WESTAIM

First Quarter Report to Shareholders
for the quarter ended March 31, 2014

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"Westaim" or the "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation on a consolidated basis. This MD&A, which has been approved by the Westaim Board of Directors, should be read in conjunction with Westaim's unaudited consolidated financial statements including notes for the three months ended March 31, 2014 and 2013 as set out on pages 11 to 22 of this quarterly report. Financial data in this MD&A has been derived from the unaudited annual consolidated financial statements for the three months ended March 31, 2014 and 2013 and is intended to enable the reader to assess Westaim's results of operations for the three months ended March 31, 2014 and financial condition as at March 31, 2014. The Company reports its consolidated financial statements using accounting policies consistent with International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise indicated. The following commentary is current as of May 14, 2014. Additional information relating to Westaim is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

Non-GAAP measures
Westaim uses both IFRS and non-generally accepted accounting principles ("non-GAAP") measures to assess performance. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. Management believes these measures allow for a more complete understanding of the underlying business. These measures are used to monitor Westaim's results and should not be viewed as a substitute for those determined in accordance with IFRS. Reconciliations of such measures to the most comparable IFRS figures are included herein. Book value per share represents shareholders' equity at the end of the period, determined on an IFRS basis, divided by the total number of common shares outstanding on the same date. The Company believes that this is a useful measurement as the relative increase or decrease from period to period in book value per share should approximate over the long-term the relative increase or decrease in the intrinsic value of the business, but is not necessarily equivalent to the net realizable value of the Company's assets per share. Adjusted book value per share represents shareholders' equity at the end of the period, determined on an IFRS basis and adjusted to include or exclude one or more items required by IFRS but which are either unusual or non-recurring, divided by the total number of common shares outstanding on the same date.

Future Oriented Financial Information
This MD&A may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter or in the Company's 2013 Annual Information Form. Please refer to the cautionary note in Section 12 of this MD&A.

1. THE COMPANY

Westaim is a publicly traded Canadian-based company 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. Westaim's strategy is to pursue investment opportunities to grow shareholder value (as measured by book value per share) over the long term.

On March 12, 2014, the Company announced that it has agreed to make an investment in Houston International Insurance Group, Ltd., through Westaim HIIG Limited Partnership, and on April 23, 2014, the Company completed the sale of 50,995,385 subscription receipts for aggregate gross proceeds of approximately $135.1 million and entered into irrevocable subscription agreements for the subscription of approximately 5,523,430 common shares of the Company for aggregate gross proceeds of approximately $14.6 million. See discussion in Section 3, *Investment in HIIG* and Section 4, *Equity Financing* of this MD&A.

On October 1, 2013, the Company completed a 50:1 share consolidation of all of its outstanding common shares. All share capital, per share amounts, and share-based awards in the current and comparative periods have been adjusted to reflect this change.

2. OVERVIEW OF PERFORMANCE

Highlights (millions except share and per share data)	Three months ended March 31 2014	 2013 (1)
Revenue	$ 0.1	$ 0.1
Expenses excluding share-based compensation	(1.6)	(0.6)
Share-based compensation	(0.1)	-
Income tax recovery	-	0.1
Profit or loss and other comprehensive income	$ (1.6)	$ (0.4)
Earnings per share		
Profit or loss and other comprehensive income – basic and diluted	$ (0.12)	$ (0.03)
Number of common shares outstanding - at March 31	13,902,937	13,902,937
Book value per share - at March 31	$ 2.11	$ 2.46
Adjustment for reimbursement of fees	$ 0.19	
Adjusted book value per share - at March 31 (2)	$ 2.30	

(1) Adjusted to reflect a 50:1 share consolidation completed on October 1, 2013.

(2) After giving effect to the reimbursement of approximately US$2.5 million in professional fees incurred by the Company in connection with the investment in Houston International Insurance Group, Ltd. See discussion in Section 3, *Investment in HIIG* of this MD&A.

For the three months ended March 31, 2014, the Company reported a loss of $1.6 million (2013 - $0.4 million).

3. INVESTMENT IN HIIG

On March 12, 2014, the Company announced that Westaim HIIG Limited Partnership (the "Partnership"), an Ontario limited partnership newly established by the Company, has agreed to acquire a significant interest in Houston International Insurance Group, Ltd. ("HIIG"). HIIG is a U.S. based diversified specialty insurance provider and managing general insurance agent covering risks across the United States and certain niche global markets. The Partnership has agreed to acquire an approximate 42.5% equity ownership interest in HIIG for approximately US$75 million (the "Initial Acquisition"). In addition, the Partnership will have the exclusive right and obligation, subject to financing, to acquire an additional equity ownership position of approximately 24.6% (the "Second Acquisition"). Overall, after giving effect to the Initial Acquisition and Second Acquisition (together, the "Acquisition"), the Partnership is expected to have purchased approximately 67.1% of HIIG for approximately US$113.7 million, excluding transaction costs not otherwise subject to reimbursement.

Initial Acquisition – The Initial Acquisition will be a two-part transaction involving the concurrent (i) acquisition by the Partnership for approximately US$15 million of approximately 14.1% of the outstanding shares of common stock of HIIG ("HIIG Shares") held by certain shareholders of HIIG (the "Sellers") in accordance with the terms and conditions of a stock purchase agreement between the Partnership and the Sellers, and (ii) subscription by the Partnership for approximately US$60 million of HIIG Shares from treasury, subject to closing adjustments. To fund the Initial Acquisition, the Partnership has obtained signed equity commitment letters from the Company and certain other investors for an aggregate of approximately US$77 million. Pursuant to these equity commitment letters, the Partnership will collectively be funded as to (i) US$20 million by the Company and (ii) approximately US$57 million by other investors. The Company has also committed to the Partnership to fund up to US$3.3 million if there are positive post-closing adjustments.

3. INVESTMENT IN HIIG (continued)

Second Acquisition – Under a stock purchase agreement to be entered into in connection with, and as a condition to, the completion of the Initial Acquisition, the Partnership will also have the right and obligation (for six months after the completion of the Initial Acquisition), subject to obtaining financing, to purchase the remaining shares of HIIG owned by the Sellers (24.6% assuming the completion of the Acquisition) for an aggregate purchase price of approximately US$38.7 million, subject to closing adjustments. Completion of the Second Acquisition will be conditional on the Partnership raising the funds necessary to complete such purchase on terms reasonably satisfactory to the Partnership. See discussion in Section 4, *Equity Financing* of this MD&A regarding equity financing arrangements completed subsequent to March 31, 2014. In the event that the Initial Acquisition is completed but the Second Acquisition is not completed, Westaim will be obligated in certain circumstances to pay the Sellers a termination fee of US$1 million.

The Acquisition is subject to the receipt of all requisite regulatory approvals, including TSX Venture Exchange approval, and any other regulatory approvals required under applicable U.S. competition and insurance laws, including approval of the Departments of Insurance of the States of Texas and Oklahoma. The Initial Acquisition and Second Acquisition are expected to close concurrently in the second quarter of 2014.

Upon completion of the Initial Acquisition, the Company is entitled to be reimbursed by HIIG for approximately US$2.5 million in professional fees incurred by the Company in connection with the Acquisition.

On April 30, 2014, the Board of Directors of the Company approved an additional equity investment in the Partnership of up to US$25 million to fund (subject to the preemptive rights of other Partnership investors) the Partnership's subscription for additional stock from HIIG's treasury contingent on the closing of the Acquisition. The contribution of the Company is expected to be approximately US$16.8 million.

4. EQUITY FINANCING

On April 23, 2014, the Company completed the sale, on a private placement basis, of 47,180,380 subscription receipts (the "Subscription Receipts") of the Company at a price of $2.65 per Subscription Receipt (the "Offering Price") for aggregate gross proceeds to the Company of approximately $125.0 million (the "Offering"). The Company also completed a concurrent non-brokered private placement of 3,815,005 Subscription Receipts on the same terms as the Offering for aggregate gross proceeds to the Company of approximately $10.1 million (the "Concurrent Private Placement"). Investors in the Concurrent Private Placement include primarily members of the Company's Board of Directors and management team.

Under the terms of the Offering and the Concurrent Private Placement, the net proceeds of the Offering and the Concurrent Private Placement will be held in escrow pending satisfaction of certain escrow release conditions (the "Escrow Release Conditions"), including the satisfaction of all conditions required to complete the Acquisition (other than payment of the purchase price) and the receipt of all regulatory approvals. Upon satisfaction of the Escrow Release Conditions, each Subscription Receipt will entitle the holder to receive, for no additional consideration, one common share of the Company. If the Escrow Release Conditions are not satisfied prior to the earlier of (i) September 12, 2014, and (ii) the termination of the stock purchase agreement in respect of the Initial Acquisition in accordance with its terms (the "Termination Date"), holders of the Subscription Receipts will be entitled to receive 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.

Concurrent with the closing of the Offering and the Concurrent Private Placement, the Company also entered into irrevocable subscription agreements with certain funds and co-investors (collectively, the "Investors") for the subscription of approximately 5,523,430 common shares of the Company at a price of $2.65 per share, for aggregate gross proceeds to the Company of approximately $14.6 million (the "Additional Subscription"). The Investors are currently shareholders of HIIG (and members of the Seller group) and they will use the proceeds from the sale of their HIIG Shares pursuant to the Acquisition to fund the Additional Subscription. The conditions to the closing of the Additional Subscription are the same as the Escrow Release Conditions under the Offering and the Concurrent Private Placement. The precise number of common shares to be issued under the Additional Subscription will be based on the actual proceeds to be received by the Investors in respect of the Acquisition and the U.S. dollar to Canadian dollar exchange rate.

The Company will use a portion of the proceeds from the Offering and the Concurrent Private Placement to purchase Class A Limited Partnership Units in the Partnership to enable the Partnership (together with funds committed by other investors in the Partnership) to satisfy the cash consideration payable by the Partnership in connection with the Acquisition (see discussion in Section 3, *Investment in HIIG* of this MD&A). The remaining net proceeds of the Offering, the Concurrent Private Placement and the Additional Subscription will be used by the Company for general corporate purposes and to consider and possibly fund potential future acquisitions (including possible additional equity investments in the Partnership).

Upon the issuance of the common shares under the Offering, the Concurrent Private Placement and the Additional Subscription, the Company is expected to have approximately 70,421,752 common shares outstanding, with an aggregate stated capital of approximately $353.4 million, before transaction costs.

5. ANALYSIS OF FINANCIAL RESULTS

Details of the Company's operating results are as follows:

	Three months ended March 31	
(millions)	2014	2013
Revenue	$ 0.1	$ 0.1
Expenses		
Salaries and benefits	0.2	0.3
Office expenses	0.2	0.2
Professional fees	1.3	0.1
Share-based compensation	0.1	-
Foreign exchange gain	(0.1)	-
Total expenses	1.7	0.6
Income tax recovery	-	0.1
Loss	$ (1.6)	$ (0.4)

Revenue

Revenue for the three months ended March 31, 2014 of $0.1 million (2013 - $0.1 million) consisted of interest on cash invested.

Expenses

Expenses for the three months ended March 31, 2013 were $1.7 million (2013 - $0.6 million). The increase in expenses of $1.1 million in the first quarter of 2014 compared to the same period in the prior year was mainly due to professional fees of $1.2 million incurred in connection with the investment in HIIG (see discussion in Section 3, *Investment in HIIG* of this MD&A). Upon completion of the Initial Acquisition, the Company is entitled to be reimbursed by HIIG for approximately US$2.5 million in professional fees incurred by the Company in connection with the Acquisition.

6. ANALYSIS OF FINANCIAL POSITION

The Company's assets, liabilities and shareholders' equity comprise the following:

(millions)	March 31, 2014	December 31, 2013
Assets		
Cash and cash equivalents	$ 33.4	$ 35.4
Other assets	0.1	0.2
	$ 33.5	$ 35.6
Liabilities		
Accounts payable and accrued liabilities	$ 2.0	$ 2.5
Site restoration provision	2.2	2.2
	4.2	4.7
Shareholders' equity	29.3	30.9
Total liabilities and shareholders' equity	$ 33.5	$ 35.6

6.1 Cash and Cash Equivalents

At March 31, 2014, the Company had cash and cash equivalents of $33.4 million compared to $35.4 million at December 31, 2013. See further discussion in Section 8, *Liquidity and Capital Resources* of this MD&A.

6.2 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were $2.0 million at March 31, 2014 and $2.5 million at December 31, 2013.

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.3 Site Restoration Provision

The site restoration provision of $2.2 million at March 31, 2014 and December 31, 2013 relates to costs associated with soil and groundwater reclamation and remediation costs. The Company conducts periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements. Reimbursements of costs resulting from indemnifications provided by previous owners of the industrial sites have not been recognized in these consolidated financial statements. Future reimbursements will be recorded when received.

6.4 Shareholders' Equity

The details of shareholders' equity are as follows:

(millions)	March 31, 2014	December 31, 2013
Common shares	$ 203.6	$ 203.6
Contributed surplus	12.9	12.9
Deficit	(187.2)	(185.6)
Shareholders' equity	$ 29.3	$ 30.9

The increase in deficit of $1.6 million from December 31, 2013 to March 31, 2014 is due to the loss for the three months ended March 31, 2014.

7. OUTLOOK

The Company's investment in HIIG is consistent with Westaim's strategy to deploy capital at above average risk-adjusted returns. The investment allows Westaim to partner with an experienced management team with a proven track record in the attractive global specialty P&C insurance market.

The Company continues to seek additional investment opportunities to create meaningful shareholder value through partnering with aligned and capable management teams to build profitable businesses that generate attractive returns over the long-term.

8. LIQUIDITY AND CAPITAL RESOURCES

Capital Management Objectives

The Company's guiding principles for capital management are to maintain the stability and safety of the Company for its stakeholders through optimal capital mix and an adequate level of capital, maintain a strong balance sheet, ensure the return on capital meets the Board of Directors' expectations relative to the risk taken, and minimize the after-tax cost of capital.

Towards achieving these objectives, the Company employs a strong and efficient capital base and manages capital in accordance with policies established by the Board of Directors. These policies relate to capital strength and capital mix. 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. The Company's capital consists of its shareholders' equity.

Share Capital

The Company's authorized share capital consists of an unlimited number of common shares, Class A preferred shares and Class B preferred shares. On October 1, 2013, the Company completed a 50:1 share consolidation of all of its outstanding common shares. All share capital, per share amounts, and share-based awards in the comparative period have been adjusted to reflect this change. At December 31, 2013 and March 31, 2014, the Company had 13,902,937 common shares outstanding. The Company had 6,000 stock options outstanding at December 31, 2013 and 5,000 stock options outstanding at March 31, 2014. At those dates, there were no Class A or Class B preferred shares outstanding.

Dividends

No dividends were paid in the three months ended March 31, 2014 and 2013.

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

Share-based Compensation Plans

The Company may grant stock options and deferred share units ("DSUs") under the Company's comprehensive long-term equity incentive plan (the "Incentive Plan"), as approved by the Board of Directors and ratified by the shareholders. The number of common shares issuable under the Incentive Plan is limited to not more than 10% of the aggregate number of common shares outstanding.

DSUs are granted to non-executive directors of the Company and are issued at the market value of the Company's shares at the date of grant. Vested DSUs are paid out in cash when the participant ceases to be a director, officer or employee.

The Company had 6,000 stock options outstanding at December 31, 2013 and 5,000 stock options outstanding at March 31, 2014. At December 31, 2013 and March 31, 2014, the company had 113,200 DSUs outstanding.

The Company is proposing to amend its Incentive Plan to adopt substantially the form of long-term incentive plan of the Company in place prior to the Company's shares being listed on the TSX Venture Exchange ("TSX-V"), with certain exceptions. The amendments include (a) providing for grants of restricted share units, stock appreciation rights and other share-based awards in addition to DSUs, and (b) providing the Board of Directors with the option of establishing a share purchase program; and (c) removing the ability of the Company to grant stock options under the Incentive Plan and creating a stand-alone incentive stock option plan (the "Option Plan") in accordance with the policies of the TSX-V. The amendments are subject to TSX-V approval and shareholder ratification at the annual and special meeting (the "Meeting") of the shareholders of the Company to be held on June 19, 2014. A summary of the terms of each of the Incentive Plan and the Option Plan, along with the full text of such plans, will be included in the Company's management information circular to be mailed to the shareholders of the Company in connection with the Meeting.

Volatility of Share Price

The price of the common shares may be volatile even though there have been no material changes in the Company's business or finances. In the past, securities class action litigation has often been brought against companies that experience volatility in the market price of their securities. Whether or not meritorious, litigation brought against the Company could result in substantial costs, divert management's attention and resources and harm the Company's financial condition and results of operations.

Market for Securities

On January 9, 2013, Westaim's common shares commenced trading on the TSX-V under the symbol "WED". Until January 8, 2013, the common shares of Westaim were listed on the Toronto Stock Exchange (the "TSX") under the symbol "WED". The Westaim Board of Directors has determined that a listing with the TSX-V better suits the needs of the Company while providing continued trading liquidity for the Company's shareholders. The Company received approval of its listing on the TSX-V prior to voluntarily de-listing from the TSX.

Cash Flow Objectives

The Company manages its liquidity with a view to ensuring that there is sufficient cash to meet all financial commitments and obligations as they fall due. The Company believes its liquidity requirements for the next year will be met with the cash and cash equivalents on hand. Although the Company currently does not have any operating assets that generate revenue, the Company has sufficient funds to meet its financial obligations and pursue other opportunities. As part of pursuing one or more new opportunities, the Company may from time to time issue shares from treasury.

The following tables illustrate the duration of the financial assets of the Company compared to its financial obligations:

March 31, 2014 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	$ 33.4	$ -	$ 33.4
Other assets	0.1	-	0.1
Total financial assets	33.5	-	33.5
Financial obligations:			
Accounts payable and accrued liabilities	2.0	-	2.0
Site restoration provision	-	2.2	2.2
Total financial obligations	2.0	2.2	4.2
Financial assets net of financial obligations	$ 31.5	$ (2.2)	$ 29.3

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

December 31, 2013 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	$ 35.4	$ -	$ 35.4
Other assets	0.2	-	0.2
Total financial assets	35.6	-	35.6
Financial obligations:			
Accounts payable and accrued liabilities	2.5	-	2.5
Site restoration provision	-	2.2	2.2
Total financial obligations	2.5	2.2	4.7
Financial assets net of financial obligations	$ 33.1	$ (2.2)	$ 30.9

The Company's investment guidelines stress preservation of capital and market liquidity to support payment of liabilities. The matching of the duration of financial assets and liabilities is monitored to ensure that all obligations will be met.

9. RISKS

Westaim is subject to a number of risks, including the risks described below. The risks and uncertainties described below are those believed to be material, but they may not be the only ones faced by Westaim. If any of these risks, or any other risks and uncertainties that have not yet been identified by Westaim or that Westaim 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 could be materially and adversely affected.

The Company has no current business activities from which it earns revenues

The Company has no operations which generate revenues and its main assets are cash and cash equivalents. Accordingly, the Company does not anticipate that it will generate any significant earnings until such time as it deploys its cash and cash equivalents through one or more acquisitions, mergers, or other transactions. There is no guarantee that the Company will make such an investment or that any investment made will be profitable and will provide dividends to shareholders. Westaim has no current intention of paying dividends in the near future. There is no assurance that the Company will be able to obtain adequate financing needed for its future business or projects or if the terms of such financing will be favourable. Failure to obtain such additional financing could result in a delay in the future development of the Company.

The Company is relying solely on the past business success of its directors and officers to identify acquisitions. The success of the Company is dependent upon the efforts and abilities of its management team. The loss of certain members of the management team could have an adverse effect on the business and prospects of the Company. In such event, the Company will seek satisfactory replacements but there can be no guarantee that appropriate personnel can be found.

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 regulatory approvals as well as the satisfaction of other conditions. These approvals may impose conditions or obligations on the Company, the Partnership and/or HIIG 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 agreements.

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

If the Acquisition is not completed, the business of the Company may be adversely affected. Additionally, if the Acquisition is not completed, the Company may be required to pay the Sellers a termination fee or may be liable to the Sellers or HIIG 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 the Company.

9. RISKS (continued)

The pendency of the Acquisition could adversely affect the business and operations of the Company and/or HIIG

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

HIIG may have undisclosed liabilities

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

Risks inherent in acquisitions generally

The Company intends to actively pursue the acquisition of companies or businesses in Canada and/or internationally and may seek to acquire securities or other interests in other companies consistent with its investment and growth strategy. Such acquisitions involve inherent risks including but not limited to (a) unanticipated costs; (b) potential loss of key employees of the Company or the business acquired; (c) unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition; and (d) decline in the value of the acquired business or assets. Any one or more of these factors could cause the Company to not realize the anticipated benefits of the acquisition in question. In addition, the Company may be required to use available cash, incur debt, issue securities, or a combination of these in order to complete an acquisition. This could affect the Company's future flexibility and ability to raise capital, operate or develop its business and could dilute its existing shareholders' holdings as well as decrease the trading price of its common shares. There is no assurance that when evaluating a possible acquisition, the Company will correctly identify and manage the risks and costs inherent in the business or asset to be acquired.

Failure to satisfy the Escrow Release Conditions prior to the Termination Date

There can be no assurance that the Escrow Release Conditions will be satisfied by the Termination Date. If the Escrow Release Conditions are not satisfied by the Termination Date, all proceeds of the Offering and the Concurrent Private Placement, together with any interest accrued thereon, will be returned to the subscribers on a *pro rata* basis. In addition, the Company has an obligation to offset the shortfall, if any, between the aggregate subscription price paid by each subscriber and the proceeds of the Offering and Concurrent Private Placement being held in escrow. Such shortfall may result due to the Company's obligation to pay certain commissions and expenses to the underwriters in connection with the Offering.

Failure to satisfy one or more Escrow Release Conditions may jeopardize the completion of the Acquisition (or of one or more components thereof) and the Additional Subscription. See "*Risks - Failure to satisfy closing conditions may delay or prevent completion of the Acquisition*". In addition, absent alternate financing, the Company's ability to implement its current business strategy may be materially impeded. There can be no assurance that any additional financing will be available to the Company on acceptable terms, or at all. See "*Risks - Liquidity and financing risks".*

Volatile stock price

The price of Westaim's common shares is expected to be highly volatile and will be drastically affected by various factors. Westaim cannot predict the timing of future acquisitions or other developments expected to take place in the future which will likely trigger major changes in the trading price of the common shares.

Liquidity and financing risks

As Westaim will have limited interest income from its cash and cash equivalents, its ability to continue its acquisition efforts will be largely reliant on its continued attractiveness to equity investors. Westaim will incur operating losses as it continues to expend funds to explore and develop future business. There is no guarantee that Westaim will be able to develop a profitable business that it may acquire as general economic conditions, regulatory requirements and other factors affect Westaim's operations and future performance. Many of these factors are beyond Westaim's control. Additionally, should Westaim require additional capital to continue its activities, failure to raise such capital could result in the Company going out of business. From time to time, Westaim may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase Westaim's debt levels above industry standards. Westaim cannot assure investors that it will be able to generate sufficient cash flow to pay the interest on any debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt.

9. RISKS (continued)

Income taxes

The calculation of income taxes requires the use of estimates and judgment. The validity and measurement of tax benefits associated with various tax positions taken or expected to be taken in Westaim's tax filings are a matter of tax law and are subject to interpretation. The impact of the final determination of tax audits, appeals of decisions of a taxing authority, or tax litigation may be materially different from that reflected in the Company's financial statements. The assessment of additional taxes, interest and penalties could be materially adverse to Westaim's future results of operations and financial position.

Operational risks

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 expenses in excess of amounts provided for. The Company does not believe that it will incur any significant additional expenses in connection with such actions.

The Company has agreements to indemnify its officers and directors for certain events or occurrences while the officer or director is or was serving at the Company's request in such capacity. The maximum potential amount of future payments is unlimited. However, the Company maintains Director and Officer Liability insurance coverage that enables the Company to recover a portion of any future payments.

Environmental risks

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. The site restoration provision is based on periodic independent estimates of costs associated with soil and groundwater reclamation and remediation of these industrial sites. The Company has accounted for estimated future restoration costs in its financial statements (see note 5 to the Company's unaudited consolidated financial statements for the three months ended March 31, 2014 and 2013). Although the Company believes, based on consultation with experts and advisors, that such estimates are reasonable based on information currently available the Company, the ultimate environmental costs are uncertain as they are dependent on the future use of the land and future laws and regulations. In addition, estimates of future expenditures could change as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements.

10. RELATED PARTY TRANSACTIONS

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including directors of the Company.

Compensation expenses related to key management personnel, including non-executive directors, are as follows:

	Three months ended March 31	
(millions)	2014	2013
Salaries and benefits	$ 0.2	$ 0.3

On April 23, 2014, an aggregate of 3,400,000 Subscription Receipts for aggregate gross proceeds of $9.0 million were acquired by certain directors and officers of the Company pursuant to the Concurrent Private Placement. See discussion in Section 4, *Equity Financing* of this MD&A.

11. QUARTERLY FINANCIAL INFORMATION

(millions)	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Revenue of continuing operations	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1
Expenses of continuing operations	1.7	2.1	0.6	0.8	0.6	1.1	16.5	9.6
Gain (loss) on sale of discontinued operations	-	-	-	-	-	-	108.1	(1.4)
Profit from discontinued operations	-	-	-	-	-	-	3.7	12.8
Profit or loss and other comprehensive income	(1.6)	(2.0)	(0.5)	(0.7)	(0.5)	(1.0)	95.4	1.9

11. QUARTERLY FINANCIAL INFORMATION (continued)

Quarterly revenue comprises investment income. Expenses vary from quarter to quarter mainly due to the share-based compensation expense which varies according to the market price of Westaim's common shares. The Company's expenses included professional fees incurred in connection with the investment in HIIG of $1.2 million in the first quarter of 2014 and $2.0 million in the fourth quarter of 2013. In the fourth quarter of 2013, the Company recorded a site restoration provision recovery of $0.4 million. Costs of $1.3 million were incurred in the second quarter of 2012 to investigate an acquisition which Westaim ultimately did not pursue.

Gain on sale of discontinued operations is the gain from the sale of Jevco Insurance Company ("Jevco"), an insurance company previously owned by the Company. Expenses of $1.4 million related to the sale were recorded in the second quarter of 2012. Profit from discontinued operations for the third quarter of 2012 included two months of operating results from the Company's insurance business to the date of sale of Jevco on September 4, 2012.

12. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

Certain portions of this MD&A, as well as other public statements by the Company, contain forward-looking statements. In particular, the words "strategy", "may", "will", "continue", "developed", "objective", "potential", "exploring", "could", "expect", "expected", "expects", "tends", "indicates", 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: strategies, alternatives and objectives to maximize value for shareholders; expectations and assumptions relating to the Company's business plan; the completion of the Acquisition; the effect of adverse changes in equity markets or the Company's operations; expectations regarding the Company's assets and liabilities; the Company's ability to retain key employees, management's belief that its estimates for determining the valuation of the Company's assets and liabilities are appropriate; the Company's views regarding potential future remediation costs; the effect of changes to interpretations of tax legislation on income tax provisions in future periods; and the Company's determination that the adoption of new accounting standards will not have a material impact on its consolidated financial statements.

These statements are based on current expectations that are subject to risks, uncertainties and assumptions and the Company can give no assurance that these expectations are correct. By their nature, these statements are subject to inherent risks and uncertainties that may be general or specific. A variety of material factors, many of which are beyond the Company's control, may affect the operations, performance and results of the Company and its business, and could cause actual results to differ materially from the expectations expressed in any of these forward-looking statements.

The Company's actual results could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company's control, including but not limited to: (i) the Company's ability to satisfy the Escrow Release Conditions prior to the Termination Date and complete the Acquisition or any portion thereof on the terms described herein or at all, (ii) difficult economic conditions or a prolonged economic downturn may adversely affect the Company's business; (iii) the Company may not be able to realize its investment objectives or its liquid assets may prove to be insufficient to meet future obligations; (iv) the Company and/or HIIG may have undisclosed liabilities; (v) the Company may require significant additional funding; (vi) changes in market conditions or deterioration in underlying investments; (vii) general economic, market, financing, regulatory and industry developments and conditions, and (viii) other risk factors set forth herein or in the Company's Annual Information Form or other public filings. The Company 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.

The Westaim Corporation
Consolidated Statements of Financial Position
(unaudited)

(thousands of Canadian dollars)		March 31 2014		December 31 2013
ASSETS				
Current				
Cash and cash equivalents	$	33,379	$	35,412
Accounts receivable and other assets		128		159
	$	33,507	$	35,571
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	2,003	$	2,450
Site restoration provision (note 5)		2,228		2,219
		4,231		4,669
Commitments and contingent liabilities (note 6)				
Subsequent event (note 14)				
SHAREHOLDERS' EQUITY				
Share capital (note 7)		203,640		203,640
Contributed surplus (note 2h)		12,890		12,890
Deficit		(187,254)		(185,628)
		29,276		30,902
	$	33,507	$	35,571

The accompanying notes are an integral part of these consolidated financial statements

The Westaim Corporation
Consolidated Statements of Profit or Loss and Other Comprehensive Income
(unaudited)

(thousands of Canadian dollars except share and per share data)		Three Months Ended March 31 2014		2013
Revenue				
Investment income	$	58	$	105
Expenses				
Salaries and benefits		246		290
Office expenses		150		241
Professional fees (note 4)		1,302		139
Site restoration provision expense (note 5)		9		7
Share-based compensation (note 8)		84		-
Foreign exchange gain		(107)		-
		1,684		677
Loss before income tax		(1,626)		(572)
Income tax recovery		-		120
Profit or loss and other comprehensive income	$	(1,626)	$	(452)
Earnings per share (note 11)				
Profit or loss and other comprehensive income - basic and diluted	$	(0.12)	$	(0.03)
Weighted average number of common shares outstanding (in thousands)				
Basic and diluted		13,903		13,903

The accompanying notes are an integral part of these consolidated financial statements

The Westaim Corporation
Consolidated Statements of Changes in Equity
(unaudited)

Three months ended March 31, 2014

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2014	$ 203,640	$ 12,890	$ (185,628)	$ 30,902
Profit or loss and other comprehensive income	-	-	(1,626)	(1,626)
Balance at March 31, 2014	$ 203,640	$ 12,890	$ (187,254)	$ 29,276

Three months ended March 31, 2013

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2013	$ 203,640	$ 12,890	$ (181,918)	$ 34,612
Profit or loss and other comprehensive income	-	-	(452)	(452)
Balance at March 31, 2013	$ 203,640	$ 12,890	$ (182,370)	$ 34,160

The accompanying notes are an integral part of these consolidated financial statements

The Westaim Corporation
Consolidated Cash Flow Statements
(unaudited)

(thousands of Canadian dollars)	Three Months Ended March 31 2014	2013
Operating activities		
Profit or loss	$ (1,626)	$ (452)
Income tax recovery recognized in profit or loss	-	(120)
Income taxes paid	-	(1,410)
Share-based compensation	84	-
Net change in other non-cash balances	(491)	(164)
Cash used in operating activities	(2,033)	(2,146)
Net decrease in cash and cash equivalents	(2,033)	(2,146)
Cash and cash equivalents, beginning of period	35,412	39,164
Cash and cash equivalents, end of period	$ 33,379	$ 37,018
Cash and cash equivalents is comprised of:		
Cash	$ 33,379	$ 37,018

The accompanying notes are an integral part of these consolidated financial statements

1 Nature of Operations and Basis of Preparation

The Westaim Corporation (the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company's registered office is located at 201-212 King Street West, Toronto, Ontario, Canada. These financial statements were authorized for issue by the Board of Directors of the Company on May 14, 2014.

On March 12, 2014, the Company announced that Westaim HIIG Limited Partnership, a limited partnership managed by a subsidiary of the Company, has agreed to acquire a significant interest in Houston International Insurance Group, Ltd. ("HIIG"). HIIG is a U.S. based diversified specialty insurance provider and managing general insurance agent covering risks across the United States and certain niche global markets.

On January 9, 2013, the Company's common shares commenced trading on the TSX Venture Exchange under the symbol WED. Until January 8, 2013, the Company's common shares were traded on the Toronto Stock Exchange under the symbol WED. Concurrent with the commencement of trading on the TSX Venture Exchange, the Company's common shares were voluntarily delisted from the Toronto Stock Exchange. On October 1, 2013, the Company completed a 50:1 share consolidation of all of its outstanding common shares. All share capital, per share amounts, and share-based awards in the current and comparative periods have been adjusted to reflect this change.

These financial statements are prepared in compliance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34 *"Interim Financial Reporting"*, and include, on a consolidated basis, the accounts of wholly-owned subsidiaries, Westaim Management GP Inc. and Westaim HIIG GP Inc.

All currency amounts are expressed in thousands of Canadian dollars except earnings per share data, unless otherwise noted.

2 Summary of Significant Accounting Policies

The significant accounting policies used to prepare these financial statements are as follows:

(a) Principles of consolidation

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions are eliminated upon consolidation.

(b) Use of estimates

The preparation of financial statements requires management to make estimates 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 reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the reporting period in which they are determined. The key estimates used in these financial statements relate to the site restoration provision and are discussed in note 2(g) and note 5.

(c) Judgments made by management

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include the site restoration provision and income taxes. For additional information on these judgments, see note 5 for site restoration provision and note 10 for income taxes.

(d) Foreign currency translation

The Canadian dollar is the functional and presentation currency of the Company. Transactions in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange at end of period.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less.

Cash and cash equivalents are classified in the financial instrument category of loans and receivables for purposes of measurement. Cash and cash equivalents are valued at fair value at the issuance date and subsequently at amortized cost using the effective interest method. Carrying value is a reasonable approximation of fair value.

2 Summary of Significant Accounting Policies (continued)

(f) Income taxes

Income tax expense is recognized in the statement of profit or loss and other comprehensive income. Current tax is based on taxable income which differs from profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Deferred tax assets are generally recognized for all deductible temporary income tax differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities are determined based on the enacted or substantively enacted tax laws and rates that are anticipated to apply in the year of realization. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of the related assets and liabilities. The carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Income tax assets and liabilities are offset when the Company intends to settle on a net basis and there is a legally enforceable right to offset.

(g) Site restoration provision

Future site restoration costs relate to industrial sites previously owned by the Company and are estimated taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The estimated amount of future restoration costs is reviewed periodically based on available information. The amount of the provision is the present value of the estimated future restoration costs discounted using the rate of interest of a high quality government bond.

Recoveries of costs resulting from indemnifications provided by previous owners of the Company's industrial sites have not been recognized in these financial statements. Future recoveries of site restoration costs will be recorded when received.

(h) Contributed surplus

The cost of stock options is recognized over the period from the issue date to the vesting date and recorded as contributed surplus. When share capital of the Company is repurchased by the Company, the amount by which the average carrying value of the shares exceeds the cost to repurchase the shares is removed from share capital and included in contributed surplus.

(i) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 8. Any consideration paid by stock option holders for the purchase of stock is credited to share capital. The cost of stock options is recognized over the period from the issue date to the vesting date and recorded as a component of equity in contributed surplus.

Obligations related to Deferred Share Units ("DSUs") are accrued as liabilities when a change in value occurs and recognized in compensation expense over the applicable vesting period.

(j) Earnings per share

Basic earnings per share is calculated by dividing profit or loss by the total of the weighted average number of common shares outstanding during the reporting period. Profit or loss equals profit or loss and other comprehensive income for the three months ended March 31, 2014 and 2013.

Diluted earnings per share is calculated on the basis of the weighted average number of shares outstanding during the reporting period plus an estimate of the additional common shares that would have been outstanding if potentially dilutive common shares had been issued using the "treasury stock" method. No adjustments to profit or loss are required for dividends, interest or other changes in income for purposes of calculating diluted earnings per share.

3 Recently Adopted and Pending Accounting Pronouncements

In December 2011, amendments to IAS 32 "*Financial Instruments: Presentation*" were issued to clarify the existing requirements for offsetting financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2014. The adoption of these amendments did not have an impact on the Company's interim consolidated financial statements.

In May 2013, International Financial Reporting Standards Interpretations Committee Interpretation 21: Levies ("IFRIC 21") was issued. IFRIC 21 addresses various accounting issues relating to levies imposed by a government. This interpretation is effective for annual periods beginning on or after January 1, 2014. The adoption of IFRIC 21 did not have an impact on the Company's interim consolidated financial statements.

In November 2009, the IASB issued IFRS 9 *"Financial Instruments"* ("IFRS 9") as part of its plan to replace IAS 39 *"Financial Instruments: Recognition and Measurement"*. IFRS 9 requires financial assets, including hybrid contracts, to be measured at either fair value or amortized cost.

In October 2010, the IASB amended the requirements for classification and measurement of financial assets and liabilities. In November 2013, the IASB introduced a new hedge accounting model and allowed early adoption of the own credit provisions of IFRS 9. The impairment of financial assets phase of the project is currently under development. The mandatory effective date of January 1, 2015 was removed and the effective date will be determined when the remaining phases of IFRS 9 are finalized.

4 Investments

On March 12, 2014, the Company announced that Westaim HIIG Limited Partnership (the "Partnership"), an Ontario limited partnership newly established by the Company, has agreed to acquire a significant interest in HIIG.

The Partnership has agreed to acquire an approximate 42.5% equity ownership interest in HIIG for aggregate consideration of approximately US$75,000 (the "Initial Acquisition"), through the purchase of shares from certain existing shareholders of HIIG (the "Sellers") for approximately US$15,000 and the subscription for stock from HIIG's treasury for approximately US$60,000, subject to closing adjustments. The Company has agreed to provide a US$20,000 capital commitment to the Partnership to fund, in part, the Initial Acquisition, and has also committed to fund up to US$3,333 if there are positive post-closing adjustments.

Under a stock purchase agreement to be entered into in connection with, and as a condition to, the completion of the Initial Acquisition, the Partnership will also have the right and obligation (for six months after the completion of the Initial Acquisition), subject to obtaining financing, to purchase the remaining shares of HIIG owned by the Sellers (24.6% assuming the completion of the Acquisition) for an aggregate purchase price of approximately US$38,700, subject to closing adjustments (the "Second Acquisition", and together with the Initial Acquisition, the "Acquisition"). Completion of the Second Acquisition will be conditional on the Partnership raising the funds necessary to complete such purchase on terms reasonably satisfactory to the Partnership. See note 14 regarding equity financing arrangements completed subsequent to March 31, 2014. In the event that the Initial Acquisition is completed but the Second Acquisition is not completed, Westaim will be obligated in certain circumstances to pay the Sellers a termination fee of US$1,000.

After giving effect to the Acquisition, the Partnership would have purchased approximately 67.1% of HIIG for approximately US$113,700, excluding transaction costs not otherwise subject to reimbursement.

The Acquisition is subject to the receipt of all requisite regulatory approvals, including TSX Venture Exchange approval, and any other regulatory approvals required under applicable U.S. competition and insurance laws, including approval of the Departments of Insurance of the States of Texas and Oklahoma. The Initial Acquisition and Second Acquisition are expected to close concurrently in the second quarter of 2014.

The Company incurred professional fees in connection with the Acquisition of $1,942 in 2013 and $1,170 in the three months ended March 31, 2014, and is entitled to be reimbursed by HIIG of up to US$2,500 of such fees upon completion of the Initial Acquisition.

(Currency amounts in thousands of Canadian dollars unless otherwise indicated)

5 Site Restoration Provision

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. The site restoration provision is based on periodic independent estimates of costs associated with soil and groundwater reclamation and remediation of these industrial sites. The ultimate environmental costs are uncertain as they are dependent on the future use of the land and future laws and regulations.

Changes to the site restoration provision for the three months ended March 31, 2014 and 2013 are as follows:

	Three months ended March 31	
	2014	2013
Balance at January 1	$ 2,219	$ 2,663
Changes due to passage of time	9	7
Balance at March 31	$ 2,228	$ 2,670

Estimates of future expenditures could change as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements. The Company does not expect to settle any portion of the site restoration provision within twelve months after March 31, 2014.

Cash flows are estimated to take place over the next 150 years, with the majority to take place later than 50 years after March 31, 2014. To calculate the site restoration provision, the estimated cash flows were adjusted for inflation and discounted to March 31, 2014. For inflation and discounting calculations, all cash flows later than 50 years are treated as if the cash flow would occur at 100 years. Inflation is estimated at 1.2% per annum over the next 100 years. Discount rates are based on risk free rates which range from 1.0% to 3.0% over the next 30 years. The 30-year risk free rate is used for discounting cash flows that are estimated to occur later than 30 years after March 31, 2014.

Reimbursements of future costs resulting from indemnifications provided by previous owners of the industrial sites have not been recognized in these financial statements. Future reimbursements will be recorded when received.

6 Commitments and Contingent Liabilities

(a) To fund the Initial Acquisition, the Partnership has obtained signed equity commitment letters from the Company and certain other investors for an aggregate of approximately US$77,000. Pursuant to these equity commitment letters, the Partnership will collectively be funded as to (i) US$20,000 by the Company and (ii) approximately US$57,000 by other investors. The Company has also committed to the Partnership to fund up to US$3,333 if there are positive post-closing adjustments.

(b) On April 30, 2014, the Board of Directors of the Company approved an additional equity investment in the Partnership of up to US$25,000 to fund (subject to the preemptive rights of other Partnership investors) the Partnership's subscription for additional stock from HIIG's treasury contingent on the closing of the Acquisition (see note 14). The contribution of the Company is expected to be approximately US$16,800.

(c) In connection with the sale of the operations and assets of WHL in 2009, WHL agreed to indemnify the purchaser against certain liabilities or losses as described in the asset purchase agreement to an aggregate maximum of US$11,000, subject to certain exclusions. The Company also agreed to indemnify the purchaser and the purchaser's directors, officers and employees, for an indefinite period, from certain environmental liabilities and costs relating to the premises formerly leased by WHL in Fort Saskatchewan, Alberta. No claims have been made under, and no amounts have been accrued related to, these indemnities.

(d) The Company has operating leases in Toronto with remaining lease terms of up to 5 years. At March 31, 2014, the Company had a total commitment of $251 for future minimum lease payments including payments due not later than one year of $99, payments due later than one year and not later than five years of $145, and payments due later than five years of $7.

7 Share Capital

The Company's authorized share capital consists of an unlimited number of common shares with no par value, Class A preferred shares with no par value and Class B preferred shares with no par value.

The Company's share capital consisted of 13,902,937 common shares with stated capital of $203,640 at March 31, 2014 and December 31, 2013. In the year ended December 31, 2013, 3 common shares were cancelled.

(Currency amounts in thousands of Canadian dollars unless otherwise indicated)

7 Share Capital (continued)

On October 1, 2013, the Company completed a 50:1 share consolidation of all of its outstanding common shares. All share capital, per share amounts, and share-based awards in the current and comparative periods have been adjusted to reflect this change.

No shares of the Company are held by the Company, and there were no Class A preferred shares or Class B preferred shares outstanding at March 31, 2014 and December 31, 2013.

On April 23, 2014, the Company sold by way of a private placement 50,995,385 subscription receipts of the Company for aggregate gross proceeds of approximately $135,138 and entered into irrevocable subscription agreements for the subscription of approximately 5,523,430 common shares of the Company for aggregate gross proceeds of approximately $14,637. See note 14 for additional information on these equity transactions.

8 Share-based Compensation

Under the Company's comprehensive long-term equity incentive plan (the "Incentive Plan"), as approved by the Board of Directors and ratified by the shareholders, the Company may grant share-based awards for 1,390,293 common shares of the Company. See note 14 for additional information regarding proposed amendments to the Incentive Plan.

Stock Options - Changes to the number of stock options for the three months ended March 31, 2014 and 2013 are as follows:

	Three months ended March 31, 2014		Three months ended March 31, 2013 (1)	
Common share stock options	Number	Weighted Average Exercise Price in dollars	Number	Weighted Average Exercise Price in dollars
Outstanding at January 1	6,000	$ 165.25	7,456	$ 153.50
Exercised	-	-	-	-
Expired and forfeited	(1,000)	$ 197.50	(1,456)	$ 104.00
Outstanding at March 31	5,000	$ 158.80	6,000	$ 165.25

(1) Adjusted to reflect a 50:1 share consolidation completed on October 1, 2013.

Stock options outstanding are exercisable at prices ranging from $61.50 to $309.00 and at March 31, 2014 had an average remaining contractual life of 2.1 years.

Deferred Share Units - DSUs are granted to non-executive directors of the Company and are issued at the market value of the Company's shares at the date of grant. Vested DSUs are paid out in cash when the participant ceases to be a director, officer or employee.

There were 113,200 DSUs outstanding at March 31, 2014, December 31, 2013 and December 31, 2012. There were no changes to the number of DSUs for the three months ended March 31, 2014 and 2013.

For the three months ended March 31, 2014, compensation expense relating to DSUs was $84 (2013 - $nil). At March 31, 2014, a liability of $323 (December 31, 2013 - $239) has been accrued with respect to outstanding DSUs.

9 Related Party Transactions

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including directors of the Company.

Compensation expenses related to key management personnel for the three months ended March 31, 2014 and 2013 are as follows:

	Three months ended March 31 2014	2013
Salaries and other short-term employee benefits	$ 246	$ 290

(Currency amounts in thousands of Canadian dollars unless otherwise indicated)

10 Income Taxes

Income taxes are recognized for deferred income taxes attributed to estimated differences between the financial statement carrying values of assets and liabilities and their respective income tax bases.

As the realization of any related tax benefits is not probable, no deferred income tax assets have been recognized for the following:

	March 31, 2014	December 31, 2013
Non-capital loss carry-forwards	$ 48,996	$ 48,234
Capital loss carry-forwards	6,987	6,987
Deductible temporary differences	6,930	6,066
Corporate minimum tax credits	1,406	1,406
Investment tax credits	9,633	9,633

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2034, as follows:

Non-capital losses by year of expiry:	
2026	$ 7,883
2027	6,151
2028	9,048
2029	103
2030	610
2031	20,609
2033	3,830
2034	762
	$ 48,996

Investment tax credits by year of expiry:	
2016	$ 961
2017	3,241
2018	888
2019	961
2020	823
2021	643
Beyond 2021	2,116
	$ 9,633

The following is a reconciliation of income taxes calculated at the statutory income tax rate to the income tax expense included in the statements of profit or loss and other comprehensive income:

	Three months ended March 31	
	2014	2013
Loss before income tax	$ (1,626)	$ (572)
Statutory income tax rate	26.5%	26.5%
Income taxes at statutory income tax rate	(431)	(152)
Variations due to:		
Unrecognized temporary differences	229	(108)
Unrecognized tax losses	202	260
Adjustment to prior year provision	-	(120)
Income tax recovery	$ -	$ (120)

11 Earnings per Share

The Company uses the treasury stock method to calculate diluted earnings per share. Following the treasury stock method, the numerator for the Company's diluted earnings per share calculation remains unchanged from the basic earnings per share calculation, as the assumed exercise of the Company's stock options does not result in an adjustment to profit or loss.

Stock options to purchase 5,000 common shares were outstanding at March 31, 2014 (December 31, 2013 – 6,000). These stock options were excluded in the calculation of diluted earnings per share because the exercise price of the stock options was greater than the weighted average market value of the common shares in the three months ended March 31, 2014 and 2013.

12 Capital Management

The Company's capital consists of its shareholders' equity. The Company's objectives when managing capital are to maintain a strong balance sheet and maximize shareholder value. In order to achieve the Company's capital management objectives, it employs a strong and efficient capital base and 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. Capital is managed using internal metrics. There are no internal or external restrictions on the Company's capital.

13 Risk Management

The Company's statement of financial position at March 31, 2014 consists of short-term financial assets and financial liabilities with maturities of less than one year, other than the site restoration provision discussed in note 5 and the commitments in notes 6(a) and 6(c). The most significant identified risks which arise from holding financial instruments include credit risk, market risk and liquidity risk. As at March 31, 2014, the Company's exposure to credit and market risk is nominal as the Company's financial assets consisted of cash and cash equivalents held with a Schedule 1 bank in Canada. Additionally, at March 31, 2014 the Company's financial assets were significantly higher than its financial liabilities resulting in minimal liquidity risk. Overall, the Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

14 Subsequent Event

On April 23, 2014, the Company completed the sale, on a private placement basis, of 47,180,380 subscription receipts (the "Subscription Receipts") of the Company at a price of $2.65 per Subscription Receipt (the "Offering Price") for aggregate gross proceeds to the Company of approximately $125,028 (the "Offering"). The Company also completed a concurrent non-brokered private placement of 3,815,005 Subscription Receipts on the same terms as the Offering for aggregate gross proceeds to the Company of approximately $10,110 (the "Concurrent Private Placement"). Investors in the Concurrent Private Placement include primarily members of the Company's Board of Directors and management team.

Under the terms of the Offering and the Concurrent Private Placement, the net proceeds of the Offering and the Concurrent Private Placement will be held in escrow pending satisfaction of certain escrow release conditions, including the satisfaction of all conditions required to complete the Acquisition (other than payment of the purchase price) and the receipt of all regulatory approvals. Upon satisfaction of the escrow release conditions, each Subscription Receipt will entitle the holder to receive, for no additional consideration, one common share of the Company. If the escrow release conditions are not satisfied prior to the earlier of (i) September 12, 2014, and (ii) the termination of the stock purchase agreement in respect of the Initial Acquisition in accordance with its terms, holders of the Subscription Receipts will be entitled to receive 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.

Concurrent with the closing of the Offering and the Concurrent Private Placement, the Company also entered into irrevocable subscription agreements with certain funds and co-investors (collectively, the "Investors") for the subscription of approximately 5,523,430 common shares of the Company at a price of $2.65 per share, for aggregate gross proceeds to the Company of approximately $14,637 (the "Additional Subscription"). The Investors are currently shareholders of HIIG (and members of the Seller group) and they will use the proceeds from the sale of their shares of HIIG to the Partnership pursuant to the Acquisition to fund the Additional Subscription. The conditions to the closing of the Additional Subscription are the same as the escrow release conditions under the Offering and the Concurrent Private Placement. The precise number of common shares to be issued under the Additional Subscription will be based on the actual proceeds to be received by the Investors in respect of the Acquisition and the U.S. dollar to Canadian dollar exchange rate.

The Company will use a portion of the proceeds from the Offering and the Concurrent Private Placement to purchase Class A Limited Partnership Units in the Partnership to enable the Partnership (together with funds committed by other investors in the Partnership) to satisfy the cash consideration payable by the Partnership in connection with the Acquisition. See note 4 for additional information on the investment in HIIG. The remaining net proceeds of the Offering, the Concurrent Private Placement and the Additional Subscription will be used by the Company for general corporate purposes and to consider and possibly fund potential future acquisitions (including possible additional equity investments in the Partnership).

On April 30, 2014, the Board of Directors of the Company approved an additional equity investment in the Partnership of up to US$25,000 to fund (subject to the preemptive rights of other Partnership investors) the Partnership's subscription for additional stock from HIIG's treasury contingent on the closing of the Acquisition (see note 14). The contribution of the Company is expected to be approximately US$16,800.

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