

**WESTAIM AGREES TO ACQUIRE JEVCO INSURANCE COMPANY FROM
KINGSWAY FINANCIAL SERVICES INC.
AND
ANNOUNCES \$275 MILLION
PRIVATE PLACEMENT OF SUBSCRIPTION RECEIPTS**

**NOT FOR DISSEMINATION IN THE UNITED STATES OR FOR DISTRIBUTION
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AN OFFER OF THE SECURITIES DESCRIBED HEREIN.**

Toronto, Ontario – January 25, 2010 – The Westaim Corporation (**Westaim** or the **Company**) (TSX: “WED”) announced today that it has agreed to purchase all of the issued and outstanding shares of JEVCO Insurance Company (**JEVCO**) from Kingsway Financial Services Inc. (the **Acquisition**) and has arranged financing of \$275 million for the purpose of completing the Acquisition, the key terms of which are summarized below (all figures in Canadian dollars unless otherwise specified):

- purchase price, anticipated to be approximately \$263 million, will be equal to 94.5% of the book value of JEVCO as at December 31, 2009 after giving effect to a proposed dividend from JEVCO to Kingsway which will be paid before the completion of 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.
- Alberta Investment Management Corporation (**AIMCo**) has committed to provide Westaim with equity funding of \$148 million through the purchase of subscription receipts for the purpose of financing the Acquisition.
- GMP Securities LP has agreed to underwrite a \$50 million offering of subscription receipts on a “bought deal” private placement basis and to offer an additional \$59.5 million of subscription receipts on a best efforts basis for total gross proceeds of up to \$109.5 million, with the best efforts portion to be backstopped by AIMCo.
- Approximately \$17.5 million in additional funding expected to be provided by directors and officers of Westaim, funds managed by Goodwood Inc., existing management of JEVCO and certain other designated investors (collectively the **Designated Purchasers**).
- The Acquisition is subject to the receipt of all required regulatory approvals, including approvals required under the ICA and from OSFI and any required approvals (or the expiry of the waiting period) under the *Competition Act* (Canada) and is expected to close on or about March 31, 2010.

“JEVCO and its management team are very pleased to have entered into this strong partnership with Westaim. This transaction is designed to bring financial strength

and stability to JEVCO, and to bring comfort to our business partners. We are excited with the significant growth opportunities ahead, and look forward to our future with Westaim.” said Serge Lavoie, CEO of JEVCO.

Westaim is expected to issue 550 million subscription receipts (**Subscription Receipts**) at an issue price of \$0.50 for gross proceeds of \$275 million which will be held in escrow pending the completion of the Acquisition. 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 **Common Share**). The Subscription Receipts to be issued to AIMCo will be exercisable for a mix of Common Shares and a class of non-voting participating shares of Westaim (**Non-Voting Shares**) to be created and which will be convertible into Common Shares of Westaim on a one-for-one basis designed to ensure that following the exercise of all Subscription Receipts, AIMCo will own not more than 40% of the outstanding Common Shares. The terms of the Non-Voting Shares will provide that Westaim can refuse a request to convert such shares into Common Shares if as a result of such conversion AIMCo would own more than 40% of the then outstanding Common Shares. The Non-Voting Shares are not expected to be listed on any stock exchange.

It is expected that as a condition to approving the financings described above, the Toronto Stock Exchange will require that Westaim receive approval from its shareholders and Westaim expects to call a special meeting of shareholders to be held in March 2010 with the shareholder meeting materials expected to be mailed to shareholders in February 2010.

“This acquisition will complete the transformation of Westaim into a company with a new focus on the Canadian insurance business,” said Cameron MacDonald, President of Westaim.

In connection with the negotiation and entering of the definitive purchase agreement, GMP Securities LP has acted as financial advisor to the Board of Directors of Westaim, Cassels Brock and Blackwell LLP and Heenan Blaikie LLP have acted as legal counsel to Westaim, Ogilvy Renault LLP has acted as legal counsel to Kingsway and Fasken Martineau DuMoulin LLP has acted as legal counsel to GMP Securities LP.

A summary of the key terms of the Acquisition and the private placement of the Subscription Receipts follows. Further information about the Acquisition and the private placement of the Subscription Receipts will be available on SEDAR (www.sedar.com) and the Corporation’s web page (www.westaim.com).

This press release is not an offering of securities for sale in the United States. The Subscription Receipts, Common Shares and Non-Voting Shares described herein and in the summary of key terms attached to this press release have not been registered under the U.S. Securities Act of 1933, as amended, and may not be offered or sold in the United States absent registration or an exemption from the registration requirements of that Act.

About Westaim

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. Westaim's common shares are listed on The Toronto Stock Exchange under the trading symbol WED.

Certain portions of this press release as well as other public statements by Westaim, contain forward-looking statements. Such forward-looking statements include but are not limited to statements concerning the transactions described herein; investment strategies and expected rates of return; and strategic alternatives to maximize value for shareholder. These statements are based on current expectations that are subject to risks, uncertainties and assumptions and Westaim can give no assurance that these expectations are correct. Westaim's actual results could differ materially from those anticipated by forward-looking statements for various reasons generally beyond our control, including but not limited to: (i) failure to complete the transactions referred to herein; (ii) changes in market conditions or deterioration in underlying investments; (iii) general economic, market, financing, regulatory and industry developments and conditions; and (iv) other risk factors set forth in Westaim's Annual Report or Annual Information Form. Westaim disclaims any intention or obligation to revise forward-looking statements whether as a result of new information, future developments or otherwise except as required by law. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

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Key Terms of the Acquisition and the Private Placement

All figures in Canadian dollars unless otherwise specified.

The Acquisition

Westaim and Kingsway have entered into an agreement dated January 25, 2010 (the **Purchase Agreement**), pursuant to which, Westaim has agreed to purchase all of the issued and outstanding shares of JEVCO from Kingsway. The description of the Purchase Agreement is qualified in its entirety by the definitive terms of the Purchase Agreement, which will be filed and be available on SEDAR.

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. The ICA is administered, and 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.

Under the Purchase Agreement, closing is scheduled for later of: (i) March 26, 2010; or (ii) two (2) Business Days after receipt of the last of the Competition Act Approval, ICA approvals and TSX approval, or such earlier or later date as the parties may agree in writing (**Closing**).

The purchase price to be paid at Closing (the **Purchase Price**) is anticipated to be approximately \$263 million, and will be determined as set out in the Purchase Agreement and as described below.

- The Purchase Price is based on the assumption that JEVCO will have minimum capital test ratio of 220% as at December 31, 2009 (the **Minimum Capital Test Target**), after payment (prior to Closing) by JEVCO to Kingsway of a dividend intended to decrease JEVCO's minimum capital test ratio to 220%.
- The Purchase Price, if applicable, will be increased by 100% of the amount by which the Jevco's book value exceeds the amount required by Jevco to satisfy the Minimum Capital Test Target as set out in its financial statements filed with OSFI.

The Purchase Agreement includes typical closing conditions, including receipt of required Competition Act and ICA approvals. Closing also is subject to various terms and conditions between Westaim, Kingsway and AIMCo.

The Purchase Agreement includes representations, warranties and covenants customary for a transaction of this nature including customary covenants of Kingsway relating to the conduct of the business of JEVCO prior to Closing and covenants by Kingsway and Westaim to cooperate. Kingsway has also agreed to a

three-year non-competition and non-solicitation covenant. The Purchase Agreement has reciprocal indemnification provisions.

It is expected that as a condition to approving the sale of the Subscription Receipts, the TSX will require that Westaim receive approval from its shareholders. Accordingly, Westaim expects to call a special meeting of shareholders to be held in March, 2010 with the shareholder meeting materials expected to be mailed to shareholders in February 2010. Kingsway has agreed to cooperate with Westaim in connection with providing information for the shareholders meeting and the TSX approval.

Kingsway is entitled to terminate the Purchase Agreement (i) if proceeds of the sale of the Subscription Receipts have not been deposited into escrow on or before February 9, 2010 or (ii) if the necessary approval of the Westaim shareholders has not been received on or before March 26, 2010. In the event of such termination by Kingsway, Westaim's potential liability under the Purchase Agreement is limited to Kingsway's actual costs, charges and expenses related to the Acquisition.

AIMCo Commitment

In connection with the Acquisition, Westaim has received a commitment from Alberta Investment Management Corporation (**AIMCo**) to provide equity funding of \$148 million. AIMCo's commitment provides that in the event that Westaim raises financing for the Acquisition through the sale of subscription receipts the terms of which provide for the purchase price of such subscription receipts to be returned to investors in the event that the Acquisition is not completed, AIMCO agrees to provide its funds at the same time and on comparable terms as the offering of subscription receipts.

In addition, AIMCo has agreed that its total voting interest in Westaim's Common Shares after completion of the transactions contemplated herein will be limited to 40% of all of the votes attached to the outstanding Common Shares. Any additional equity interest held by AIMCO will be held in non-voting equity shares.

Accordingly, the Subscription Receipts to be issued to AIMCo will be exercisable for a mix of Common Shares and a class of non-voting participating shares of Westaim (**Non-Voting Shares**) to be created and which will be convertible into Common Shares on a one-for-one basis. The terms of the Non-Voting Shares will provide that Westaim can refuse a request to convert such shares into Common Shares if as a result of such conversion AIMCo would own more than 40% of the then outstanding Common Shares. The Non-Voting Shares are not expected to be listed on any stock exchange.

AIMCo has also agreed to backstop the best efforts portion of the GMP Offering (as defined below) such that if and to the extent that less than 119 million Subscription Receipts are purchased in the best efforts portion of the GMP Offering, AIMCO will purchase the number of Subscription Receipts representing the shortfall (the **Backstop**). As consideration for providing the Backstop, Westaim has agreed to issue to AIMCo 10 million warrants to purchase an equal number of 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.

GMP Offering

GMP Securities LP (**GMP**) has agreed to underwrite a private placement of 100 million 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 (the **GMP Offering**). The Closing Date of the GMP Offering is expected to be February 9, 2010 unless extended by the parties.

Sales of the Subscription Receipts may be made 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.

Each Subscription Receipt will entitle the holder thereof to receive without further consideration or action: (i) one common share of Westaim (an **Underlying Share**) upon satisfaction of the Escrow Release Conditions (as defined below) provided that such conditions have been satisfied at or prior to the Termination Time (as defined below); or (ii) if the Escrow Release Conditions (as defined below) are not satisfied at or prior to the Termination Time, an amount equal to the full purchase price of a Subscription Receipt plus the holder's *pro rata* entitlement to the interest earned or income generated, if any, on such amount.

The gross proceeds from the sale of the Subscription Receipts, less an amount equal to the costs and expenses of GMP, will be held by Equity Transfer and Trust Company as escrow agent (the **Escrow Agent**) under the terms of an escrow agreement to be entered into among the Company, the Escrow Agent and GMP, pending the receipt of notice from the Company and GMP confirming that all of the following conditions to the release of the proceeds from escrow (the **Escrow Release Conditions**) have been satisfied or waived by the Company, acting reasonably:

1. shareholders of the Company having approved the issuance of the Underlying Shares, the shares of the Company issuable in connection with the AIMCO financing, and the shares of the Company issuable to the Designated Purchasers who are insiders of the Company;
2. all conditions required to complete the Acquisition (other than payment of the purchase price therefor) having been satisfied or waived by the Company, acting reasonably and such waiver being disclosed in writing to the Underwriters;
3. the Toronto Stock Exchange (the **TSX**) and OSFI having approved, respectively, the listing of the Underlying Shares on the TSX and the Acquisition;
4. the Company and GMP, acting reasonably, having delivered a joint notice to the Escrow Agent confirming that (i) all regulatory and other approvals required in respect of the GMP Offering have been obtained; and (ii) all other escrow release conditions have been met or waived.

If the Escrow Release Conditions are not satisfied on or before the earlier of: (i) 4:30 p.m. (Toronto time) on April 30, 2010; and (ii) the time and date, if any, that the Purchase Agreement is terminated pursuant to its terms (in each case, the **Termination Time**), the Escrow Agent and the Company will return to each holder of Subscription Receipts, commencing on the second business day following the Termination Time, an amount equal to the issue price of each holder's Subscription Receipts and their *pro rata* entitlements to interest actually earned or income generated on such amount.

Designated Purchasers

Approximately \$17.5 million in additional funding is expected to be provided by directors and officers of Westaim, funds managed by Goodwood Inc., existing management of JEVCO and certain other designated investors (collectively the **Designated Purchasers**) through the purchase of up to 35 million Subscription Receipts. Certain of the Designated Purchasers are insiders of Westaim for the purposes of applicable securities laws and the rules of the TSX.

Toronto Stock Exchange Approval

It is expected that as a condition to approving the sale of the Subscription Receipts, the TSX will require that Westaim receive approval from its shareholders for such sale and, in particular, (i) the change in the control of Westaim that will result from AIMCo's purchase of Subscription Receipts and the conversion thereof into Common Shares, (ii) the dilution resulting from the sale of the Subscription Receipts and the issuance of the Common Shares and Non-Voting Shares thereunder and (iii) the purchase of Subscription Receipts by the Designated Purchasers that are insiders of Westaim. Accordingly, the terms of the Subscription Receipts will provide that they are not convertible into Common Shares or Non-Voting Shares, as the case may be, unless and until such shareholder approval has been obtained. In this regard, Westaim expects to call a special meeting of shareholders to be held in March 2010 with the shareholder meeting materials expected to be mailed to shareholders in February 2010.