricing is designed to ensure an appropriate return on capital while also providing long-term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Reinsurance risk:

The Company relies on reinsurance to manage the underwriting risk; however, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. In addition, the Company has minimum rating requirements for its reinsurers. The Company tenders reinsurance requirements on a regular basis to ensure that the best price possible is obtained. The Company works with well established reinsurers that have expertise in their field as well as an understanding of the business. Management reviews reinsurance programs to manage cost-efficiency and reduce the likelihood of coverage gaps.

(Tabular amounts in thousands of dollars)

The amounts recoverable from reinsurers are detailed as follows:

	2008	2007
Unearned premiums	$ 84,762	$ 97,645
Unpaid claims and adjustment expenses	464,479	473,847
	$549,241	$571,492

	2008	2007
Related reinsurers	$494,682	$505,958
Unrelated reinsurers	54,559	65,534
	$549,241	$571,492

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.

Reinsurance arrangements with related companies, which are commonly controlled, remain in place and through these the Company cedes 65% of its net premiums to these related companies. These arrangements limit the maximum amount of net loss to $350,000 in the event of a liability or surety claim and $175,000 in the event of a property claim.

In addition, the Company has obtained catastrophe reinsurance, which together with affiliated companies, provides coverage in the event of a series of claims arising out of a single occurrence, which limits this exposure to $1,500,000 (2007 – $1,500,000) per occurrence for the Canadian subsidiaries of Kingsway Financial to a maximum aggregate of $125,000,000 (2007 – $125,000,000).

Reinsurance transactions deducted or included in items disclosed in the statement of operations were as follows:

	2008	2007
Net premiums earned		
Ceded – Related	$211,318	$ 237,444
Ceded – Other	17,098	10221,767
Claims incurred		
Ceded – Related	160,897	145,639
Ceded – Other	13,020	12,136
Commissions and premium taxes		
Ceded – Related	48,475	69,849
Ceded – Other	256	972

(Tabular amounts in thousands of dollars)

13. Related party transactions:

In the normal course of business, the Company enters into reinsurance transactions on commercial terms with related parties. Details of the impact of these transactions on the financial statements are provided in Note 10. In addition, the Company had the following transactions with related parties:

	2008	2007
Management fees paid to Kingsway Financial	$60,331	$53,096
Rental income and reimbursement of general expenses received from a commonly controlled company	$ 270	$ 360
Adjusting fees paid to a commonly controlled company	$ 1,919	$ 1,695

The Company has a management agreement with its parent company, whereby the Company pays management fee equal to the lesser of 115% or the direct costs and expenses, or fair market value incurred or paid by the parent in the provision of goods and services, facilities, supplies, equipment, premises and repairs in accordance with the said agreement. Management fees include $17,305,000 (2007 – $17,244,000) relating to internal loss adjustment expenses charged to claims incurred and $1,200,000 (2007 – $1,200,000) relating to investment management expenses charged to investment income.

All related party balances are non-interest bearing and are payable monthly in arrears.

14. Income taxes:

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

	2008	2007
Income before income taxes	$(53,543)	$23,704
Statutory tax rate	34.9%	35.0%
Provision based on statutory rate	$(18,676)	$ 8,308
Impact of changes in rate	395	—
Non-taxable securities income	(134)	(74)
Non-taxable gain	—	(978)
Other	119	50
Income tax expense	$(18,296)	$ 7,306

(Tabular amounts in thousands of dollars)

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

	2008	2007
Future income tax assets:		
Unpaid claims	$3,410	$3,580
Securities	1,537	—
Other	940	219
Future income tax assets	5,887	3,799
Future income tax liabilities:		
Securities	—	(81)
Future income tax liabilities	—	(81)
Net future income tax assets	$5,887	$3,718

15. Unpaid claims:

(a) Nature of unpaid claims:

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the 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.

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, investment rates of return, 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.

Consequently, the process of establishing the provision for unpaid claims relies on the judgment 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.

Reserving risk arises due to the length of time between the occurrences of a loss, the reporting of the loss to the insurer and ultimate resolution of the claim. Claim provisions are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

(Tabular amounts in thousands of dollars)

Variables in the reserve estimation process can be affected by receipt of additional claim information and other internal and external factors, such as changes in claims handling procedures, economic inflation, legal and judicial trends, legislative changes, inclusion of exposures not contemplated at the time of policy inception and significant changes in severity or frequency of claims relative to historical trends. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provision for claims. The Company's provision for claims are reviewed separately by, and must be acceptable to internal actuaries at the Company, the independent appointed actuary, and an external valuation actuary.

(b) Provision for unpaid claims and adjustment expenses:

The provision for unpaid claims and adjustment expenses is discounted using rates based on the Company's projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The discount rate used was 4.8% (2007 – 4.9%). Reinsurance recoverable estimates are discounted based on a rate using the Company's investment portfolio yield.

Margins for adverse development are included in the provision for unpaid claims and adjustment expenses and in the reinsurance recoverable estimates to allow for possible deterioration of experience relating to asset default, reinvestment risk, claims development and recoverability of reinsurance balances.

The gross provision and reinsurance recoverable estimates are as follows:

	2008		2007	
	Undiscounted	**Discounted**	**Undiscounted**	**Discounted**
Gross Provision	$692,369	$704,609	$703,275	$711,625
Reinsurance ceded	458,428	464,479	469,859	473,847

The Company has a concentration of business in automobile, trucking and property insurance in the provinces of Ontario and Alberta.

(Tabular amounts in thousands of dollars)

An annual evaluation of the adequacy of policy liabilities is completed 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 provisions for unpaid claims for the years ended December 31, were as follows:

	2008	2007
Unpaid claims, beginning of year		
Gross	$ 711,625	$ 724,495
Reinsurance ceded	(473,847)	(475,490)
Other claims recoverable	(15,449)	(19,430)
Unpaid claims, beginning of year – net	222,329	229,575
Provision for claims occurring:		
In the current year	137,221	107,160
In prior years	(34,025)	(10,675)
Claims paid during the year	(109,040)	(105,602)
Change in recovery of claims paid from other insurers	1,375	1,871
Unpaid claims, end of year – net	217,860	222,329
Reinsurers' share of unpaid claims	64,479	473,847
Other insurers' share of unpaid claims (note 7)	22,270	15,449
Provision for unpaid claims, end of year	$ 704,609	$ 711,625

	2008	2007
Automobile	$ 635,699	$ 650,798
Property	23,769	28,313
Liability	44,382	30,904
Other	759	1,610
Provision for unpaid claims – end of year	$ 704,609	$ 711,625

(Tabular amounts in thousands of dollars)

The Company's direct written premiums are derived from the following business lines:

	2008	2007
Business Line		
Personal Lines:		
Non-Standard Auto	41.8%	35.4%
Motorcycle	9.3%	8.1%
Property (including Liability)	0.3%	0.3%
Total Personal Lines	51.4%	43.8%
Commercial Lines:		
Trucking	22.0%	31.1%
Commercial Auto	11.6%	9.5%
Property (including Liability)	12.9%	14.1%
Other Specialty Lines	2.1%	1.5%
Total Commercial Lines	48.6%	56.2%
Total Direct Premiums Written	100.0%	100.0%

(c) Fair value of unpaid claims:

The provision for unpaid claims and adjustment expenses is based on the present value of future cash flows plus provision for adverse deviations, and is considered an indicator of fair value since there is no ready market for the trading of insurance policy liabilities.

16. Statutory requirements:

The Company is regulated by the Financial Services Commission of Ontario (FSCO) and is required to maintain a level of capital sufficient to achieve a target of 150% of a minimum capital test (MCT) formula. The Company was in compliance at the end of 2008 and 2007 achieving 186% and 266% respectively.

17. Commitments and contingent liabilities:

(a) In connection with its operations, the Company is from time to time named as defendant 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.

The Company has purchased a number of annuities in settlement of claims. These annuities have been purchased from life insurance companies with the highest claims paying ability ratings as determined by outside ratings organizations. The Company has a contingent credit risk with respect to the failure of these life insurers which management have assessed as being immaterial. The Company believes it is not practical to determine the fair value of its financial guarantees or the maximum contingent potential payment of this guarantee on the structured settlements.

(Tabular amounts in thousands of dollars)

Future minimum annual lease payments under operating leases for premises/equipment for the next five years and thereafter are:

2009	827
2010	951
2011	985
2012	1,009
2013	1,042
Thereafter	3,643

(b) As at December 31, 2008, bonds and term deposits with an estimated fair value of $0.2 million (2007 – $0.2 million) were on deposit with regulatory authorities. Also, from time to time, the Company pledges assets to third parties to collateralize liabilities incurred under its policies of insurance or for the services provided by them to the company. At December 31, 2008, the amount of such pledged assets was $Nil (2007 – $Nil). 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.

18. Joint ventures:

The Company has a 75% ownership in a real estate joint venture with a related party which is commonly controlled and as such is accounted for as a joint venture. The following amounts represent the Company's proportionate interest:

	2008	2007
Current assets	1,927	1,176
Capital assets	29,664	31,374
Current liabilities	22	31
Investment Income	19	103
Cash flows resulting from operating activities	(1,761)	(2,208)
Cash flows resulting from investing activities	964	(7,395)

The capital assets include land of $3,756,000 (2007 – $3,756,000) and building of $25,091,000 (2007 – $27,618,000).

Appendix E

Financial Statements of

KINGSWAY GENERAL INSURANCE COMPANY

Nine months ended September 30, 2009

KINGSWAY GENERAL INSURANCE COMPANY
Balance Sheet
Unaudited

As at September 30, 2009, with comparative figures for 2008
(In thousands of dollars)

	2009	2008
Assets		
Cash	$ 29,568	$ 17,550
Securities (notes 5 and 6)	183,015	180,789
Accrued investment income	1,899	1,839
Financed premiums	49,896	46,321
Accounts receivable and other assets	14,286	45,050
Claims recoverable (note 8)	22,875	31,098
Income taxes recoverable	10,749	18,855
Future income taxes (note 13)	4,994	5,202
Due from related parties (note 12)	17,883	32,913
Recoverable from reinsurers (notes 11 and 14)	531,564	575,217
Deferred policy acquisition costs	14,748	22,545
Capital assets (note 9)	30,950	32,818
	$912,427	$1,010,197
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 4,903	$ 5,165
Due to related parties (note 12)	—	3,418
Unearned premiums (note 11)	96,796	137,870
Unpaid claims (notes 11 and 14)	707,047	737,343
Unearned reinsurance commissions	18,124	25,986
	826,870	909,782
Shareholders' equity:		
Share capital (note 10)	20,204	20,204
Contributed surplus	56,254	49,254
Retained earnings	6,395	39,729
Accumulated other comprehensive income (loss)	2,704	(8,772)
	85,557	100,415
	$912,427	$1,010,197

Commitments and contingent liabilities (note 16)
See accompanying notes to financial statements.

KINGSWAY GENERAL INSURANCE COMPANY
Statement of Operations
Unaudited

As at September 30, 2009, with comparative figures for 2008
(In thousands of dollars)

	2009	2008
Direct premiums written	$159,622	$245,773
Net premiums written	$ 47,660	$ 78,303
Revenue:		
Net premiums earned (notes 11 and 12)	$ 61,262	$ 83,919
Investment income	2,643	6,845
Net realized gain (loss) on sales of securities	(841)	606
Premium finance income	4,199	3,546
Gain on sale of capital assets	—	—
	67,345	103,104
Expenses:		
Claims incurred (notes 11, 12 and 14)	60,592	76,695
Commissions and premium taxes (notes 11 and 12)	43	4,208
Management fees (note 12)	22,300	30,663
General and administrative expenses (note 12)	6,344	7,933
	89,279	119,499
Loss before income taxes	(22,016)	(24,583)
Income taxes (recovery) (note 13):		
Current	(8,672)	(7,899)
Future	893	(534)
	(7,779)	(8,433)
Net loss	$ (14,237)	$ (16,150)

See accompanying notes to financial statements.

KINGSWAY GENERAL INSURANCE COMPANY
Statement of Changes in Shareholder's Equity
Unaudited

Nine months ended September 30, 2009, with comparative figures for 2008
(In thousands of dollars)

	2009	2008
Share capital		
Balance at beginning of year	$ 20,204	$ 20,204
Issued during the period	—	—
Balance at end of period	20,204	20,204
Contributed surplus		
Balance at beginning of year	$ 49,254	$ 49,254
Contributions during the period	7,000	—
Balance at end of period	56,254	49,254
Retained earnings		
Balance at beginning of year	$ 20,632	$ 65,879
Net loss for the period	(14,237)	(16,150)
Common share dividends	—	(10,000)
Balance at end of period	6,395	39,729
Accumulated other comprehensive income		
Balance at beginning of year	$ (693)	$ 4,195
Other comprehensive income (loss)	3,397	(12,967)
Balance at end of period	2,704	(8,772)
Total shareholders' equity at end of period	$ 85,557	$100,415

See accompanying notes to financial statements.

KINGSWAY GENERAL INSURANCE COMPANY
Statement of Comprehensive Income
Unaudited

Nine months ended September 30, 2009, with comparative figures for 2008
(In thousands of dollars)

	2009	2008
Net loss	$(14,237)	$(16,150)
Other comprehensive income, net of taxes:		
• Change in unrealized gains on available-for sale securities:		
Unrealized gains/(losses) arising during the year, net of income taxes(1)	3,701	(11,145)
Reclassification of net realized gains to net income, net of income taxes(2)	(304)	(1,822)
Other comprehensive income (loss)	3,397	(12,967)
Comprehensive income	$(10,840)	$(29,117)

(1) Net of income tax of $1,881 (2008 – (5,839))

(2) Net of income tax of $(160) (2008 – (966))

See accompanying notes to financial statements.

KINGSWAY GENERAL INSURANCE COMPANY
Statement of Cash Flows
Unaudited

Nine months ended September 30, 2009, with comparative figures for 2008
(In thousands of dollars)

	2009	2008
Cash provided by (used in):		
Operating activities:		
Net loss	$ (14,237)	$ (16,150)
Items not affecting cash:		
Amortization	552	874
Future income taxes	893	1,785
Net realized loss (gain) on sale of securities	841	(606)
Net realized gain on sale of capital assets	(20)	—
Amortization of bond premiums and discounts	12	(461)
	(11,959)	(14,558)
Change in non-cash balances:		
Deferred policy acquisition costs	6,856	(2,698)
Recoverable from reinsurers	17,677	(8,800)
Unearned premiums	(37,951)	(16,651)
Unpaid claims	2,438	25,718
Net change in other non-cash balances	40,360	(22,449)
	17,421	(39,438)
Financing activities:		
Contributed surplus	7,000	—
Dividends paid	—	(10,000)
	7,000	(10,000)
Investing activities:		
Purchase of securities	(580,563)	(505,090)
Proceeds from sale of securities	585,671	572,424
Financed premiums receivable, net	(4,220)	(8,155)
Proceeds from sale of capital assets	25	5
Additions to capital assets	1,910	(2,933)
	2,823	56,251
Increase (decrease) in cash position during the period	27,244	6,813
Cash, beginning of year	2,324	10,737
Cash, end of period	$ 29,568	$ 17,550

	2009	2008
Supplementary disclosure of cash information:		
Cash paid for:		
Income taxes	$ —	$ 4,751

See accompanying notes to financial statements.

Kingsway General Insurance Company (the "Company") was incorporated under the Corporations Act (Ontario) on August 19, 1986, and up to September 30, 2009 was licensed under the Insurance Act of Ontario. The Company is a wholly owned subsidiary of Kingsway Financial Services Inc. ("Kingsway Financial"), whose shares are listed on the Toronto and New York Stock Exchanges. Effective October 1, 2009, the Company entered into an Assumption Reinsurance agreement with Jevco Insurance Company ("Jevco"), a sister company, whereby Jevco assumed all the policy liabilities and supporting assets of the Company. The Company subsequently surrendered all of its provincial and territorial licenses.

1. Future accounting changes – International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that a profit-oriented publicly accountable enterprise will be required to adopt IFRS. IFRS will replace current Canadian GAAP for those enterprises. For the Company, IFRS will be effective for interim and annual periods commencing January 1, 2011, including the preparation and reporting of one year of comparative figures. The Company is currently in the process of evaluating the impacts and implications of its conversion to IFRS.

2. Subsequent event – significant transaction:

Effective October 1, 2009 the Company commuted its reinsurance treaties with Kingsway Reinsurance Limited ("KRL") and Jevco. Also effective October 1, 2009, but subsequent to the commutation of the reinsurance treaties with KRL and Jevco, the Company entered into an Assumption Reinsurance agreement with Jevco whereby Jevco assumed all the policy liabilities and supporting assets of the Company. Jevco also purchased certain other capital assets of the Company. The Company subsequently surrendered all of its provincial licenses and declared and paid a dividend representing most of its shareholders equity.

3. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and meet the requirements of the Financial Services Commission of Ontario ("FSCO").

(a) Use of estimates:

The preparation of financial statements 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. Key areas where management has made difficult, complex or subjective judgments, often as a result of matters inherently uncertain include income taxes, unpaid claims and investment impairment. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

(b) Securities:

All securities are designated as available-for-sale ("AFS") and are carried at their fair value whereby the unrealized gains and losses are included in Accumulated Other Comprehensive Income ("AOCI") until sale or other-than-temporary impairment is recognized, at which point cumulative unrealized gains or losses are transferred to the statement of operations. Realized gains and losses on sale, determined on an average cost basis, and write-downs to reflect other-than-temporary impairments in value are included in "Net realized gain/ (loss) on sales of securities".

Dividends and interest income from these securities are included in "Investment income". Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date.

The Company accounts for all financial instruments using settlement date accounting.

Transaction costs are capitalized and, where applicable, amortized over the expected life of the instrument using the effective interest rate method.

The Company conducts a quarterly review to identify and evaluate securities that show objective indications of possible impairment. An impairment is charged to income if the fair value of a security falls below its cost/amortized cost, and the decline is considered other-than-temporary. Factors considered in determining whether a loss is other-than-temporary include the length of time and extent to which fair value has been below cost; financial condition and near-term prospects of the issuer; and the company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

(c) Capital assets:

Capital assets are carried at cost less accumulated amortization. Amortization is provided on the following basis:

Buildings	Declining Balance	5%
Office equipment	Declining Balance	30%
Automobiles	Straight line	3 – 5 years
Furniture	Straight line	5 years
Leasehold improvements	Over the lease term	

(d) 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.

(e) Premium revenue and unearned premiums:

The Company earns motorcycle premiums over the period of risk covered by the policy based on the Company's experience. The Company earns premium revenue on all other lines evenly over the period covered by each individual insurance contract. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the year end. A premium deficiency is established if the unearned premiums are less than the estimated future claims and expenses to be incurred as premiums are earned.

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.

In Canada, automobile insurance premium rates other than for fleet automobile are regulated by the provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. Accordingly, a significant portion of the Company's revenue is subject to regulatory approvals.

(f) Unpaid claims:

The provision for unpaid claims includes adjustment expenses and represents an estimate of 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 takes into consideration the time value of money using discount rates based on projected investment income from the assets supporting the provisions and includes an explicit provision for amounts recoverable at the same time using principles consistent with the Company's method for establishing the related liability.

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 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.

(g) Reinsurance ceded:

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 and unearned reinsurance commissions, respectively.

Amounts recoverable from reinsurers are estimated in a manner consistent with the policy liabilities associated with the reinsured policy.

(h) 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 carry forwards. 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.

(i) Joint Ventures:

The Company's interest in joint a venture is included in these financial statements on a proportionate consolidation basis (note 17).

4. Role of the actuary and 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. With respect to the preparation of these financial statements, the independent actuary, Towers Perrin carries out a review of management's valuation of the unpaid claim liabilities and provides an opinion to the Board of Directors and the shareholders regarding the appropriateness of the unpaid claim liabilities recorded by management to meet all policyholder claim 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 independent 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 auditors

The external auditors have been appointed by the shareholders, pursuant to the Insurance Act of Ontario. 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 his report on the policy liabilities of the Company. The auditors' report outlines the scope of their audit and their opinion.

(Tabular amounts in thousands of dollars)

5. Securities:

The table below provides the amortized cost and fair values of securities:

	September 30, 2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Term deposits and bankers' acceptances	$ 2,104	$ —	$ —	$ 2,104
Bonds:				
Canadian – Government	82,014	726	—	82,740
– Corporate	70,031	2,436	107	72,360
Other	12,413	698	—	13,111
US – Corporate	8,055	230	11	8,274
Others – Corporate	4,245	181	—	4,426
	$178,862	$4,281	$ 118	$183,015

	September 30, 2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Term deposits and bankers' acceptances	$ 7,454	$ 1	$ 7	$ 7,448
Bonds:				
Canadian – Government	41,431	506	103	41,834
– Corporate	52,328	269	1,597	51,000
Other	30,976	86	395	30,667
US – Corporate	12,054	100	1,233	10,921
Others – Corporate	8,869	267	551	8,585
Common shares				
Canadian	39,621	288	10,991	28,918
U.S.	1,325	123	40	1,408
Preferred shares				
Canadian	13	—	4	9
	$194,071	$1,640	$14,921	$180,790

Fair values of securities are considered to approximate quoted market values based on the latest bid prices in active markets. Fair value of securities for which no active market exists are derived from quoted market prices of similar securities or third party evidence.

Management performs a quarterly analysis of the Company's investment holdings to determine if declines in market value are other than temporary. The analysis includes some or all of the following procedures as deemed appropriate by management:

- Assessing the Company's intent to sell those securities;
- Assessing whether it is more likely than not that the company will be required to sell those securities before the recovery of its amortized cost basis;
- Assessing if any credit losses are expected for those securities. The assessment includes consideration of, among other things, all available information and factors having a bearing upon collectability of security such as changes to credit rating by rating agencies, financial condition of the issuer, expected cash flows and value of any underlying collateral;
- identifying all security holdings in unrealized loss positions that have existed for at least six months or other circumstances that management believes may impact the recoverability of the security;
- obtaining a valuation analysis from third party investment managers regarding the intrinsic value of these holdings based on their knowledge, experience and other market based valuation techniques;
- reviewing the trading range of certain securities over the preceding calendar period;
- assessing if declines in market value are other than temporary for debt security holdings based on their investment grade credit ratings from third party security rating agencies;
- assessing if declines in market value are other than temporary for any debt security holding with non-investment grade credit rating based on the continuity of its debt service record; and
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed.

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

- the opinion of professional investment managers could be incorrect;
- the past trading patterns of individual securities may not reflect future valuation trends;
- the credit ratings assigned by independent credit rating agencies may be incorrect due to unforeseen or unknown facts related to a company's financial situation; and
- the debt service pattern of non-investment grade securities may not reflect future debt service capabilities and may not reflect the company's unknown underlying financial problems.

As a result of the above analysis performed by management to determine declines in market value that are other than temporary, write downs for other-than-temporary impairments were $1.4 million (2008 – $3.4 million) and the entire amount of other-than-temporary impairments has been recognized in earnings.

(Tabular amounts in thousands of dollars)

6. Financial instruments:

(a) Financial risk management objectives and policies:

By virtue of the nature of the Company's business activities, financial instruments make up the majority of the balance sheet. The risks which arise from transacting financial instruments include credit risk, market risk and liquidity and cash flow risk. These risks may be caused by factors specific to an individual instrument or factors affecting all instruments traded in the market. The company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

Further details are provided below on the risk management objectives and policies as they relate to the specific financial risks:

Credit risk:

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of Canadian government bonds) as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company's credit exposure to any one individual policyholder is not material. The Company's policies, however, are distributed by agents, program managers or brokers who manage cash collection on its behalf. The Company has policies to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer's insolvency.

The tables below summarize the credit exposure of the Company from its investments in fixed income securities and term deposits by rating:

	2009		2008	
AAA	38,093	20.8%	$ 73,615	48.9%
AA	73,851	40.3%	18,030	12.0%
A	44,818	24.5%	44,918	29.9%
BBB	25,453	13.9%	12,708	8.4%
BB	—	0.0%	1,184	0.8%
Not rated	900	0.5	—	0.0%
Total	183,015	100.0%	$150,455	100.0%

As at September 30, 2009, 85.6% (2008 – 90.8%) of the fixed income portfolio is rated 'A' or better.

(Tabular amounts in thousands of dollars)

The table below summarizes the credit exposure of the Company for amounts receivable from reinsurers, by the rating, as assigned by A.M. Best to the applicable reinsurers.

	2009		2008	
A++	2,475	0.4%	$ 2,717	0.5%
A+	16,064	2.8%	17,637	3.1%
A	20,918	3.6%	22,967	4.0%
A-	7,008	1.2%	7,695	1.3%
B+	481,453	83.7%	520,198	90.4%
Not Rated	3,646	0.6%	4,004	0.7%
Total	$531,564	100.0%	$549,241	100.0%

Market risk:

The market risk exposure of the Company is primarily to the changes in interest rates. Market risk is subject to risk management. The Investment Committee of the Board and senior management of the company monitor the Company's market risk exposures and activities that give rise to these exposures.

Interest rate risk:

The company's primary market risk exposure is changes in interest rates. Because most of the securities portfolio is comprised of fixed income securities, periodic changes in interest rate levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. Also, during periods of rising interest rates, the market value of the existing fixed income securities will generally decrease and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that an immediate hypothetical 100 basis point or 1 percent parallel increase in interest rates would decrease the market value of the fixed income securities by $9.0 million (2008—$3.8 million) representing 4.9% (2008 – 2.5%) of the $183.0 million (2008—$150.5 million) fair value of fixed income securities portfolio.

Computation of the prospective effect of hypothetical interest rate changes are based on numerous assumptions, including, maintenance of existing level and composition of fixed income security assets at the indicated date and should not be relied on as indicative of future results. The analysis is based on the following assumptions:

- The securities in the company's portfolio are not impaired;
- Credit and liquidity risks have not been considered;
- Interest rates and equity prices move independently; and
- Shifts in the yield curve are parallel.

In addition, it is important to note that available-for-sale securities in an unrealized loss position as reflected in Other Comprehensive Income, may at some point in the future be realized through a sale or impairment.

Equity prices risk:

The Company is exposed to changes in the value of equity securities as a result of market conditions. This is the risk of loss due to adverse movement in equity prices and comprises of two key components i.e. general equity risk, which refers to fluctuations in value of the equity securities due to changes in general economic or stock market conditions and specific equity risk which refers to equity price volatility that is determined by entity specific characteristics .

Fluctuation in value of the equity affect the carrying value of these securities and the level and timing of recognition of gains and losses on securities held, causing changes in realized and unrealized gains and losses.

Equity price risk is mitigated through diversification. The Equity portfolio is managed through the use of services of third party professional investment management firms and their performance is actively monitored by management and the Investment Committee of the Board of Directors.

At September 30, 2009, management estimates that a 10% increase in equity prices, with all other variables held constantly, would increase Other Comprehensive Income and Comprehensive Income before tax by $nil (2008 – $2.8 million). A 10% decrease in equity prices would have the corresponding opposite effect on Other Comprehensive Income and Comprehensive Income. Equities comprise nil% (2008 – 15.2%) of the company's investment portfolio as at September 30, 2009.

In February 2009, the Company elected to significantly reduce this equity price risk by liquidating the entire common equity portfolio.

Liquidity and cash flow risk:

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavorable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. There is the risk of loss to the extent that that the sale of a security prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows. Cash flow risk arises from risk that future inflation of policyholder cash flows exceeds returns on long-dated investment securities. The purpose of liquidity & cash flow management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity & cash flow requirements of the Company's business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements. To meet these cash requirements, the Company has policies to limit and monitor its exposure to individual issuers or related groups and to ensure that assets and liabilities are broadly matched in terms of their duration and currency. The Company believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill the cash requirements during the current financial year and also to satisfy regulatory capital requirements.

(Tabular amounts in thousands of dollars)

Liquidity risk:

The following table summarizes carrying amounts of financial instruments by contractual maturity or expected cash flow dates (the actual repricing dates may differ from contractual maturity because certain securities and debentures have the right to call or prepay obligations with or without call or prepayment penalties):

	September 30, 2009						
	<=1 Year	1 - 2 Years	2 - 5 Years	5 - 10 Years	> 10 Years	No Specific Date	Total
Assets:							
Cash	29,568						29,568
Securities	2,104	20,304	61,304	97,131	2,042		183,015
Accrued investment income	1,899						1,899
Finance premiums	49,896						49,896
Accounts receivable & other assets	12,788					1,498	14,286
Claims recoverable	5,718	4,804	8,235	3,660	485		22,875
Due from related parties	(3,310)	25,015	(3,822)				17,883
Recoverable from reinsurers	178,201	98,942	169,614	75,384	9,423		531,564
Liabilities:							
Accounts payable & accrued liabilities	4,903						4,903
Due to related parties	—						—
Unpaid claims	176,761	148,480	254,537	113,128	14,141		707,047

	September 30, 2008						
	<=1 Year	1 - 2 Years	2 - 5 Years	5 - 10 Years	> 10 Years	No Specific Date	Total
Assets:							
Cash	17,550						17,550
Securities	20,890	21,232	63,708	43,749	885	30,336	180,789
Accrued investment income	1,839						1,839
Finance premiums	46,321						46,321
Accounts receivable & other assets	41,135					3,961	45,050
Claims recoverable	13,473	4,935	8,460	3,760	470		31,098
Due from related parties	7,979	23,915	1,019				32,913
Recoverable from reinsurers	208,762	102,607	175,899	78,177	9,772		575,217
Liabilities:							
Accounts payable & accrued liabilities	5,165						5,165
Due to related parties	3,418						3,418
Unpaid claims	184,336	154,842	265,443	117,975	14,747		737,343

The coupon rate for the fixed term investments is 3.1% as at September 30, 2008 (2008-range from 3.8% to 9.5%). The average effective yield (using amortized cost and the contractual interest rates, adjusted for any amortization of premiums and discounts) is 4.1% (2008 – 4.0%).

(b) Fair value:

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and are best evidenced by quoted market prices, if they exist. 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.

Refer to Note 5 with respect to fair value disclosure on securities. There is no active market for policy liabilities, so, a market value is not available.

The carrying value of all other financial instruments approximates their fair value due to the short term to maturity of those financial instruments.

(c) Past due loans but not impaired:

Past due loans are loans where repayment of principal or payment of interest is contractually in arrears. There are no such loans as at September 30, 2009 (2008 – nil).

7. Capital management:

Objectives, policies & procedures:

The company has three capital management objectives: Meet regulatory requirements, maintain strong credit rating and maximize returns to shareholders. Towards achievement of these objectives, the company employs a strong and efficient capital base. It manages capital in accordance with policies established by the Board. These policies relate to capital strength, capital mix, dividends and return on capital, and the unconsolidated capital adequacy of all regulated entities. The Company has a capital management process in place to measure, deploy and monitor its available capital and assess its adequacy on continuous basis. Senior executive management develops the capital strategy and oversees the capital management processes of the Company. Capital is managed using both regulatory capital measures and internal metrics. The company's capital is primarily derived from common shareholders & retained earnings.

There were no significant changes made in the objectives, policies and procedures during the year.

Regulatory capital requirements & ratios:

As at September 30, 2009 the Company was adequately capitalized to support the premium volume. The Company is regulated by the Financial Services Commission of Ontario (FSCO) and is required to maintain a level of capital sufficient to achieve a ratio of 150% of a minimum capital test (MCT) formula. As at September 30, 2009 the MCT of the Company is above the required 150% MCT level.

(Tabular amounts in thousands of dollars)

8. Claims recoverable:

	2009	2008
Claims recoverable from policyholders	$ —	$ 7,599
Claims recoverable from other insurers on unpaid claims	22,875	23,499
	$22,875	$31,098

(i) Claims recoverable from policyholders

Some policies include conditions that require the policyholder to reimburse the Company up to an amount specified in the policy for certain third-party claims payments.

(ii) Claims recoverable from other insurers

In accordance with the Insurance Act of Ontario (the "Act"), the Company has a right of indemnification for certain benefits paid to its own insured from the insurer of a third party at fault. The Act also provides for an arbitration process when the two insurers are not in agreement as to the amount of losses to be transferred.

Failure of other insurers to honor their obligations could result in losses to the Company.

9. Capital assets:

	2009		
	Cost	Accumulated amortization	Net book value
Land (note 16)	$ 4,363	$ —	$ 4,363
Buildings (note 16)	28,336	2,926	25,410
Office equipment	1,093	1,005	88
Automobiles	179	163	16
Furniture	1,176	103	1,073
Leasehold improvements	29	29	—
	$31,176	$4,226	$30,950

	2008		
	Cost	Accumulated amortization	Net book value
Land (note 16)	$ 4,363	$ —	$ 4,363
Buildings (note 16)	28,636	1,369	27,267
Office equipment	1,093	996	97
Automobiles	382	321	61
Furniture	1,080	56	1,024
Leasehold improvements	29	23	6
	$35,583	$3,873	$32,818

(Tabular amounts in thousands of dollars)

10. Share capital:

Share capital consists of the following:

	September 30, 2009	September 30, 2008
Authorized:		
50,000,000 common shares at $1 par value		
Issued:		
178,010 common shares (2008 – 178,010)	$20,204	$20,204

11. 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 unfavorable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers.

Failure of reinsurers to honor their obligations could result in losses to the Company.

Underwriting risk:

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic risk, catastrophic loss risk and reinsurance coverage risk.

Our underwriting objective is to develop business within our target market on a prudent and diversified basis and to achieve profitable underwriting results (i.e. a combined ratio between 95% and 100%)

Pricing risk:

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market. The market cycle is affected by the frequency and severity of losses, levels of capacity and demand, general economic conditions and price competition. The Company focuses on profitable underwriting using a combination of experienced underwriting staff, pricing models and price adequacy monitoring tools. We price our products taking into account numerous factors including claims frequency and severity trends, product line expense ratios, special risk factors the capital required to support the product line, and the investment income earned on that capital. Our pricing is designed to ensure an appropriate return on capital while also providing long-term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Reinsurance risk:

The Company relies on reinsurance to manage the underwriting risk; however, reinsurance does not release the Company from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with the amounts ceded to reinsurers. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. In addition, the Company has minimum rating requirements for its reinsurers. The Company tenders reinsurance requirements on a regular basis to ensure that the best price possible is obtained. The Company works with well established reinsurers that have expertise in their field as well as an understanding of the business. Management reviews reinsurance programs to manage cost-efficiency and reduce the likelihood of coverage gaps.

(Tabular amounts in thousands of dollars)

The amounts recoverable from reinsurers are detailed as follows:

	2009	2008
Unearned premiums	$ 60,413	$ 86,610
Unpaid claims and adjustment expenses	471,151	488,607
	$531,564	$575,217

	2009	2008
Related reinsurers	$481,453	$520,165
Unrelated reinsurers	50,111	55,052
	$531,564	$575,217

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.

Reinsurance arrangements with related companies, which are commonly controlled, remain in place and through these the Company cedes 65% of its net premiums to these related companies. These arrangements limit the maximum amount of net loss to $350,000 in the event of a liability or surety claim and $175,000 in the event of a property claim.

In addition, the Company has obtained catastrophe reinsurance, which together with affiliated companies, provides coverage in the event of a series of claims arising out of a single occurrence, which limits this exposure to $1,500,000 (2008 – $1,500,000) per occurrence for the Canadian subsidiaries of Kingsway Financial to a maximum aggregate of $125,000,000 (2008 – $125,000,000).

Reinsurance transactions deducted or included in items disclosed in the statement of operations were as follows:

	2009	2008
Net premiums earned		
Ceded – Related	$125,698	$164,424
Ceded – Other	10,613	14,082
Claims incurred		
Ceded – Related	109,053	134,269
Ceded – Other	1,739	6,639
Commissions and premium taxes		
Ceded – Related	27,609	34,718
Ceded – Other	166	181

(Tabular amounts in thousands of dollars)

12. Related party transactions:

In the normal course of business, the Company enters into reinsurance transactions on commercial terms with related parties. Details of the impact of these transactions on the financial statements are provided in Note 10. In addition, the Company had the following transactions with related parties:

	2009	2008
Management fees paid to Kingsway Financial	$30,895	$44,601
Rental income and reimbursement of general expenses received from a commonly controlled company	$ —	$ 270
Adjusting fees paid to a commonly controlled company	$ 647	$ 1,456

The Company has a management agreement with its parent company, whereby the Company pays management fee equal to the lesser of 115% or the direct costs and expenses, or fair market value incurred or paid by the parent in the provision of goods and services, facilities, supplies, equipment, premises and repairs in accordance with the said agreement. Management fees include $8,421,000 (2008 – $12,991,000) relating to internal loss adjustment expenses charged to claims incurred and $900,000 (2008 – $900,000) relating to investment management expenses charged to investment income.

All related party balances are non-interest bearing and are payable monthly in arrears.

13. Income taxes:

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

	2009	2008
Income before income taxes	$(22,016)	$(24,583)
Statutory tax rate	34.9%	34.9%
Provision based on statutory rate	$ (7,683)	$ (8,579)
Impact of changes in rate	(107)	216
Non-taxable securities income	24	(103)
Non-taxable gain	—	—
Other	(13)	33
Income tax expense	$ (7,779)	$ (8,443)

(Tabular amounts in thousands of dollars)

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

	2009	**2008**
Future income tax assets:		
Unpaid claims	$3,694	$3,559
Securities	(310)	889
Other	1,610	754
Future income tax assets	4,994	5,202
Future income tax liabilities:		
Securities	—	—
Future income tax liabilities	—	—
Net future income tax assets	$4,994	$5,202

14. Unpaid claims:

(a) Nature of unpaid claims:

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the 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.

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, investment rates of return, 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.

Consequently, the process of establishing the provision for unpaid claims relies on the judgment 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.

Reserving risk arises due to the length of time between the occurrences of a loss, the reporting of the loss to the insurer and ultimate resolution of the claim. Claim provisions are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

(Tabular amounts in thousands of dollars)

Variables in the reserve estimation process can be affected by receipt of additional claim information and other internal and external factors, such as changes in claims handling procedures, economic inflation, legal and judicial trends, legislative changes, inclusion of exposures not contemplated at the time of policy inception and significant changes in severity or frequency of claims relative to historical trends. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provision for claims. The Company's provision for claims are reviewed separately by, and must be acceptable to internal actuaries at the Company, the independent appointed actuary, and an external valuation actuary.

(b) Provision for unpaid claims and adjustment expenses:

The provision for unpaid claims and adjustment expenses is discounted using rates based on the Company's projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The discount rate used was 4.8% (2008 – 4.9%). Reinsurance recoverable estimates are discounted based on a rate using the Company's investment portfolio yield.

Margins for adverse development are included in the provision for unpaid claims and adjustment expenses and in the reinsurance recoverable estimates to allow for possible deterioration of experience relating to asset default, reinvestment risk, claims development and recoverability of reinsurance balances.

The gross provision and reinsurance recoverable estimates are as follows:

	2009		**2008**	
	Undiscounted	**Discounted**	**Undiscounted**	**Discounted**
Gross Provision	$691,577	$707,047	$729,872	$737,343
Reinsurance ceded	462,106	471,151	483,419	488,607

The Company has a concentration of business in automobile, trucking and property insurance in the provinces of Ontario and Alberta.

(Tabular amounts in thousands of dollars)

An annual evaluation of the adequacy of policy liabilities is completed 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 provisions for unpaid claims for the periods ended September 30, were as follows:

	2009	2008
Unpaid claims, beginning of year		
Gross	$ 704,609	$ 711,625
Reinsurance ceded	(464,479)	(473,847)
Other claims recoverable	(22,270)	(15,449)
Unpaid claims, beginning of year – net	217,860	222,329
Provision for claims occurring:		
In the current period	57,156	75,812
In prior years	3,436	883
Claims paid during the period	(58,942)	(76,272)
Change in recovery of claims paid from other insurers	(6,489)	2,485
Unpaid claims, end of period – net	213,021	225,237
Reinsurers' share of unpaid claims	471,151	488,607
Other insurers' share of unpaid claims (note 7)	22,875	23,499
Provision for unpaid claims, end of period	$ 707,047	$ 737,343

	2009	2008
Automobile	$ 637,899	$ 674,318
Property	23,851	29,336
Liability	44,536	32,021
Other	762	1,668
Provision for unpaid claims – end of period	$ 707,047	$ 737,343

(Tabular amounts in thousands of dollars)

The Company's direct written premiums are derived from the following business lines:

	2009	2008
Business Line		
Personal Lines:		
Non-Standard Auto	55.3%	40.3%
Motorcycle	13.2%	11.6%
Property (including Liability)	0.0%	0.3%
Total Personal Lines	68.5%	52.2%
Commercial Lines:		
Trucking	9.9%	20.8%
Commercial Auto	11.7%	11.6%
Property (including Liability)	7.2%	13.3%
Other Specialty Lines	2.7%	2.1%
Total Commercial Lines	31.5%	47.8%
Total Direct Premiums Written	100.0%	100.0%

(c) Fair value of unpaid claims:

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.

15. Statutory requirements:

The Company is regulated by the Financial Services Commission of Ontario (FSCO) and is required to maintain a level of capital sufficient to achieve a target of 150% of a minimum capital test (MCT) formula. The Company was in compliance at the end of September 2009 and 2008 achieving 207% and 169% respectively.

16. Commitments and contingent liabilities:

(a) In connection with its operations, the Company is from time to time named as defendant 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.

The Company has purchased a number of annuities in settlement of claims. These annuities have been purchased from life insurance companies with the highest claims paying ability ratings as determined by outside ratings organizations. The Company has a contingent credit risk with respect to the failure of these life insurers which management have assessed as being immaterial. The Company believes it is not practical to determine the fair value of its financial guarantees or the maximum contingent potential payment of this guarantee on the structured settlements.

(Tabular amounts in thousands of dollars)

Future minimum annual lease payments under operating leases for premises/equipment for the next five years and thereafter are nil.

(b) As at September 30, 2009, bonds and term deposits with an estimated fair value of $0.2 million (2008 – $0.2 million) were on deposit with regulatory authorities. Also, from time to time, the Company pledges assets to third parties to collateralize liabilities incurred under its policies of insurance or for the services provided by them to the company. At September 30, 2009, the amount of such pledged assets was $Nil (2008 – $Nil). 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.

17. Joint ventures:

The Company has a 75% ownership in a real estate joint venture with a related party which is commonly controlled and as such is accounted for as a joint venture. The following amounts represent the Company's proportionate interest:

	2009	2008
Current assets	2,576	2,107
Capital assets	27,886	29,556
Current liabilities	43	—
Investment Income	(1,393)	17
Cash flows resulting from operating activities	(2,071)	(2,141)
Cash flows resulting from investing activities	27	1,259

The capital assets include land of $3,756,000 (2008 – $3,756,000) and building of $25,101,000 (2008 – $25,105,000).

As a result of analysis performed by management to determine the decline in market value of the real estate venture that are other than temporary, write downs for other-than-temporary impairments were $1.4 million (2008 – $nil) and the entire amount of other-than-temporary impairments has been recognized in earnings.

Appendix F

THE WESTAIM CORPORATION

Unaudited Pro Forma Consolidated Balance Sheet
As at September 30, 2009

Unaudited Pro Forma Consolidated Statements of Operations
For the nine months ended September 30, 2009
For the year ended December 31, 2008

THE WESTAIM CORPORATION
Pro Forma Consolidated Balance Sheet
Unaudited

As at September 30, 2009
(thousands of dollars)

	The Westaim Corporation	Jevco Insurance Company (See Note 2)	Pro Forma Adjustments	Notes	Pro Forma Consolidated
ASSETS					
CURRENT					
Cash and cash equivalents	$ 38,562	$ 65,325	$ 5,700	3(a), 3(e)	$ 109,587
Short-term investments	2,164	—	—		2,164
Accounts receivable	4,902	—	—		4,902
Accounts receivable and other assets	—	26,527	—		26,527
Inventories	4,433	—	—		4,433
Other	641	—	—		641
Current assets held-for-sale	90	—	—		90
Accrued investment income	—	6,275	—		6,275
Financed premiums	—	53,958	—		53,958
Claims recoverable from other insurers	—	26,950	—		26,950
Due from related parties	—	13,932	—		13,932
Due from reinsurers	—	46,911	—		46,911
Deferred policy acquisition costs	—	31,503	—		31,503
Future income taxes	—	9,821	—		9,821
	50,792	281,202	5,700		337,694
INVESTMENTS	3,678	895,590	—		899,268
CAPITAL ASSETS	10,739	52,666	(21,467)	3(e)	41,938
INTANGIBLE ASSETS	526	1,361	—		1,887
CAPITAL ASSETS HELD-FOR-SALE	948	—	—		948
FUTURE INCOME TAXES	—	—	6,440	3(e)	6,440
	$ 66,683	$1,230,819	$ (9,327)		$1,288,175
LIABILITIES					
CURRENT					
Accounts payable and accrued liabilities	$ 8,524	$ 10,193	$ 10,000	3(a), 3(b), 3(f)	$ 28,717
Accounts payable and accrued liabilities held-for sale	478	—	—		478
Income taxes payable	—	5,565	—		5,565
Unearned premiums	—	151,683	—		151,683
Unpaid claims	—	779,013	—		779,013
Unearned reinsurance commissions	—	38	—		38
	9,002	946,492	10,000		965,494
PROVISION FOR SITE RESTORATION	5,772	—	—		5,772
	14,774	946,492	10,000		971,266
NON-CONTROLLING INTEREST	5,891	—	—		5,891
SHAREHOLDERS' EQUITY					
CAPITAL STOCK	426,282	29,390	237,610	3(a), 3(c)	693,282
CONTRIBUTED SURPLUS	8,946	208,330	(208,330)	3(c)	8,946
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	1,050	(416)	416	3(c)	1,050
(DEFICIT) RETAINED EARNINGS	(390,260)	47,023	(49,023)	3(c), 3(d), 3(f)	(392,260)
	46,018	284,327	(19,327)		311,018
	$ 66,683	$1,230,819	$ (9,327)		$1,288,175

See accompanying notes to the unaudited Pro Forma Consolidated Financial Statements

THE WESTAIM CORPORATION
Pro Forma Consolidated Statement of Operations
Unaudited

For the nine months ended September 30, 2009
(thousands of dollars except share and per share data)

	The Westaim Corporation	Jevco Insurance Company (Schedule 1)	Kingsway General Insurance Company	Pro Forma Adjustments	Notes	Pro Forma Consolidated
PREMIUMS WRITTEN						
Direct	$ —	$119,222	$159,622	$ —		$278,844
Assumed	—	51,505	—	(51,505)	4(b)	—
	—	170,727	159,622	(51,505)		278,844
Ceded	—	46,835	111,962	(143,146)	4(a), 4(b)	15,651
NET PREMIUMS WRITTEN	—	123,892	47,660	91,641		263,193
REVENUE						
Revenue	17,644	—	—	—		17,644
Net premiums earned	—	137,015	61,262	104,402	4(a), 4(b)	302,679
Investment income	231	9,085	2,643	8,160	4(a)	20,119
Premium finance income	—	—	4,199	—		4,199
Net realized gain (loss) on sales of securities	173	(69)	(841)	—		(737)
	18,048	146,031	67,263	112,562		343,904
EXPENSES						
Manufacturing	8,371	—	—	—		8,371
Research and development	2,155	—	—	—		2,155
General and administrative	6,380	812	6,344	(1,508)	4(b), 4(d)	12,028
Depreciation and amortization	1,337	—	—	—		1,337
Corporate costs	3,270	—	—	—		3,270
Claims incurred	—	107,695	60,592	77,989	4(a), 4(b)	246,276
Commissions and premium taxes	—	31,619	43	21,495	4(a), 4(b)	53,157
Management fees	—	13,814	22,300	(14,062)	4(c)	22,052
	21,513	153,940	89,279	83,914		348,646
OPERATING INCOME	(3,465)	(7,909)	(22,016)	28,648		(4,742)
FOREIGN EXCHANGE LOSS	(819)	—	—	—		(819)
SITE RESTORIATION PROVISION RECOVERY	558	—	—	—		558
GAIN ON ISSUANCE OF SHARES OF SUBSIDIARY	11	—	—	—		11
NON-CONTROLLING INTEREST	329	—	—	—		329
	79	—	—	—		79
LOSS FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES	(3,386)	(7,909)	(22,016)	28,648		(4,663)
INCOME TAX EXPENSE (RECOVERY)	(4)	(2,787)	(7,779)	9,997	4(a), 4(b), 4(c), 4(e)	(573)
LOSS FROM CONTINUING OPERATIONS	(3,382)	(5,122)	(14,237)	18,651		(4,090)
LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES	(762)	—	—	—		(762)
NET LOSS	$ (4,144)	$ (5,122)	$ (14,237)	$ 18,651		$ (4,852)
LOSS PER COMMON SHARE (Note 4(f))						
Continuing operations – basic and diluted						$ (0.01)
Net loss – basic and diluted						$ (0.01)

See accompanying notes to the unaudited Pro Forma Consolidated Financial Statements

THE WESTAIM CORPORATION
Pro Forma Consolidated Statement of Operations
Unaudited

For the year ended December 31, 2008
(thousands of dollars except share and per share data)

	The Westaim Corporation	Jevco Insurance Company	Kingsway Insurance General Company	Pro Forma Adjustments	Notes	Pro Forma Consolidated
PREMIUMS WRITTEN						
Direct	$ —	$155,526	$317,725	$ —		$473,251
Assumed	—	116,862	—	(116,862)	5(b)	—
	—	272,388	317,725	(116,862)		473,251
Ceded	—	68,409	215,533	(263,084)	5(a), 5(b)	20,858
NET PREMIUMS WRITTEN	—	203,979	102,192	146,222		452,393
REVENUE						
Revenue	22,397	—	—	—		22,397
Net premiums earned	—	203,920	109,083	130,850	5(a), 5(b)	443,853
Investment income	(994)	17,428	8,087	15,900	5(a)	40,421
Net realized gain (loss) on sales of securities	534	(24,066)	(18,784)	—		(42,316)
Premium finance income	—	—	4,714	—		4,714
(Loss) gain on sale capital assets	(215)	—	4	—		(211)
	21,722	197,282	103,104	146,750		468,858
EXPENSES						
Manufacturing	12,603	—	—	—		12,603
Research and development	4,582	—	—	—		4,582
General and administrative	9,666	(251)	10,493	(2,662)	5(b), 5(d)	17,246
Depreciation and amortization	1,937	—	—	—		1,937
Corporate costs	5,068	—	—	—		5,068
Claims incurred	—	143,886	103,196	93,864	5(a), 5(b)	340,946
Commissions and premium taxes	—	45,826	1,082	31,219	5(a), 5(b)	78,127
Management fees	—	19,636	41,876	(21,185)	5(c)	40,327
	33,856	209,097	156,647	101,236		500,836
OPERATING INCOME	(12,134)	(11,815)	(53,543)	45,514		(31,978)
FOREIGN EXCHANGE GAIN	3,510	—	—	—		3,510
DILUTION GAIN	6,000	—	—	—		6,000
GAIN ON ISSUANCE AND REPURCHASE OF SHARES OF SUBSIDIARY	96	—	—	—		96
NON-CONTROLLING INTEREST	804	—	—	—		804
	10,410	—	—	—		10,410
LOSS FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES	(1,724)	(11,815)	(53,543)	45,514		(21,568)
INCOME TAX EXPENSE (RECOVERY)	11	(4,102)	(18,296)	15,888	5(a), 5(b), 5(c), 5(e)	(6,499)
LOSS FROM CONTINUING OPERATIONS	(1,735)	(7,713)	(35,247)	29,626		(15,069)
LOSS FROM DISCONTINUED OPERATIONS, NET OF INCOME TAXES	(8,500)	—	—	—		(8,500)
NET LOSS	$(10,235)	$ (7,713)	$ (35,247)	$ 29,626		$ (23,569)
LOSS PER COMMON SHARE (Note 5(f))						
Continuing operations – basic and diluted						$ (0.02)
Net loss – basic and diluted						$ (0.04)

See accompanying notes to the unaudited Pro Forma Consolidated Financial Statements

THE WESTAIM CORPORATION
Notes to Pro Forma Consolidated Financial Statements

As at September 30, 2009 and for the nine months ended September 30, 2009 and year ended December 31, 2008
Unaudited
(thousands of dollars, except share and per share data)

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1. ACQUISITION OF JEVCO INSURANCE COMPANY

On January 25, 2010, The Westaim Corporation ("Westaim" or the "Company") announced that it agreed to purchase all of the issued and outstanding shares of JEVCO Insurance Company ("Jevco") from Kingsway Financial Services Inc. (the "Acquisition") and that it arranged financing of $275,000 for the purpose of completing the Acquisition.

Jevco is a federal property and casualty insurance company continued under the Insurance Companies Act (Canada) ("ICA") and licensed to carry on property and casualty insurance business in all of the provinces and territories of Canada.

Jevco specializes in providing insurance products covering non-standard auto, recreational vehicles, commercial auto, property and liability. Jevco also provides surety insurance primarily to participants in the Canadian construction industry.

Effective October 1, 2009, Jevco acquired the insurance operations of Kingsway General Insurance Company ("Kingsway General") through an Assumption Reinsurance agreement and also commuted significant reinsurance treaties with a related offshore reinsurance company. Both of these transactions have been treated as significant acquisitions in these pro forma consolidated financial statements. Accordingly, the operations of both Kingsway General and Jevco are reflected in the pro forma consolidated statements of operations for the nine months ended September 30, 2009 and year ended December 31, 2008.

2. BASIS OF PRESENTATION

The accompanying unaudited pro forma consolidated financial statements of Westaim have been prepared by management of the Company to give effect to the purchase of Jevco. In management's opinion, these pro forma consolidated financial statements include all material adjustments necessary for a fair presentation in accordance with Canadian generally accepted accounting principles ("GAAP").

The pro forma consolidated balance sheet as at September 30, 2009, has been prepared from the unaudited interim consolidated balance sheet of Westaim as at September 30, 2009, the audited balance sheet of Jevco as at December 31, 2009 and the assumptions set out in Note 3 below.

The pro forma consolidated statement of operations for the nine months ended September 30, 2009, has been prepared from information derived from the September 30, 2009, unaudited interim consolidated financial statements of Westaim and the unaudited interim financial statements of Kingsway General for the nine months ended September 30, 2009 and the audited financial statements of Jevco for the year ended December 31, 2009, which have been adjusted to remove the operating results for the three-month period ended December 31, 2009 (see Schedule 1) and the pro forma assumptions and adjustments, as set out in Note 4.

The pro forma consolidated statement of operations for the year ended December 31, 2008, has been prepared from information derived from the December 31, 2008 audited consolidated financial statements of Westaim, the December 31, 2008 audited financial statements of Jevco and Kingsway General and the pro forma assumptions and adjustments, as set out in Note 5.

The pro forma consolidated financial statements are not necessarily indicative either of the results that actually would have occurred if the events reflected herein had taken place on the dates indicated or of the results that may be obtained in the future. In addition, the pro forma consolidated financial statements do not give effect to any transactions that are not considered significant by management and do not meet the significance test rules as defined by various securities regulators.

In preparing the pro forma consolidated financial statements of operations, no adjustments have been made to reflect operating cost or general and administrative expense savings, if any, that may result from the operations of the combined companies, other than those relating to former parent company costs and mark-ups embedded in management agreements.

Accounting policies used in the preparation of the pro forma consolidated financial statements are in accordance with those disclosed in Westaim's unaudited consolidated financial statements as at and for the nine months ended September 30, 2009, those disclosed in Westaim's audited consolidated financial statements for the year ended December 31, 2008 and those disclosed in Jevco's audited financial statements for the year ended December 31, 2009.

It is the recommendation of management that this financial information should be read in conjunction with Westaim's unaudited interim consolidated financial statements as at and for the nine months ended September 30, 2009, Westaim's audited consolidated financial statements as at and for the year ended December 31, 2008 and the audited financial statements of Jevco as at and for the year ended December 31, 2009.

Nucryst Pharmaceuticals Corp.

Effective December 22, 2009, pursuant to an asset purchase agreement dated November 10, 2009, as amended, Westaim's subsidiary Nucryst Pharmaceuticals Corp. ("Nucryst"), closed the sale of all of the assets and business of Nucryst for consideration of approximately USD $21,000 plus the carrying book value of working capital.

Effective February 8, 2010, Nucryst amalgamated (the "Amalgamation") with a wholly-owned subsidiary of Westaim to form a new company under the name of Westaim Holdings Limited ("Westaim Holdings"). Under the terms of the Amalgamation, Nucryst shareholders (other than Westaim) received for each issued and outstanding share in Nucryst one redeemable preferred share in the capital of Westaim Holdings, which preferred share was immediately redeemed for USD $1.77 in cash upon completion of the Amalgamation. A total of 4,633,665 redeemable preferred shares of Westaim Holdings were issued in connection with the Amalgamation and have been redeemed for an aggregate redemption price of USD $8,202.

Neither of the two transactions described above, both of which are unrelated to the acquisition of Jevco, have been reflected in the pro forma consolidated financial statements.

3. PRO FORMA CONSOLIDATED BALANCE SHEET AND ASSUMPTIONS AS AT SEPTEMBER 30, 2009

The unaudited pro forma consolidated balance sheet gives effect to the acquisition of Jevco as if it had occurred on September 30, 2009.

a) On February 9, 2010, Westaim completed the sale of an aggregate of 546,745,000 subscription receipts at a purchase price of $0.50 each for aggregate gross proceeds of $273,373. Of the subscription receipts, 219,000,000 were sold pursuant to an underwriting and agency agreement between Westaim and GMP Securities LP, dated February 9, 2010, an additional 296,000,000 were purchased by Her Majesty the Queen in Right of the Province of Alberta through Alberta Investment Management Corporation ("**HMQ**") and 31,745,000 were purchased by directors and officers of Westaim, funds managed by Goodwood Inc., existing senior management of Jevco and certain other designated investors. On February 19, 2010, the sale of the remaining 3,255,000 subscription rights was completed to certain other designated investors for gross proceeds of $1,627. The total proceeds to Westaim were $267,000 net of transaction costs of $8,000. The future income tax asset on the transaction costs has a full valuation allowance recorded against it.

   In addition, Westaim agreed to issue HMQ 10,000,000 warrants to purchase an equal number of non-voting participating shares at an exercise price of $0.50 per share for a period of three years from the date of closing. There has been no attempt made to allocate any consideration to the warrants in these consolidated pro forma financial statements.

b) Adjustments have been made to capital assets, accounts payable and accrued liabilities, future income taxes and share capital as a result of the allocation from the purchase price equation. Accounts payable and accrued liabilities have been adjusted by Westaim's transaction costs of $10,000 ($2,000 applied as a cost of the acquisition and $8,000 relating to financing costs).

c) The pro forma consolidated balance sheet requires the elimination of the Jevco historical cost accounts for share capital, contributed surplus and retained earnings.

d) The Jevco purchase agreement contemplates the payment of a dividend to the vendor of an amount which will reduce Jevco's available capital to an amount which will support a 220% Minimum Capital Test. The dividend is currently estimated to be approximately $10,800 and has been reflected as a reduction of cash in the purchase price equation below.

(thousands of dollars, except share and per share data)

e) The difference between the purchase price, estimated to be $258,500, and the fair value of net assets acquired of Jevco has been reflected as a reduction in the carrying value of the capital assets acquired, as presented in the following table:

Cost of acquisition	
Purchase price	$ 258,500
Net assets acquired at estimated fair value	
Cash	54,525
Securities	895,590
Accrued investment income	6,275
Financial premiums	53,958
Claims recoverable from other insurers	26,950
Accounts receivable and other assets	26,527
Due from related parties	13,932
Due from reinsurers	46,911
Deferred policy acquisition costs	31,503
Future income taxes	16,261
Capital assets	31,199
Intangible assets	1,361
Accounts payable and accrued liabilities	(10,193)
Income taxes payable	(5,565)
Unearned premiums	(151,683)
Unpaid claims	(779,013)
Unearned reinsurance commissions	(38)
	$ 258,500

The above represents management's preliminary assessment of the total consideration, net assets acquired and liabilities assumed. The allocation of the purchase price will be finalized after the values of consideration, assets and liabilities have been definitively determined. Accordingly, the above allocation is subject to change and such change may be material.

f) Transaction costs related to the acquisition of Jevco, estimated to be approximately $2,000, have been expensed and have been reflected as a pro forma adjustment to accounts payable and accrued liabilities and deficit on the pro forma consolidated balance sheet as at September 30, 2009. It is the intention of Westaim to adopt the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1582, *Business Combinations*, effective January 1, 2009, which requires transaction costs incurred in conjunction with a business combination to be expensed.

g) On closing of the Jevco acquisition, anticipated to be March 26, 2010, the purchase price will be adjusted upward (or downward) by an amount equal to 94.5% of the amount by which the market value of Jevco's investment portfolio on the closing date exceeds (or is less than) the market value of Jevco's investment portfolio as at December 31, 2009. This adjustment could be material. The pro forma adjustments do not include any estimate for this closing adjustment.

4. PRO FORMA CONSOLIDATED FINANCIAL STATEMENT OF OPERATIONS, TRANSACTIONS AND ASSUMPTIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009

The pro forma consolidated statement of operations for the nine months ended September 30, 2009 has been prepared assuming that the purchase transaction described in Note 1 was completed on January 1, 2008, using the following assumptions:

a) As more fully discussed in Note 3 of the December 31, 2009 Jevco audited financial statements, on October 1, 2009, Jevco and Kingsway General commuted their reinsurance treaties with a related offshore reinsurance company. The commutations have been treated as a significant acquisition for purposes of the pro forma consolidated financial statements. All reinsurance and associated investment transactions with the offshore reinsurance company related to the commuted contracts have been eliminated as pro forma adjustments in the pro forma consolidated statement of operations for the nine months ended September 30, 2009.

   As a result, ceded written premiums of $91,474 were eliminated, net premiums earned were increased by $104,235, claims incurred were increased by $83,712, commissions and premium taxes were increased by $21,216, investment income was increased by $8,160 and income taxes were increased by $2,614.

b) As more fully discussed above and in Note 3 of the December 31, 2009 Jevco audited financial statements, effective October 1, 2009, but subsequent to the commutations described in Note 4(a) above, Jevco entered into an Assumption Reinsurance agreement with Kingsway General whereby Jevco assumed all the policy related assets and liabilities and the supporting invested assets of Kingsway General. On account of this significant transaction, Kingsway General's operations for the nine months ended September 30, 2009 are included as a separate column in the pro forma consolidated statement of operations. Intercompany reinsurance transactions among Jevco, Kingsway General and a former related insurance company during the nine months ended September 30, 2009 have been eliminated.

   As a result, assumed written premiums of $51,505 were eliminated as were ceded written premiums of $51,672. Net premiums earned were increased by $167, general and administrative expenses were reduced by $890, claims incurred were reduced by $5,723, commissions and premium taxes were increased by $279 and income taxes were increased by $2,276.

c) Jevco and Kingsway General had management agreements with their parent company whereby the companies paid a management fee equal to 115% of the direct costs and expenses incurred or paid by the parent in the provision of goods and services, facilities, supplies, equipment, premises and repairs in accordance with the said agreements. Certain of the expenses related to these agreements have been determined by management to be duplicative or unrelated to the on-going operations of Jevco. These additional costs and the 15% profit margin charged on all management fees by the parent company have been eliminated in the preparation of the pro forma consolidated statement of operations for the nine months ended September 30, 2009.

(thousands of dollars, except share and per share data)

As a result, management fees were reduced by $14,062 and income taxes were increased by $4,922.

d) Decrease in depreciation of $618 and increase in income taxes of $185 related to the decrease in fair value of the building acquired of $21,467 amortized using 4% declining balance.

e) Adjustments to the provision for income taxes to reflect the changes to taxable income subsequent to the proposed transaction, assuming an effective tax rate of approximately 35%.

f) The net loss per Westaim share has been based on the following weighted average number of Westaim shares adjusted as follows:

Westaim shares outstanding for the nine months ended September 30, 2009	94,219,000
Adjustment for subscription receipts issued and converted to shares (Note 3(a))	550,000,000
	644,219,000

The impact of all dilutive securities, including the warrants (Note 3(a)), on loss per share was anti-dilutive for the nine months ended September 30, 2009.

5. PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS, TRANSACTIONS AND ASSUMPTIONS FOR THE YEAR ENDED DECEMBER 31, 2008

The pro forma consolidated statement of operations for the year ended December 31, 2008 has been prepared assuming that the purchase transaction described in Note 1 was completed on January 1, 2008, using the following assumptions:

a) As more fully discussed in Note 3 of the December 31, 2009 Jevco audited financial statements, on October 1, 2009, Jevco and Kingsway General commuted their reinsurance treaties with a related offshore reinsurance company. The commutations have been treated as a significant acquisition for purposes of the pro forma consolidated financial statements. All reinsurance and associated investment transactions with the offshore reinsurance company related to the commuted contracts have been eliminated as pro forma adjustments in the pro forma consolidated statement of operations for the year ended December 31, 2008.

As a result, ceded written premiums of $154,443 were eliminated, net premiums earned were increased by $161,774, claims incurred were increased by $116,013, commissions and premium taxes were increased by $37,277, investment income was increased by $15,900 and income taxes were increased by $8,534.

b) As more fully discussed above and in Note 3 of the December 31, 2009 Jevco audited financial statements, effective October 1, 2009, but subsequent to the commutations described in Note 5(a) above, Jevco entered into an Assumption Reinsurance agreement with Kingsway General whereby Jevco assumed all the policy related assets and liabilities and the supporting invested assets of

(thousands of dollars, except share and per share data)

Kingsway General. On account of this significant transaction, Kingsway General's operations for the year ended December 31, 2008 are included as a separate column in the pro forma consolidated statement of operations. Intercompany reinsurance transactions among Jevco, Kingsway General and a former related insurance company during the year ended December 31, 2008 have been eliminated.

As a result, assumed written premiums of $116,862 were eliminated as were ceded written premiums of $108,641. Net premiums earned were reduced by $30,924, general and administrative expenses were reduced by $1,803, claims incurred were reduced by $22,149, commissions and premium taxes were reduced by $6,058 and income taxes were reduced by $319.

c) Jevco and Kingsway General had management agreements with their parent company whereby the companies paid a management fee equal to 115% of the direct costs and expenses incurred or paid by the parent in the provision of goods and services, facilities, supplies, equipment, premises and repairs in accordance with the said agreements. Certain of the expenses related to these agreements have been determined by management to be duplicative or unrelated to the on-going operations of Jevco. These additional costs and the 15% profit margin charged on all management fees by the parent company have been eliminated in the preparation of the pro forma consolidated statement of operations for the year ended December 31, 2008.

As a result, management fees were reduced by $21,185 and income taxes were increased by $7,415.

d) Decrease in depreciation of $859 and increase in income taxes of $258 related to the decrease in fair value of the building acquired of $21,467 amortized using 4% declining balance.

e) Adjustments to the provision for income taxes to reflect the changes to taxable income subsequent to the proposed transaction, assuming an effective tax rate of approximately 35%.

f) The net loss per Westaim share has been based on the following weighted average number of Westaim shares adjusted as follows:

Westaim shares outstanding for the nine months ended September 30, 2008	94,207,494
Adjustment for subscription receipts issued and converted to shares (Note 3(a))	550,000,000
	644,207,494

The impact of all dilutive securities, including the warrants (Note 3(a)), on loss per share was anti-dilutive for the year ended December 31, 2008.

THE WESTAIM CORPORATION
Schedule 1
Reconciliation to Jevco December 31, 2009 Statement of Operations
Unaudited

(thousands of dollars except per share data)

	Jevco Insurance Company year ended December 31, 2009	Jevco Insurance Company Three-month period ended December 31, 2009	Jevco Insurance Company Nine-month period ended September 30, 2009
	(A)	(B)	(A-B)
PREMIUMS WRITTEN			
Direct	$184,982	$ 65,760	$119,222
Assumed	14,328	(37,177)	51,505
	199,310	28,583	170,727
NET PREMIUMS WRITTEN	171,767	47,875	123,892
REVENUE			
Net premiums earned	213,946	76,931	137,015
Investment income	18,278	9,193	9,085
Net realized gain (loss) on sales of securities	4,355	4,424	(69)
	236,579	90,548	146,031
EXPENSES			
General and administrative	2,382	1,570	812
Claims incurred	175,340	67,645	107,695
Commissions and premium taxes	51,588	19,969	31,619
Management fees	22,604	8,790	13,814
	251,914	97,974	153,940
LOSS BEFORE INCOME TAXES	(15,335)	(7,426)	(7,909)
INCOME TAX EXPENSE (RECOVERY)			
Current	32	5,204	(5,172)
Future	(4,128)	(6,513)	2,385
	(4,096)	(1,309)	(2,787)
LOSS FOR THE YEAR	$(11,239)	$ (6,117)	$ (5,122)

Any questions and requests for assistance may be directed to the

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