



**First Quarter Report to Shareholders  
for the quarter ended March 31, 2015**

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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 Board of Directors of Westaim, should be read in conjunction with Westaim's unaudited consolidated financial statements including notes for the three months ended March 31, 2015 and 2014 as set out on pages 19 to 34 of this quarterly report. Financial data in this MD&A has been derived from the unaudited consolidated financial statements for the three months ended March 31, 2015 and 2014 and is intended to enable the reader to assess Westaim's results of operations for the three months ended March 31, 2015 and financial condition as at March 31, 2015. 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 exchange rate used to convert one United States dollar to Canadian dollar at March 31, 2015 is 1.2683. The following commentary is current as of May 14, 2015. Additional information relating to Westaim is available on SEDAR at [www.sedar.com](http://www.sedar.com). Certain totals, subtotals and percentages may not reconcile due to rounding.

### Adoption of IFRS for Investment Entities

Westaim qualifies as an investment entity under IFRS and uses fair value as the key measure to monitor and evaluate its investments. The Company commenced reporting its financial results in accordance with IFRS applicable to investment entities, on a prospective basis, effective July 1, 2014. See Section 11, *Critical Accounting Policies and Recently Adopted and Pending Accounting Pronouncements* of this MD&A.

### 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, adjusted upwards by the Company's liability with respect to restricted share units ("RSUs"), divided by the aggregate of the total number of common shares outstanding at that date and the number of common shares that would have been issued if all outstanding RSUs were exercised. 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.

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**Cautionary Statement Regarding the Valuation of Investments in Private Entities**

In the absence of an active market for its investments in private entities, fair values for these investments are determined by management using the appropriate valuation methodologies after considering the history and nature of the business, operating results and financial conditions, outlook and prospects, general economic, industry and market conditions, capital market and transaction market conditions, contractual rights relating to the investment, public market comparables, private market transaction multiples and, where applicable, other pertinent considerations. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed. The amounts at which the Company's investments in private entities could be disposed of may differ from the fair value assigned and the differences could be material.

**Cautionary Statement Regarding Financial Information of Houston International Insurance Group, Ltd.**

Selected financial information (the "HIIG Financial Information") concerning Houston International Insurance Group, Ltd. ("HIIG") contained in this MD&A is unaudited and has been derived from the quarterly consolidated financial statements of HIIG for the three months ended March 31, 2015 and 2014. Such statements are the responsibility of the management of HIIG, have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"), and are presented in United States dollars.

The HIIG Financial Information should be read in conjunction with Westaim's historical financial statements including the notes thereto and the related MD&A as well as Westaim's other public filings.

The HIIG Financial Information has been provided solely by HIIG. Although Westaim has no knowledge that would indicate that any of the HIIG Financial Information contained herein is untrue or otherwise misleading, neither Westaim nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information, or for any failure by HIIG to disclose to Westaim events or facts which may have occurred or which may affect the significance or accuracy of any such financial information but which are unknown to Westaim.

Westaim disclaims and excludes all liability (to the extent permitted by law), for losses, claims, damages, demands, costs and expenses or whatever nature arising in any way out of or in connection with the HIIG Financial Information, its accuracy, completeness or by reason of reliance by any person on any of it.

**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 Annual Information Form for the fiscal year ended December 31, 2014 filed on March 31, 2015. Please refer to the cautionary note in Section 14 of this MD&A.

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**1. THE COMPANY**

The Westaim Corporation (TSXV: WED) is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the global financial services industry. The Company 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 with a focus towards the financial services industry and grow shareholder value over the long term.

The Company, along with third party investors, completed the acquisition of a significant interest in HIIG through Westaim HIIG Limited Partnership (the "Partnership"), an Ontario limited partnership managed by a subsidiary of the Company. HIIG is a U.S. based diversified specialty insurance company and managing general insurance agent covering risks across the United States and certain niche global markets. For additional information on the acquisition and related financing transactions, see discussion in Section 3, *Investments in Private Entities*, Section 4, *Equity Financings* of this MD&A and the Business Acquisition Reports related thereto dated October 8, 2014 and March 31, 2015 available on SEDAR at www.sedar.com.

**2. OVERVIEW OF PERFORMANCE**

<b>Highlights</b> (millions except share and per share data)	Three months ended March 31	
	2015	2014
Revenue	\$ 0.4	\$ 0.1
Net results of investments	15.1	-
Share-based compensation expense	(2.4)	(0.1)
Other expenses	(0.5)	(1.6)
Profit (loss) and other comprehensive income (loss)	<u>\$ 12.6</u>	<u>\$ (1.6)</u>
Earnings (loss) per share - basic and diluted	<u>\$ 0.18</u>	<u>\$ (0.12)</u>
At March 31:		
Shareholders' equity	\$ 209.7	\$ 29.3
Number of common shares outstanding	70,297,342	13,902,937
Book value per share	<u>\$ 2.95 <sup>(1)</sup></u>	<u>\$ 2.30 <sup>(2)</sup></u>

<sup>(1)</sup> Book value per share represents shareholders' equity at the end of March 31, 2015 determined on an IFRS basis and adjusted upwards by the Company's liability with respect to RSUs (March 31, 2015 - \$4.8 million), divided by the aggregate of the total number of common shares outstanding at that date and the number of common shares that would have been issued if all outstanding RSUs (March 31, 2015 - 2,375,000 units) were exercised.

<sup>(2)</sup> Book value per share represents shareholders' equity at the end of March 31, 2014 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 HIIG.

Three months ended March 31, 2015 and 2014

The Company reported a profit of \$12.6 million for the three months ended March 31, 2015 (2014 - loss \$1.6 million).

Revenue for the three months ended March 31, 2015 of \$0.4 million (2014 - \$0.1 million) consisted of interest income of \$0.1 million (2014 - \$0.1 million) and advisory fees of \$0.3 million (2014 - \$nil). Net results of investments were \$15.1 million for the three months ended March 31, 2015 (2014 - \$nil), representing an unrealized gain on investments in private entities recognized by the Company related to its investment in the Partnership. See discussion in Section 3, *Investments in Private Entities* of this MD&A. Expenses for the three months ended March 31, 2015 of \$2.9 million (2014 - \$1.7 million) included share-based compensation expense of \$2.4 million (2014 - \$0.1 million), site restoration provision expense of \$1.0 million (2014 - \$nil), professional fees of \$0.6 million (2013 - \$1.3 million), general and administrative costs of \$0.4 million (2014 - \$0.4 million), net of a foreign exchange gain on U.S. dollar bank balances of \$1.5 million (2014 - \$0.1 million).

### 3. INVESTMENTS IN PRIVATE ENTITIES

#### Investment in Houston International Insurance Group, Ltd.

##### (i) Initial HIIG Acquisition

On July 31, 2014, the Partnership completed the acquisition of approximately 70.8% of the issued and outstanding shares of common stock of HIIG ("HIIG Shares") for an aggregate purchase price of approximately US\$138.7 million (the "Initial HIIG Acquisition"). The Initial HIIG Acquisition involved the purchase by the Partnership of an aggregate of 16,588,865 HIIG Shares from certain shareholders of HIIG for an aggregate purchase price of US\$53.7 million and the purchase by the Partnership from HIIG of an aggregate of 18,702,673 HIIG Shares from treasury for an aggregate purchase price of US\$85.0 million.

In order to complete the Initial HIIG Acquisition and to provide working capital, the Partnership received funding of approximately US\$141.1 million from investors, of which US\$75.7 million was provided by Westaim (see discussion in Section 4, *Equity Financings* of this MD&A).

The Company's investment in the Partnership at closing on July 31, 2014 was \$82.5 million (US\$75.7 million), representing a 53.3% ownership interest in the Partnership at that time.

The Company was reimbursed \$3.1 million in transaction and related costs incurred in connection with the Initial HIIG Acquisition and the formation of the Partnership, and \$1.0 million in share issuance costs related to its investment in the Partnership.

After the closing of the Initial HIIG Acquisition and prior to December 31, 2014, certain HIIG Shares were issued to HIIG management and employees in accordance with their stock incentive plans. As a result, the Partnership's ownership of HIIG was reduced from 70.8% upon closing on July 31, 2014 to 69.0% as at December 31, 2014.

##### (ii) Additional HIIG Acquisition

On January 14, 2015, the Partnership raised US\$70.0 million through the sale of additional Class A Units of the Partnership. The proceeds from this offering were used to acquire 14,752,993 HIIG Shares (the "Additional HIIG Acquisition") at an interim purchase price of approximately US\$4.7448 per share in order to fund (i) the purchase by HIIG, through HIIG Underwriters Agency, Inc., of all of the assets of the underwriting business operating as "Elite Underwriting Services", a division of U.S. based Elite Brokerage Services, Inc., (ii) an additional capital contribution to HIIG's subsidiary insurance companies and (iii) for general corporate purposes.

The final purchase price for the HIIG Shares was determined on March 25, 2015 to be approximately US\$4.9249 per HIIG Share based on 100% of HIIG's audited stockholders' equity as at December 31, 2014 (subject to certain adjustments). Accordingly, the final number of HIIG Shares acquired by the Partnership was 14,213,487 HIIG Shares which shares are considered to have been acquired on January 14, 2015.

In connection with this offering, the Company subscribed for additional Class A Units of the Partnership for an aggregate subscription amount of approximately \$60.6 million (US\$50.6 million). Based on this additional investment, effective January 14, 2015 the Company owned approximately 58.7% of the Partnership and the Partnership owned approximately 75.7% of HIIG. Upon closing of the Additional HIIG Acquisition, the Company was further reimbursed \$3.1 million in share issuance costs.

On March 30, 2015, a new investor acquired Class A Units of the Partnership for US\$1.0 million and the funds were used by the Partnership to acquire 203,049 HIIG shares at US\$4.9249 per HIIG Share.

At March 31, 2015, the Partnership owned 75.7% of the HIIG Shares and the Company owned 58.5% of the Partnership, representing an approximate 44.3% indirect ownership interest in HIIG.

##### (iii) Fair value

Westaim qualifies as an investment entity under IFRS and uses fair value as the key measure to monitor and evaluate its investments. Accordingly, the investment in HIIG, through the Partnership, is accounted for at fair value through profit or loss ("FVTPL"). See note 2 to the Company's audited consolidated financial statements for the years ended December 31, 2014 and 2013 for the Company's adoption of IFRS applicable to investment entities, on a prospective basis, effective July 1, 2014.

In determining the valuation of investments in private entities, the Company considers generally accepted valuation methodologies, including the original purchase price, the discounted cash flow method, reviews of comparable arm's length transactions, and reviews of comparable publicly traded company valuations.

### 3. INVESTMENTS IN PRIVATE ENTITIES (continued)

The discounted cash flow approach is one of estimating the present value of the projected cash flows to be generated from the business and theoretically available (though not necessarily paid) to the capital providers of the investee company. A discount rate is applied to the projected future cash flows to arrive at a present value. The discount rate is intended to reflect all risks of ownership and the associated risks of realizing a stream of projected future cash flows. The discounted cash flow method generally involves the estimation of future maintainable operating pre-debt cash flows which are then discounted using a discount rate based on a weighted average cost of capital. It is a present value calculation of future operating cash flow expectations. The enterprise value is then reduced for the debt outstanding. Historical net operating earnings of the Company (adjusted for unusual items), and current performance and prospects are used to estimate its future operating cash flows. For a full description of the Company's valuation techniques, see note 5 to the Company's audited consolidated financial statements for the years ended December 31, 2014 and 2013.

In determining the valuation of the Company's investment in the Partnership at the end of each reporting period, the Company considers the discounted cash flow method to prepare a valuation of HIIG and the Partnership, reviews comparable arm's length transactions and comparable publicly traded company valuations, and considers recently completed purchase transactions of HIIG, if any.

The fair value of the Company's investment in the Partnership of \$184.3 million at March 31, 2015 was derived from a valuation of 100% of HIIG's stockholders' equity at March 31, 2015. This basis of valuation was used to determine the fair value of the Company's investment in the Partnership of \$108.7 million at December 31, 2014 and to price the Additional HIIG Acquisition recently completed in January 2015. The valuation at March 31, 2015 is further supported by a discounted cash flow analysis prepared by the Company as well as a review by the Company of comparable publicly traded company valuations.

In the three months ended March 31, 2015, the Company recorded an unrealized gain on its investment in the Partnership of \$15.1 million, reflecting a change in the fair value of the investment in the Partnership resulting from an increase in the value of HIIG of \$1.3 million as well as a strengthening of the U.S. dollar against the Canadian dollar of \$13.8 million.

(iv) Selected Financial Information of Houston International Insurance Group, Ltd. for the three months ended March 31, 2015 and 2014

As disclosed above, as an investment entity under IFRS, the Company uses fair value as the key measure to monitor and evaluate its investments. Accordingly, the financial results of HIIG are not consolidated by the Company. However, at this time, the Company considers certain financial results of HIIG to be important measures for investors in assessing the Company's financial position and performance. In particular, premium volumes provide a measure of HIIG's growth, net income and loss and LAE (loss adjustment expense) ratios provide a measure of HIIG's profitability, and shareholders' equity is a measure that is generally used by investors to determine the value of insurance companies.

Set out in the following table is certain selected financial information relating to HIIG. The HIIG financial information is unaudited and has been derived from the quarterly consolidated financial statements of HIIG for the three months ended March 31, 2015 and 2014, prepared in accordance with US GAAP and presented in United States dollars. Such statements are the responsibility of the management of HIIG. Readers are cautioned that the HIIG financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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**3. INVESTMENTS IN PRIVATE ENTITIES (continued)**

<b>(unaudited)</b> (US\$ millions)	Three months ended March 31	
	2015	2014
<b><u>Income Statement</u></b>		
Gross written premium	\$ 121.0	\$ 98.3
Net premiums written	\$ 80.8	\$ 78.6
Net premiums earned	\$ 74.2	\$ 72.7
Net income	\$ 2.7	\$ 3.1
<b><u>Selected Information</u></b>		
<b>Net premiums written:</b>		
Accident and health	\$ 4.1	\$ -
Construction	14.0	13.5
Energy	11.9	13.9
Specialty	35.0	32.4
Professional	8.8	6.5
Property	7.2	10.1
Non-continuing and other lines	(0.2)	2.2
	\$ 80.8	\$ 78.6
<b>Net Loss and LAE Ratio:</b>		
Accident and health	66%	0%
Construction	94%	63%
Energy	44%	55%
Specialty	62%	67%
Professional	52%	57%
Property	29%	32%
Non-continuing and other lines	n.m. <sup>(1)</sup>	n.m. <sup>(1)</sup>
	65%	64%
<b><u>Balance Sheet Information</u></b>		
	March 31, 2015	December 31, 2014
Investments, cash and cash equivalents	\$ 680.6	\$ 626.9
Stockholders' equity	\$ 321.8	\$ 248.1

<sup>(1)</sup> Not meaningful, but included in the aggregate ratios.

Despite the strong growth in gross written premium, growth in net premiums written and earned has slowed due to the increased use of proportional reinsurance. This change has been made by HIIG to regulate growth in a competitive environment and to reduce its exposure to catastrophic events. This also allows for relatively easy future expansion by HIIG when appropriate.

The overall net loss and LAE ratio for the first quarter of 2015 was higher than expected due to unusual frequency in the construction division, and some loss development primarily as a result of issues with a service provider which has since been corrected.

HIIG's stockholders' equity increased primarily due to the net proceeds from the capital raise completed in January 2015 and net earnings for the three months ended March 31, 2015.

The integration of the recently acquired Elite Underwriting Services ("Elite") by HIIG has been successfully completed and Elite had strong first quarter results.

### 3. INVESTMENTS IN PRIVATE ENTITIES (continued)

#### Investment in Arena Investors, LLC

On May 5, 2015, the Company announced the execution of a non-binding term sheet with Arena Investors, LLC ("Arena") relating to the proposed acquisition by Westaim of Arena for nominal consideration and the establishment and funding by Westaim of a specialty finance company, Arena Finance Company ("AFC"). Arena is a U.S. based investment firm with a goal of generating attractive risk-adjusted returns through fundamentals-based, asset-oriented credit investments. Westaim and Arena intend to build and operate two businesses, namely, Arena and AFC, and Westaim is expected to capitalize AFC with US\$200 million to facilitate the making of fundamentals-based, asset-oriented credit-focused investments. The acquisition of Arena, the establishment, capitalization and organization of AFC and the commencement of operations of each of Arena and AFC are referred to herein as the "Arena Transactions".

Completion of the Arena Transactions is expected to be subject to the satisfaction or waiver of certain conditions including, without limitation, (i) completion of the 2015 Offering and the Concurrent Private Placement (each as defined in Section 4, *Equity Financings* of this MD&A), (ii) Arena having been registered with the United States Securities and Exchange Commission (the "SEC") as an investment adviser, (iii) the negotiation and execution of definitive agreements and other documents necessary or desirable to effect the Arena Transactions in form and substance satisfactory to Westaim and Arena, each acting reasonably (the "Definitive Documents"), (iv) approval of the TSXV, and (v) such other conditions as may be specified in the Definitive Documents. Completion of the Arena Transactions is currently targeted for August 2015.

For additional information on the related financing transactions, see discussion in Section 4, *Equity Financings* of this MD&A.

### 4. EQUITY FINANCINGS

#### HIIG Financing

On April 23, 2014, Westaim completed the sale of an aggregate of 50,995,385 subscription receipts (the "2014 Subscription Receipts") at a purchase price of \$2.65 per 2014 Subscription Receipt (the "2014 Offering"). On July 29, 2014, an aggregate of 50,995,385 common shares of Westaim ("Westaim Shares") were issued upon the conversion of the 2014 Subscription Receipts for aggregate gross proceeds of approximately \$135.1 million. An additional 5,399,020 Westaim Shares were issued on July 31, 2014 to certain funds and co-investors (collectively, the "Investors") pursuant to subscription agreements entered into by the Investors on April 23, 2014 (the "Additional Private Placement"). In connection with the Additional Private Placement, Westaim received additional gross proceeds of approximately \$14.3 million.

Together with funds committed by other investors in the Partnership, the Company used \$82.5 million and \$60.6 million of the proceeds from the 2014 Offering and the Additional Private Placement to purchase Class A Units in the Partnership to enable the Partnership to complete the Initial HIIG Acquisition on July 31, 2014 and the Additional HIIG Acquisition on January 14, 2015, respectively. See discussion in Section 3, *Investments in Private Entities* of this MD&A.

#### Arena Financing

In order to fund the start-up costs of Arena and AFC and to capitalize AFC, on May 5, 2015 Westaim entered into an agreement with a syndicate of underwriters (collectively, the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a private placement basis, 61,540,000 special warrants (the "Special Warrants") of the Company at a price of \$3.25 per Special Warrant (the "Offering Price") for aggregate gross proceeds to Westaim of approximately \$200 million (the "2015 Offering"). In addition, the Company will grant the Underwriters an option (the "Underwriters' Option"), exercisable up to two business days prior to the closing date of the 2015 Offering, to arrange for the purchase of up to an additional 9,231,000 Special Warrants at the Offering Price. If the Underwriters' Option is exercised in full, the total gross proceeds of the 2015 Offering will be approximately \$230 million.

In addition to the 2015 Offering, the Company expects to complete a concurrent non-brokered private placement of Special Warrants on the same terms as the 2015 Offering for an amount of up to approximately \$22.7 million (the "Concurrent Private Placement"). Investors in the Concurrent Private Placement are expected to include certain directors, officers, insiders, related parties of Westaim and/or its subsidiaries and certain other investors determined by Westaim.

Each Special Warrant will be exercisable into one subscription receipt (each, a "2015 Subscription Receipt") of Westaim for no additional consideration. Each 2015 Subscription Receipt will entitle the holder thereof to receive upon the conversion thereof one common share of Westaim. Closing of the 2015 Offering and the Concurrent Private Placement is expected to occur on or about May 28, 2015.

For additional information on the Arena Transactions, see discussion in Section 3, *Investments in Private Entities* of this MD&A.



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**5. ANALYSIS OF FINANCIAL RESULTS**

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

(millions)	Three months ended March 31	
	2015	2014
Revenue	\$ 0.4	\$ 0.1
Net results of investments	15.1	-
Expenses		
Salaries and benefits	0.1	0.2
Office expenses	0.3	0.2
Professional fees	0.6	1.3
Site restoration provision expense	1.0	-
Share-based compensation	2.4	0.1
Foreign exchange gain	(1.5)	(0.1)
Total expenses	2.9	1.7
Profit (loss)	\$ 12.6	\$ (1.6)

**5.1 Revenue**

Revenue for the three months ended March 31, 2015 of \$0.4 million (2014 - \$0.1 million) consisted of interest income of \$0.1 million (2014 - \$0.1 million) and advisory fees of \$0.3 million (2014 - \$nil).

The Company, through its wholly-owned subsidiary, Westaim HIIG GP Inc., entered into a management services agreement ("MSA") with HIIG commencing on July 31, 2014, whereby Westaim HIIG GP Inc. is entitled to receive from HIIG an advisory fee of US\$1.0 million annually for the first three years of the agreement and US\$0.5 million annually for two years thereafter relating to advisory services provided under the MSA. The Company earned fees under the MSA of \$0.3 million in the three months ended March 31, 2015.

**5.2 Net Results of Investments**

In the three months ended March 31, 2015, the Company recorded an unrealized gain on its investment in the Partnership of \$15.1 million, reflecting a change in the fair value of the investment in the Partnership resulting from an increase in the value of HIIG of \$1.3 million as well as a strengthening of the U.S. dollar against the Canadian dollar of \$13.8 million.

**5.3 Expenses**

Expenses for the three months ended March 31, 2015 were \$2.9 million (2014 - \$1.7 million). The increase in total expenses of \$1.2 million in the first quarter of 2015 compared to the same period in the prior year was due to a site restoration provision expense of \$1.0 million and an increase in share-based compensation expense of \$2.3 million, largely offset by an increase in foreign exchange gain on U.S. dollar bank balances of \$1.4 million and a reduction in professional fee expense of \$0.7 million.

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**6. ANALYSIS OF FINANCIAL POSITION**

The Company's assets, liabilities and shareholders' equity as at the dates indicated below consisted of the following:

(millions)	March 31, 2015	December 31, 2014
<b>Assets</b>		
Cash and cash equivalents	\$ 36.8	\$ 92.9
Accounts receivable and other assets	0.5	0.6
Investments in private entities	184.3	108.7
	\$ 221.6	\$ 202.2
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 6.9	\$ 4.2
Site restoration provision	5.0	4.0
	11.9	8.2
Shareholders' equity	209.7	194.0
<b>Total liabilities and shareholders' equity</b>	\$ 221.6	\$ 202.2

**6.1 Cash and Cash Equivalents**

At March 31, 2015, the Company had cash and cash equivalents of \$36.8 million compared to \$92.9 million at December 31, 2014.

On January 14, 2015, the Company made an additional investment in the Partnership of approximately \$60.6 million (US\$50.6 million). See discussion in Section 3, *Investments in Private Entities* of this MD&A.

**6.2 Accounts Receivable and Other Assets**

Accounts receivable and other assets at March 31, 2014 included \$0.2 million in capital assets (December 31, 2014 - \$0.2 million). Depreciation expense for the capital assets was nominal for the three months ended March 31, 2015 (2014 - \$nil).

**6.3 Investments in Private Entities**

The Company's investments in private entities at March 31, 2015 and December 31, 2014 consisted of its investment in HIIG, through the Partnership. The investment is accounted for at FVTPL and the fair value of the investment was determined to be \$184.3 million at March 31, 2015 and \$108.7 million at December 31, 2014. See discussion in Section 3, *Investments in Private Entities* of this MD&A.

**6.4 Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities were \$6.9 million at March 31, 2015 and \$4.2 million at December 31, 2014. Accounts payable and accrued liabilities at March 31, 2015 included a liability of deferred share units ("DSUs") and RSUs of \$0.8 million and \$4.8 million, respectively. For additional information on the Company's share-based compensation plans, see discussion in Section 8, *Liquidity and Capital Resources* of this MD&A.

**6.5 Site Restoration Provision**

The site restoration provision of \$5.0 million at March 31, 2015 and \$4.0 million at December 31, 2014 relates to costs associated with soil and groundwater reclamation and remediation costs. The provision expense of \$1.0 million for the three months ended March 31, 2015 resulted primarily from a change in the discount rate used due to a flattening of the yield curve during the first quarter. 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. There were no payments or reimbursements with respect to site restoration in the three months ended March 31, 2015 and 2014.

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**6. ANALYSIS OF FINANCIAL POSITION (continued)**

6.6 Shareholders' Equity

The details of shareholders' equity as at the dates indicated below are as follows:

(millions)	March 31, 2015	December 31, 2014
Common shares	\$ 349.8	\$ 346.7
Contributed surplus	12.9	12.9
Deficit	(153.0)	(165.6)
Shareholders' equity	\$ 209.7	\$ 194.0

In the three months ended March 31, 2015, the Company received an additional reimbursement of \$3.1 million in share issuance costs in connection with the equity financings completed in 2014. The amount was recorded as an increase in the Company's share capital in the three months ended March 31, 2015.

At March 31, 2015 and December 31, 2014, the Company had 70,297,342 common shares outstanding.

The decrease in deficit of \$12.6 million from December 31, 2014 to March 31, 2015 is due to the profit for the three months ended March 31, 2015.

**7. OUTLOOK**

The Company, through the Partnership, completed its initial investment in HIIG in the third quarter of 2014 and an additional investment in HIIG in the first quarter of 2015 (see discussion in Section 3, *Investments in Private Entities* of this MD&A). These investments are consistent with Westaim's strategy to deploy capital with a view to earning attractive risk-adjusted returns. Westaim has partnered with third party investors and an experienced management team with a proven track record in the global specialty P&C insurance market.

On May 5, 2015, the Company announced the 2015 Offering for purposes of completing the Arena Transactions (see discussion in Section 3, *Investments in Private Entities* of this MD&A). The 2015 Offering and the Arena Transactions are expected to provide Westaim with the opportunity to make fundamentals-based, asset-oriented credit-focused investments under the management of an experienced investment management team. Westaim has committed to fund the startup costs of the Arena Transactions of up to US\$4.3 million. Thereafter, Westaim will finance the Arena Transactions at its sole discretion, through debt facilities provided by Westaim.

The Company continues to seek additional investment opportunities to create shareholder value through partnering with aligned and experienced 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 capital currently consists of common shareholders' equity. It may have different components in the future.

The Company's guiding principles for capital management are to maintain the stability and safety of the Company's capital for its stakeholders through an appropriate capital mix and a strong balance sheet.

The Company monitors the mix and adequacy of its capital on a continuous basis. The Company employs internal metrics. The capital of the Company is not subject to any restrictions. Units of the Partnership cannot be issued without the prior approval of the unitholders and, in connection with any such issuance, the holders of units have pre-emptive rights entitling them to purchase their pro rata share of any units that may be so issued.

## 8. LIQUIDITY AND CAPITAL RESOURCES (continued)

### 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. All share capital, per share amounts, and share-based awards in the comparative period have been adjusted to reflect this change.

In the year ended December 31, 2014, the Company issued 56,394,405 common shares in connection with the 2014 Offering and the Additional Private Placement for net proceeds of \$143.1 million, after share issuance costs of \$6.3 million. In the three months ended March 31, 2015, the Company received an additional reimbursement of \$3.1 million in share issuance costs. At March 31, 2015 and December 31, 2014, the Company had 70,297,342 common shares outstanding, with a stated capital of \$349.8 million at March 31, 2015 and \$346.7 million at December 31, 2014.

There were no Class A or Class B preferred shares outstanding at March 31, 2015 and December 31, 2014.

### Dividends

No dividends were paid in the three months ended March 31, 2015 and 2014.

### Share-based Compensation Plans

At the annual and special meeting (the "Meeting") of the shareholders of the Company held on June 19, 2014, the Company's shareholders approved an amendment to the Company's comprehensive long-term equity incentive plan (the "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 TSXV, with certain exceptions. The amendments included (a) providing for grants of RSUs, stock appreciation rights and other share-based awards in addition to DSUs, (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. Also at the Meeting, the shareholders of the Company approved the adoption of a stand-alone incentive stock option plan (the "Option Plan") in accordance with the policies of the TSXV.

Unless increased in accordance with the terms of the plan and the rules of the TSXV or any other applicable stock exchange, the maximum number of common shares which may be issued under the Incentive Plan is fixed at 7,042,150. The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

At March 31, 2015, the Company had 3,000 stock options outstanding (December 31, 2014 - 5,000 stock options outstanding) and 228,336 DSUs outstanding (December 31, 2014 - 113,200 DSUs outstanding). DSUs are issued to non-executive directors in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant and are paid out in cash when the participant ceases to be a director. At March 31, 2015 and December 31, 2014, the Company also had 2,375,000 RSUs outstanding, issued on November 14, 2014 to certain officers, employees and consultants. The RSUs vested as to 33% on December 31, 2014 and will vest 22% on May 31, 2015, with the remaining 45% of the RSUs to vest evenly over 24 months, with the first vesting on June 30, 2015. RSUs are payable when vested with either cash or common shares of the Company, at the option of the holder. At March 31, 2015, accounts payable and accrued liabilities included amounts related to outstanding DSUs of \$0.8 million (December 31, 2014 - \$0.3 million) and outstanding RSUs of \$4.8 million (December 31, 2014 - \$2.9 million).

### Market for Securities

Westaim's common shares trade on the TSXV under the symbol "WED".

### 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. 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.

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**8. LIQUIDITY AND CAPITAL RESOURCES (continued)**

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

March 31, 2015 (millions)	One year or less	No specific date	Total
<b>Financial assets:</b>			
Cash and cash equivalents	\$ 36.8	\$ -	\$ 36.8
Accounts receivable and other assets	0.3	-	0.3
Investments in private entities	-	184.3	184.3
<b>Total financial assets</b>	<b>37.1</b>	<b>184.3</b>	<b>221.4</b>
<b>Financial obligations:</b>			
Accounts payable and accrued liabilities	6.9	-	6.9
Site restoration provision	-	5.0	5.0
<b>Total financial obligations</b>	<b>6.9</b>	<b>5.0</b>	<b>11.9</b>
<b>Financial assets net of financial obligations</b>	<b>\$ 30.2</b>	<b>\$ 179.3</b>	<b>\$ 209.5</b>

December 31, 2014 (millions)	One year or less	No specific date	Total
<b>Financial assets:</b>			
Cash and cash equivalents	\$ 92.9	\$ -	\$ 92.9
Accounts receivable and other assets	0.2	-	0.2
Investments in private entities	-	108.7	108.7
<b>Total financial assets</b>	<b>93.1</b>	<b>108.7</b>	<b>201.8</b>
<b>Financial obligations:</b>			
Accounts payable and accrued liabilities	4.2	-	4.2
Site restoration provision	-	4.0	4.0
<b>Total financial obligations</b>	<b>4.2</b>	<b>4.0</b>	<b>8.2</b>
<b>Financial assets net of financial obligations</b>	<b>\$ 88.9</b>	<b>\$ 104.7</b>	<b>\$ 193.6</b>

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. RELATED PARTY TRANSACTIONS**

The Company was reimbursed \$0.9 million by HIIG and \$0.1 million by the Partnership in share issuance costs related to its investment in the Partnership, and the total reimbursed amount of \$1.0 million was recorded as an increase in the Company's share capital in the year ended December 31, 2014. In the three months ended March 31, 2015, the Company was further reimbursed \$3.1 million in share issuance costs by HIIG and the amount was credited to the Company's share capital.

The Company earned and received fees of \$0.3 million under the MSA in the three months ended March 31, 2015 (2014 - \$nil).

*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, and include executive officers and directors of the Company. Compensation expenses related to key management personnel, including non-executive directors, are as follows:

(millions)	Three months ended March 31	
	2015	2014
Salaries and benefits	\$ 0.1	\$ 0.2
Share-based compensation	2.2	-
	<b>\$ 2.3</b>	<b>\$ 0.2</b>

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**9. RELATED PARTY TRANSACTIONS (continued)**

On July 29, 2014, an aggregate of 3,400,000 common shares were issued to certain directors and officers of the Company for aggregate gross proceeds of \$9.0 million pursuant to the 2014 Offering, on terms equivalent to the other participants in the 2014 Offering. See discussion in Section 4, *Equity Financings* of this MD&A.

Compensation expense relating to RSUs issued to a company owned by a director of HIIG for the three months ended March 31, 2015 was \$0.1 million (2014 - \$nil) and the amount was included in the statement of profit (loss) and other comprehensive income (loss) for the three months ended March 31, 2015 under share-based compensation expense. An RSU liability of \$0.4 million due to the same company was accrued at March 31, 2015 (December 31, 2014 - \$0.2 million).

**10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS**

Preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions, some of which relate to matters that are uncertain. As more information becomes known, these estimates and assumptions could change and thus have a material impact on the Company's financial condition and results of operations in the future. The Company has established detailed policies and control procedures that are intended to ensure that management's judgments and estimates are well controlled, independently reviewed and consistently applied from period to period. Management believes that its estimates for determining the valuation of the Company's assets and liabilities are appropriate.

In determining the valuation of the Company's investment in the Partnership at the end of each reporting period, the Company uses the discounted cash flow method to prepare a valuation of HIIG and the Partnership, and reviews comparable arm's length transactions and comparable publicly traded company valuations. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had a ready market for the investment existed, and the differences could be material.

**11. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS**

A description of the Company's accounting policies and other recently adopted and pending accounting pronouncements are disclosed in note 2 and note 3, respectively, to the unaudited consolidated financial statements for the three months ended March 31, 2015 and 2014.

**12. QUARTERLY FINANCIAL INFORMATION**

	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
(millions)	2015	2014	2014	2014	2014	2013	2013	2013
Revenue	\$ 0.4	\$ 0.6	\$ 0.6	\$ -	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1
Net results of investments	15.1	13.2	13.0	-	-	-	-	-
Expenses (recovery)	2.9	5.7	(2.8)	2.9	1.7	2.1	0.6	0.8
Profit (loss) and other comprehensive income (loss)	12.6	8.1	16.4	(2.9)	(1.6)	(2.0)	(0.5)	(0.7)

Revenue consisted of investment income and advisory fee income. Prior to the third quarter of 2014, quarterly revenue consisted of investment income. Net results of investments represented unrealized gains on investments in private entities recognized by the Company related to its investment in the Partnership. Expenses in the first quarter of 2015 included stock-based compensation of \$1.9 million with respect to outstanding RSUs and \$0.5 million related to outstanding DSUs, a site restoration provision expense of \$1.0 million, net of a foreign exchange gain on U.S. dollar bank balances of \$1.5 million. Expenses in the fourth quarter of 2014 included stock-based compensation of \$2.9 million with respect to outstanding RSUs and site restoration provision expense of \$0.8 million, net of a foreign exchange gain of \$0.5 million. Expenses included transaction and related costs incurred in connection with the investment in HIIG, through the Partnership, of \$0.1 million in the third quarter of 2014, \$0.5 million in the second quarter of 2014, \$1.2 million in the first quarter of 2014 and \$2.0 million in the fourth quarter of 2013, with \$3.1 million reimbursed to the Company in the third quarter of 2014. The Company recorded a foreign exchange gain of \$0.8 million in the third quarter of 2014. In the second quarter of 2014, the Company recorded a site restoration provision expense of \$0.8 million and a foreign exchange loss of \$0.8 million. In the fourth quarter of 2013, the Company recorded a site restoration provision recovery of \$0.4 million.

**13. RISKS**

A detailed description of the risk factors associated with the Company and its business is contained in the Company's Annual Information Form for the fiscal year ended December 31, 2014 filed on March 31, 2015. In addition to those risk factors, investors should consider the following risk factors related to Arena, AFC and the Arena Transactions.

### 13. RISKS (continued)

#### Risks related to the Completion of the Arena Transactions

##### *Failure to satisfy closing conditions may delay or prevent completion of the Arena Transactions*

Completion of the Arena Transactions is expected to be subject to the satisfaction or waiver of certain conditions including, without limitation, (i) completion of the 2015 Offering and the Concurrent Private Placement, (ii) Arena having been registered with the SEC as an investment adviser, (iii) the negotiation and execution of definitive agreements and other documents necessary or desirable to effect the Arena Transactions in form and substance satisfactory to Westaim and Arena, each acting reasonably (the "Definitive Documents"), (iv) approval of the TSXV, and (v) such other conditions as may be specified in the Definitive Documents.

##### *Failure to complete the Arena Transactions could negatively impact the stock price and the future business and financial results of the Company*

If the Arena Transactions are not completed, the business of the Company may be adversely affected. Additionally, if the Arena Transactions are not completed, the Company will have to pay its own costs relating to the Arena Transactions, such as banking, legal, accounting and other fees. Any of the foregoing, or other risks arising in connection with the failure of the Arena Transactions, including the diversion of management attention from pursuing other opportunities during the pendency of the Arena Transactions, may have an adverse effect on the business, financial results and stock price of the Company.

##### *Arena may have undisclosed liabilities*

Although the Company has conducted investigations in connection with Arena 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 undisclosed liabilities. The Company may have little effective recourse against Arena or its members if any of the representations or warranties to be provided in connection with the Arena Transactions prove to be inaccurate. Such liabilities could have an adverse impact on the Company's business, financial conditions, results of operations, or cash flows.

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

The gross proceeds of the 2015 Offering (less underwriter commission and expenses) will be held in escrow pending the satisfaction or waiver of certain escrow conditions relating to the completion of the Arena Transactions (the "Escrow Release Conditions") on or prior to September 15, 2015 (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 2015 Offering, 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 2015 Offering 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 2015 Offering.

Failure to satisfy one or more Escrow Release Conditions may jeopardize the completion of the Arena Transactions (or of one or more components thereof). See "Risks - Failure to satisfy closing conditions may delay or prevent completion of the Arena Transactions". 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.

#### Risks Related to the Investment Management Operations

##### *Change(s) in the Investment Management Industry*

Change(s) in the investment management industry could result in a decline in Arena's revenues. Arena's ability to generate revenues in the investment management industry will be significantly influenced by the growth of assets under management ("AUM") generally experienced by the investment management industry and by Arena's relative performance within the investment management industry. The historical growth of the investment management industry may not continue and adverse economic conditions and other factors, including a protracted or precipitous decline in the U.S., international or global financial markets or a change in the acceptance of fees typically charged by industry participants, could affect the popularity of Arena's services or result in clients withdrawing from the markets or decreasing their level and/or rate of investment. A decline in the growth of the investment management industry or other changes to the industry that discourage investors could affect Arena's ability to attract clients or could lead to redemptions of securities of its investment products for reasons that may be unrelated to their performance but would nonetheless result in a lower AUM and a corresponding decline in revenues. Accordingly, the foregoing could adversely affect the business or financial condition or profitability of Westaim.

### 13. RISKS (continued)

#### *Lack of Investment Opportunities*

A lack of appropriate investment opportunities could adversely affect the performance of Arena's investment products. An important component of investment performance is the availability of appropriate investment opportunities for new client assets. If Arena's investment products are not able to find sufficient investments for new client assets in a timely manner, investment performance could be materially adversely affected. Alternatively, if there are insufficient investment opportunities for new client assets, management may elect to limit Arena's growth and reduce the rate of intake of new client assets. As AUM increases, Arena may not be able to exploit the investment opportunities that have previously been available to it or find sufficient investment opportunities for producing the returns targeted. If Arena's investment managers are not able to identify sufficient appropriate investment opportunities for new client assets, Arena's investment performance and management's decision to continue to grow may be materially adversely affected.

#### *Limited Operating History*

Arena has a limited history, and historical performance is not intended to be, nor should it be construed as an indication or forecast of future performance or an indication as to the future value or return on investment. While Arena's management team has substantial previous experience at other investment management firms, they have limited experience employing Arena's investment strategy. Because Arena's investment approach may differ from the approach of the prior funds managed by Arena's management team, and because market conditions are continually changing, the team's prior results may be largely irrelevant to Arena's prospects for profitability. There can be no assurance that Arena will achieve any particular results or returns.

#### *Regulatory Compliance*

Arena's business will be subject to risks relating to regulatory compliance relating to investment advisors, investment dealers and the securities business generally.

Arena's ability to carry on its business will be dependent upon compliance with and registration under securities legislation in the jurisdictions in which it carries on business. The securities business is subject to extensive regulation under securities laws in the U.S., Canada, and elsewhere. Compliance with many of the regulations applicable to Arena involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation. In the event of non-compliance with an applicable regulation, securities regulators may institute administrative or judicial proceedings that may result in censure, fine, civil penalties, issuance of cease-and-desist orders, deregistration or suspension of the non-compliant investment dealer or investment adviser, suspension or disqualification of the investment dealer's officers or employees, or other adverse consequences. The imposition of any such penalties or orders on Arena regardless of duration or any subsequent appellate results could have a material adverse effect on Arena's business, and consequentially could adversely affect the operating results and financial condition of Westaim.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often affect directly the method of operation and profitability of securities firms. It is not possible to predict with any certainty as to what effect any such changes might have on Arena's business. Furthermore, its business may be materially affected not only by regulations applicable to Arena as a financial market intermediary, but also by regulations of general application. For example, returns on investments in a given time period could be affected by, among other things, existing and proposed tax legislation, competition policy and other governmental regulations and policies, including the interest rate policies of the Federal Reserve, the Bank of Canada or other global central banks and changes in interpretation or enforcement of existing laws and rules that affect the business and financial communities or industry-specific legislation or regulations.

#### *Poor Investment Performance*

Poor investment performance by funds to be managed by Arena could lead to a loss of clients, lower AUM and a decline in revenues. The value of Westaim's investment in Arena will be, in part, dependent upon the management and incentive fees earned by Arena with respect to such funds, which will be based on the value of the AUM and the performance of investments.

Poor investment performance (relative to Arena's competitors or otherwise) could impair revenues and growth as existing clients might withdraw funds in favour of better performing products and the ability of Arena to attract funds from existing and new clients would be reduced. All of the foregoing could result in lower AUM and could impact Arena's ability to earn fees. In addition, the ability to earn incentive fees is directly related to investment performance and therefore, poor investment performance may cause Arena to earn lower incentive fees.

There is no assurance that Arena will be able to achieve or maintain any particular level of AUM, which may have a material adverse effect on its ability to attract and retain clients, the management and potential incentive fees earned, and overall profitability, which accordingly could adversely affect the business, financial condition or profitability of Westaim.



### 13. RISKS (continued)

#### *Risk Management*

A failure in management's ability to manage risks in Arena's investment products could materially adversely affect the business, financial condition or profitability of Arena, which accordingly could adversely affect the business, financial condition or profitability of Westaim.

Some of the methods of managing risk to be used are based upon the use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which may be significantly greater than the historical measures indicated. Other risk management methods may depend upon evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. A failure in management's ability to manage risks in Arena's investment products could materially adversely affect the business, financial condition or profitability of Arena and consequentially, the business, financial condition or profitability of Westaim.

#### *Key Management and Staff*

Failure by Arena to retain and attract qualified staff could lead to a loss of key employees and clients and could lead to a decline in Arena's, and consequentially Westaim's investment in Arena.

Arena's business will be dependent on the highly skilled and often highly specialized individuals employed by Arena. The contribution of these individuals to the investment management, client service, sales, marketing and operational teams is important to attracting and retaining clients. While resources will be devoted to recruiting, training and compensating these individuals, the growth in total AUM in the investment management industry, the number of new firms entering the industry and the reliance on performance results to sell financial products have increased the demand for high quality professionals in all aspects of asset management.

#### *Competitive Pressures*

The investment management industry is highly competitive. Competitive pressures could reduce Arena's revenues. Some of Arena's current competitors have, and potential future competitors could have, substantially greater technical, financial, marketing, distribution and other resources. There can be no assurance that Arena will be able to achieve or maintain any particular level of AUM or revenues in this competitive environment. Competition could have a material adverse effect on Arena's profitability and there can be no assurance that Arena will be able to compete effectively in this environment. In addition, the ability to grow the management and performance fee structure is dependent on the ability to provide clients with products and services that are competitive. Investors have become more price and value conscious for a variety of reasons, including the current state of the capital markets, low interest rates and reduced investment return expectations, increased regulatory focus, investment performance and the availability of lower cost investment products. There can be no assurance that Arena will be able to retain the current fee structure or, with such fee structure, retain clients in the future. A significant reduction in the management fees or incentive fees would have a material adverse effect on Arena's revenues, which could adversely affect the business, financial condition or profitability of Westaim.

#### *Employee Error or Misconduct*

Employee errors or misconduct could result in regulatory sanctions or reputational harm, which could materially adversely affect the business, financial condition or profitability of Arena.

Misconduct by employees could include binding Arena to transactions that exceed authorized limits or present unacceptable risks, or concealing from Arena unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use of confidential information, which could result in regulatory enforcement proceedings, sanctions and serious reputational harm. Arena is also susceptible to loss as a result of employee error. While management will proactively take measures to deter employee misconduct or prevent employee error, the precautions management takes to prevent and detect this activity may not be effective in all cases, which could materially adversely affect the business, financial condition or profitability of Arena.

#### Risks Related to Specialty Finance Operations

##### *Creditworthiness of Borrowers*

The specialty finance operations of Arena and AFC will depend on the creditworthiness of its borrowers and their ability to fulfill their obligations. Although Arena intends to originate opportunities only with borrowers which it believes to be creditworthy, there can be no assurance that borrowers will not default and that Arena or AFC will not sustain a loss on its loans as a result. Arena and AFC will also rely on representations

### 13. RISKS (continued)

made by borrowers in their transaction documentation. However, there can be no assurance that such representations will be accurate or that Arena or AFC will have any recourse against the borrower in the event a representation proves to be untrue.

#### *Default by and Bankruptcy of a Borrower*

A borrower's failure to satisfy its borrowing obligations, including any covenants imposed by Arena or AFC, could lead to defaults and the termination of the borrower's loans and enforcement against its assets. In order to protect and recover its investments, Arena or AFC may be required to bear significant expenses (including legal, accounting, valuation and transaction expenses) to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting borrower. In certain circumstances, a borrower's default under one loan could also trigger cross-defaults under other agreements and jeopardize that borrower's ability to meet its obligations under a loan agreement it may have with Arena or AFC.

Should a borrower become insolvent, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale of all of a borrower's collateral will be sufficient to satisfy the loan obligations secured by the collateral, or that sufficient assets will remain after priority creditors have been repaid.

#### *Adequacy of Provision for Credit Losses*

A provision for credit losses that reflects management's judgment of the risk of losses inherent in the loan portfolio will be maintained. Management will periodically review its provisions for credit losses to ensure they are adequate and will consider factors such as economic conditions and trends, collateral values (including third party appraisals), credit quality indicators, past charge-off experience, levels of past due loans, past due loan migration trends, and non-performing assets when performing its analysis. Evidence of impairment for loans at both a specific asset and collective level will be considered. All individually significant loans will be assessed for specific impairment. Those found not to be specifically impaired will be collectively assessed for any impairment that has been incurred but not yet identified. Determining the appropriate level of the provision for credit losses is an inherently uncertain process and therefore the determination of this provision may prove to be inadequate to cover losses in connection with the portfolio of loans. Factors that could lead to the inadequacy of a provision for credit losses may include the inability to appropriately underwrite credit risk of new loans, to effectively manage collections or to anticipate adverse changes in the economy or the occurrence of discrete events that adversely affect specific borrowers, industries, markets or geographic areas. For these reasons, there can be no assurance that provisions for credit losses will be adequate to cover credit losses relating to the loans advanced and such provisions may not keep pace with changes in the creditworthiness of borrowers or in collateral values.

If the credit quality of borrowers declines, if the risk profile of a market, industry, or group of borrowers changes significantly, or if a market for the collateral against which Arena or AFC has secured its loans deteriorates significantly, management's previous estimates of the appropriate level of reserves for credit losses may be inadequate and accordingly could materially adversely affect operations and profitability.

#### *Collateral Securing Loans*

While it is intended that the loans will be generally secured by a lien on specified collateral of the borrower (particularly inventory, receivables and tangible fixed assets), there can be no assurance that such security will be properly obtained or perfected, or that the value of the collateral securing any particular loan will protect Arena or AFC from suffering a partial or complete loss if the loan becomes non-performing and Arena or AFC moves to enforce against the collateral. In such event, loan losses could be suffered which could materially adversely affect the business, financial condition or profitability of Arena or AFC, as applicable, and accordingly, adversely affect the financial condition or profitability of Westaim.

#### *Monitoring, Enforcement and Liquidation Procedures*

From time to time, Arena or AFC may be required to take enforcement proceedings with respect to non-performing loans and to liquidate collateral. Enforcement and liquidation proceedings can be time-consuming and, if a sufficient number of loans require enforcement, management's attention may be diverted from day-to-day operations or from pursuing other investment opportunities and significant expenses may be incurred for which there may be no recovery.

#### *Loan Concentration*

While it is intended that borrowers will comprise a broad sector, if industry segments in which Arena or AFC has a concentration of investments experience adverse economic or business conditions, loan delinquencies, default rates and/or write-downs in those segments may increase and could materially adversely affect Arena or AFC, as applicable, and accordingly, adversely affect the financial condition or profitability of Westaim.

### 13. RISKS (continued)

#### *Fraud by a Borrower*

While Arena will make every effort to verify the accuracy of information provided to it when making an investment decision, and will have systems and controls to assist it in protecting itself against fraud, a borrower may fraudulently misrepresent information relating to its financial health, operations or compliance with the terms under which Arena or AFC are prepared to advance funds. In cases of fraud, it will be difficult and more unlikely that Arena or AFC, as applicable, will be able to collect amounts owing under a loan or realize on collateral, which could have a material adverse effect on Arena or AFC, as applicable, and, in turn, adversely affect the financial condition or profitability of Westaim.

#### *Lack of Regulation*

Unlike major commercial banks, asset-based lenders are not subject to regulatory capital requirements that would impede their ability to extend credit. Any changes to the regulation of the asset-based lending industry could have a material adverse effect on Arena's and AFC's business and, accordingly, adversely affect the financial condition or profitability of Westaim.

### 14. 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; completion of the Arena Transactions; expectations and assumptions relating to HIIG's business and 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, financial position, 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 or financial position could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company's control, including, without limitation, the following factors: the Company's ability to satisfy the Escrow Release Conditions prior to the Termination Date and complete the Arena Transactions or any portion thereof on the terms contemplated or at all; the Company's ability to implement its investment strategies or operate its business as management currently expects; the Company's ability to generate investment income (interest, dividends and capital gains) from its investments; the Company and/or HIIG may have undisclosed liabilities; the Company's ability to obtain additional funding to pursue additional acquisitions or other investments; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters; the cyclical nature of the property and casualty ("P&C") insurance industry; HIIG's ability to accurately assess the risks associated with the insurance policies that it writes and to adequately reserve against past and future claims; the effects of emerging claim and coverage issues on HIIG's business; the effect of government regulations designed to protect policyholders and creditors rather than investors; the effect of climate change on the risks that HIIG insures; HIIG's reliance on brokers and third parties to sell its products to clients; the effect of intense competition and/or industry consolidation; HIIG's ability to accurately assess underwriting risk and to predict future claims frequency; the effect of risk retentions on HIIG's risk exposure; HIIG's ability to alleviate risk through reinsurance; dependence by HIIG on key employees; the effect of litigation and regulatory actions; HIIG's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); HIIG's ability to compete against larger more well-established competitors; unfavourable capital market developments or other factors which may affect the investments of HIIG; HIIG's ability to maintain its financial strength and issuer credit ratings; HIIG's ability to obtain additional funding; HIIG's ability to successfully pursue its acquisition strategy; HIIG may be exposed to goodwill or intangible asset impairment in connection with its acquisitions; the ability of HIIG to receive dividends from its subsidiaries; HIIG's reliance on information technology and telecommunications systems; dependence by HIIG on certain third party service providers; general economic, financial and political conditions; the volatility of the stock market and other factors affecting the Company's share price; United States dollar to Canadian dollar exchange rate fluctuations; future sales of a substantial number of the Company's common shares; and other risk factors set forth herein or in the Company's annual report 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 2015	December 31 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 36,763	\$ 92,914
Accounts receivable and other assets (note 4)	494	644
Investments in private entities (note 5)	184,303	108,667
	<b>\$ 221,560</b>	<b>\$ 202,225</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 6,923	\$ 4,215
Site restoration provision (note 6)	4,969	4,009
	11,892	8,224
Commitments and contingent liabilities (note 7)		
Subsequent event (note 15)		
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 8)	349,803	346,775
Contributed surplus	12,890	12,890
Deficit	(153,025)	(165,664)
	209,668	194,001
	<b>\$ 221,560</b>	<b>\$ 202,225</b>

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

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

(thousands of Canadian dollars except per share data)	Three Months Ended March 31	
	2015	2014
Revenue		
Investment income	\$ 89	\$ 58
Fee income (notes 5 and 10)	290	-
	<u>379</u>	<u>58</u>
Net results of investments		
Unrealized gain on investments in private entities (note 5):		
Unrealized gain on investments before foreign exchange gain	1,277	-
Unrealized foreign exchange gain on investments	13,807	-
	<u>15,084</u>	<u>-</u>
Expenses		
Salaries and benefits	100	246
Office expenses	261	150
Professional fees (note 5)	627	1,302
Site restoration provision expense (note 6)	960	9
Share-based compensation (note 9)	2,352	84
Depreciation and amortization (note 4)	12	-
Foreign exchange gain	(1,488)	(107)
	<u>2,824</u>	<u>1,684</u>
Profit (loss) and other comprehensive income (loss)	\$ 12,639	\$ (1,626)
Earnings (loss) per share - basic and diluted (note 12)	\$ 0.18	\$ (0.12)
Weighted average number of common shares outstanding (in thousands)		
Basic and diluted	70,297	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, 2015

(thousands of Canadian dollars)	Share Capital	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2015	\$ 346,775	\$ 12,890	\$ (165,664)	\$ 194,001
Recovery of share issuance costs	3,028	-	-	3,028
Profit and other comprehensive income	-	-	12,639	12,639
<b>Balance at March 31, 2015</b>	<b>\$ 349,803</b>	<b>\$ 12,890</b>	<b>\$ (153,025)</b>	<b>\$ 209,668</b>

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
Loss and other comprehensive loss	-	-	(1,626)	(1,626)
<b>Balance at March 31, 2014</b>	<b>\$ 203,640</b>	<b>\$ 12,890</b>	<b>\$ (187,254)</b>	<b>\$ 29,276</b>

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	
	2015	2014
<b>Operating activities</b>		
Profit (loss)	\$ 12,639	\$ (1,626)
Unrealized gain on investments in private entities	(15,084)	-
Share-based compensation	2,352	84
Site restoration provision expense	960	9
Lease expense	(32)	-
Depreciation and amortization	12	-
Net change in other non-cash balances		
Accounts receivable and other assets	150	31
Accounts payable and accrued liabilities	388	(531)
Cash provided from (used in) operating activities	1,385	(2,033)
<b>Investing activities</b>		
Purchase of capital assets	(12)	-
Purchase of investment in private entities	(60,552)	-
Cash used in investing activities	(60,564)	-
<b>Financing activities</b>		
Recovery of share issuance costs	3,028	-
Cash provided from financing activities	3,028	-
Net decrease in cash and cash equivalents	(56,151)	(2,033)
Cash and cash equivalents, beginning of period	92,914	35,412
Cash and cash equivalents, end of period	\$ 36,763	\$ 33,379
Cash and cash equivalents is composed of:		
Cash	\$ 36,763	\$ 33,379

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

**The Westaim Corporation**  
**Notes to Consolidated Financial Statements (unaudited)**  
**For the three months ended March 31, 2015 and 2014**

(Currency amounts in thousands of Canadian dollars except per share data, unless otherwise indicated)

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**1 Nature of Operations**

The Westaim Corporation ("Westaim" or the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company's head office is located at Suite 1700, 70 York Street, Toronto, Ontario, Canada. These financial statements were authorized for issue by the Board of Directors of the Company on May 14, 2015.

Westaim is an investment company focused primarily on investing in the financial services industry in Canada as well as internationally. The Company's common shares are traded on the TSX Venture Exchange ("TSXV") under the symbol WED.

These financial statements include the accounts of the Company and its wholly-owned entities, Westaim Management Limited Partnership, Westaim Management GP Inc. and Westaim HIIG GP Inc., and are prepared in compliance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34 "*Interim Financial Reporting*".

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

**2 Summary of Significant Accounting Policies**

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

*(a) Basis of preparation*

The Company meets the definition of an investment entity under IFRS 10 "*Consolidated Financial Statements*" ("IFRS 10") and measures its investments in particular subsidiaries at fair value through profit or loss ("FVTPL"), instead of consolidating those subsidiaries in its consolidated financial statements.

The financial statements of entities which are controlled by the Company, other than those measured at FVTPL, are consolidated. The financial results of these entities, referred to as 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. Key estimates include the fair value of investments in private entities, provision for site restoration, fair value of share-based compensation, and unrecognized deferred tax assets.

*(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 determining that the Company meets the definition of an investment entity under IFRS 10, valuation techniques for fair value determination of investments in private entities, site restoration provision and income taxes. For additional information on these judgments, see note 5 for investments in private entities, note 6 for site restoration provision and note 11 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. Translation differences on investments in private entities measured at FVTPL are included in the statement of profit (loss) and other comprehensive income (loss) under "unrealized gain on investments in private entities".

*(e) Revenue recognition*

Investment income includes interest income and dividend income. Interest income is recognized on an accrual basis and dividend income is recognized on the ex-dividend date. Advisory fees are recorded as income on an accrual basis when earned.

*(f) 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.



**The Westaim Corporation**  
**Notes to Consolidated Financial Statements (unaudited)**  
**For the three months ended March 31, 2015 and 2014**

(Currency amounts in thousands of Canadian dollars except per share data, unless otherwise indicated)

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**2 Summary of Significant Accounting Policies (continued)**

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.

*(g) Capital assets*

The Company's capital assets are reported at cost less accumulated depreciation. Depreciation is calculated based on the estimated useful lives of the particular assets which is 3 to 10 years for furniture and equipment. Leasehold improvements are depreciated using the straight-line method over the lesser of the term of the lease or the estimated useful life of the assets. At the end of each reporting period, management reviews the carrying amounts of capital assets for indications of impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. Capital assets are included in accounts receivable and other assets in the statement of financial position.

*(h) Investments*

The Company's investments in marketable securities and private entities are classified as FVTPL and are carried at fair value. At initial recognition, the investments are measured at fair value, and gains and losses arising from changes in their fair value, including foreign exchange gains or losses, are included in the statement of profit (loss) and other comprehensive income (loss) for the period in which they arise. Transaction costs on the investments are expensed as incurred. Fair value is determined in the manner described in note 5.

Marketable securities are carried at fair value. Quoted market prices, that fall between the bid and close prices for that day, are used in determining the fair value of individual investments held. The Company records security purchases and sales on a trade date basis.

Investments in securities where no quoted market values are available are generally valued initially at the cost of acquisition on the basis that such cost is a reasonable estimate of fair value. Such investments are subsequently revalued using accepted industry valuation techniques such as a substantial arm's length transaction, valuation multiples of comparable publicly traded companies and discounted cash flow analysis. Any sale, size or other liquidity restrictions on the investment are considered by management in its determination of fair value. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

*(i) Income taxes*

Income tax expense is recognized in the statement of profit (loss) and other comprehensive income (loss). Current tax is based on taxable income which differs from profit (loss) and other comprehensive income (loss) 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.

*(j) 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.

**The Westaim Corporation**  
**Notes to Consolidated Financial Statements (unaudited)**  
**For the three months ended March 31, 2015 and 2014**

(Currency amounts in thousands of Canadian dollars except per share data, unless otherwise indicated)

**2 Summary of Significant Accounting Policies (continued)**

*(k) 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.

*(l) Share-based compensation*

The Company maintains share-based compensation plans, which are described in note 9. As at March 31, 2015, all stock options had vested. Any consideration paid by stock option holders for the purchase of stock is credited to share capital. The cost of stock options is recognized in income as an expense over the period from the issue date to the vesting date with a corresponding increase in contributed surplus.

Obligations related to Deferred Share Units (“DSUs”) and Restricted Share Units (“RSUs”) are recorded as liabilities at fair value. At each reporting date they are re-measured at fair value with reference to the fair value of the Company’s stock price and the number of units that have vested. The corresponding share-based compensation expense is recognized over the vesting period. When a change in value occurs, it is recognized in share-based compensation expense in the applicable financial period.

*(m) Earnings per share*

Basic earnings per share is calculated by dividing profit or loss by the weighted average number of common shares outstanding during the reporting period. Profit (loss) equals profit (loss) and other comprehensive income (loss) for the three months ended March 31, 2015 and 2014.

Diluted earnings per share is calculated by dividing profit or loss by the weighted average number of shares outstanding during the reporting period after adjusting both amounts for the effects of all dilutive potential common shares, which consist of options and RSUs. Anti-dilutive potential common shares are not included in the calculation of diluted earnings per share.

**3 Recently Adopted and Pending Accounting Pronouncements**

In November 2009, the International Accounting Standards Board (“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. In July 2014, the IASB issued the final version of IFRS 9 incorporating a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

**4 Accounts Receivable and Other Assets**

Capital assets are included in accounts receivable and other assets.

Details of the movement in the carrying values by class of capital assets for the three months ended March 31, 2015 are as follows:

Three months ended March 31, 2015	Cost			Accumulated depreciation			Net book value
	Opening balance	Additions	Ending balance	Opening balance	Depreciation	Ending balance	Ending balance
Leasehold improvements	\$ 78	\$ -	\$ 78	\$ 4	\$ 4	\$ 8	\$ 70
Furniture and equipment	64	7	71	2	4	6	65
Computers	54	5	59	5	4	9	50
	\$ 196	\$ 12	\$ 208	\$ 11	\$ 12	\$ 23	\$ 185

**The Westaim Corporation**  
**Notes to Consolidated Financial Statements (unaudited)**  
**For the three months ended March 31, 2015 and 2014**

(Currency amounts in thousands of Canadian dollars except per share data, unless otherwise indicated)

**4 Accounts Receivable and Other Assets (continued)**

Details of the movement in the carrying values by class of capital assets for the year ended December 31, 2014 are as follows:

Year ended December 31, 2014	Cost			Accumulated depreciation			Net book value
	Opening balance	Additions	Ending balance	Opening balance	Depreciation	Ending balance	Ending balance
Leasehold improvements	\$ -	\$ 78	\$ 78	\$ -	\$ 4	\$ 4	\$ 74
Furniture and equipment	-	64	64	-	2	2	62
Computers	-	54	54	-	5	5	49
	\$ -	\$ 196	\$ 196	\$ -	\$ 11	\$ 11	\$ 185

**5 Investments**

Fair value measurement

The Company's investments are classified as FVTPL and are carried at fair value in the statement of financial position. Changes in fair value are reported under "Net results of investments" in the statement of profit (loss) and other comprehensive income (loss).

The table below summarizes the fair value hierarchy under which the Company's investments are valued. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Inputs are considered as observable if they are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumption that market participants would use when pricing the asset or liability.

As at March 31, 2015	Fair value	Level 1	Level 2	Level 3
Investments in private entities	\$ 184,303	\$ -	\$ -	\$ 184,303

  

As at December 31, 2014	Fair value	Level 1	Level 2	Level 3
Investments in private entities	\$ 108,667	\$ -	\$ -	\$ 108,667

Changes in the fair value measurement of investments in private entities included in Level 3 of the fair value hierarchy are as follows:

	Three months ended March 31, 2015	Year ended December 31, 2014
Opening balance	\$ 108,667	\$ -
Purchase of investment in private entities	60,552	82,451
Unrealized gain included in income	15,084	26,216
Ending balance	\$ 184,303	\$ 108,667

There were no transfers between any levels during the three months ended March 31, 2015 or year ended December 31, 2014.

Investment in private entities

*Fair Value Determination*

The fair value of financial assets and instruments that are not traded in an active market, including private entities, is determined by using valuation techniques. The Company considers a variety of methods and makes assumptions that are based on market conditions existing at each period end date. Valuation techniques used for non-standardized financial instruments include initial acquisition cost, discounted cash flow analysis, comparable recent arm's length transactions, comparable publicly traded companies, reference to other instruments that are substantially the same, option pricing models and other valuation techniques commonly used by market participants.

The Company may use internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Valuation models are used primarily to value unlisted equity and debt securities for which markets were or have been inactive during the financial period. Some of the inputs to these models may not be observable and are therefore estimated based on assumptions.

**The Westaim Corporation**  
**Notes to Consolidated Financial Statements (unaudited)**  
**For the three months ended March 31, 2015 and 2014**

(Currency amounts in thousands of Canadian dollars except per share data, unless otherwise indicated)

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**5 Investments (continued)**

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

The discounted cash flow approach is one of estimating the present value of the projected cash flows to be generated from the business and theoretically available (though not necessarily paid) to the capital providers of the investee company. A discount rate is applied to the projected future cash flows to arrive at a present value. The discount rate is intended to reflect all risks of ownership and the associated risks of realizing a stream of projected future cash flows.

The discounted cash flow method generally involves the estimation of future maintainable operating pre-debt cash flows which are then discounted using a discount rate based on a weighted average cost of capital. It is a present value calculation of future operating cash flow expectations. The enterprise value is then reduced for the debt outstanding. Historical net operating earnings of the Company (adjusted for unusual items), and current performance and prospects are used to estimate its future operating cash flows.

*Investment in Houston International Insurance Group, Ltd.*

The Company owns a significant interest in Houston International Insurance Group, Ltd. ("HIIG") through Westaim HIIG Limited Partnership (the "Partnership"), an Ontario limited partnership managed by a subsidiary of the Company. HIIG is a U.S. based diversified specialty insurance company and managing general insurance agent covering risks across the United States and certain niche global markets.

The Partnership exercises control over HIIG and its insurance subsidiaries through its ownership of 75.7% of the issued and outstanding common shares of HIIG ("HIIG Shares") at March 31, 2015. Westaim is also considered to exercise control over HIIG and its insurance subsidiaries as Westaim HIIG GP Inc., a wholly-owned subsidiary of Westaim, is the general partner of the Partnership. The amount of dividends paid by the insurance subsidiaries of HIIG to HIIG may be subject to restrictions imposed by the insurance regulators in the United States, thereby limiting the amount of dividends HIIG can pay to its shareholders, including the Partnership. Payment of dividends from HIIG to the Partnership may also be restricted as a result of covenants in credit facilities entered into by HIIG from time to time.

(i) Initial HIIG Acquisition

On July 31, 2014, the Company used a portion of the proceeds raised through several private placement transactions (described in note 8) to purchase Class A Units of the Partnership and the Partnership (together with funds committed by other investors in the Partnership) completed the acquisition (the "Initial HIIG Acquisition") of approximately 70.8% of HIIG Shares for an aggregate purchase price of US\$138,683. The Company's investment in the Partnership at closing on July 31, 2014 was \$82,451 (US\$75,712), representing a 53.3% ownership interest in the Partnership.

The Company incurred and expensed \$3,748 in transaction and related costs in 2013 and 2014 in connection with the Initial HIIG Acquisition, and \$2,723 was reimbursed by HIIG and \$407 was reimbursed by the Partnership. The total reimbursement of \$3,130 was recorded as an offset to professional fee expense in the year ended December 31, 2014.

After the closing of the Initial HIIG Acquisition and prior to December 31, 2014, certain HIIG Shares were issued to HIIG management and employees in accordance with their stock incentive plans. As a result, the Partnership's ownership of HIIG was reduced from 70.8% upon closing, to 69.0% at December 31, 2014.

(ii) Additional HIIG Acquisition

On January 14, 2015, the Partnership raised US\$70,000 through the sale of additional Class A Units of the Partnership. The proceeds from this offering were used to acquire additional HIIG Shares (the "Additional HIIG Acquisition") in order to fund (i) the purchase by HIIG, through HIIG Underwriters Agency, Inc., of all of the assets of the underwriting business operating as "Elite Underwriting Services", a division of U.S. based Elite Brokerage Services, Inc., (ii) an additional capital contribution to HIIG's subsidiary insurance companies and (iii) for general corporate purposes. In connection with the offering, the Company acquired additional Class A Units of the Partnership for \$60,552 (US\$50,637).

Also in the three months ended March 31, 2015, a new investor acquired Class A Units of the Partnership for US\$1,000. At March 31, 2015, the Partnership owned 75.7% of the HIIG Shares and the Company owned 58.5% of the Class A Units of the Partnership, representing an approximate 44.3% indirect ownership interest in HIIG.

**The Westaim Corporation**  
**Notes to Consolidated Financial Statements (unaudited)**  
**For the three months ended March 31, 2015 and 2014**

(Currency amounts in thousands of Canadian dollars except per share data, unless otherwise indicated)

**5 Investments (continued)**

(iii) FVTPL

The investment in HIIG, through the Partnership, is accounted for at FVTPL. The fair value of the Company's investment in the Partnership was determined to be \$184,303 at March 31, 2015 and \$108,667 at December 31, 2014.

In determining the valuation of Westaim's investment in the Partnership at the end of each reporting period, the Company considers the discounted cash flow method to prepare a valuation of HIIG and the Partnership, reviews comparable arm's length transactions and comparable publicly traded company valuations, and considers recently completed purchase transactions of HIIG, if any.

The fair value of the Company's investment in the Partnership of \$184,303 at March 31, 2015 was derived from a valuation of 100% of HIIG's stockholders' equity at March 31, 2015. This basis of valuation was used to determine the fair value of the Company's investment in the Partnership of \$108,667 at December 31, 2014 and to price the Additional HIIG Acquisition recently completed in January 2015. The valuation at March 31, 2015 is further supported by a discounted cash flow analysis prepared by the Company as well as a review by the Company of comparable publicly traded company valuations.

In the three months ended March 31, 2015, the Company recorded an unrealized gain on its investment in the Partnership of \$15,084, reflecting a change in the fair value of the investment in the Partnership resulting from an increase in the value of HIIG of \$1,277 as well as a strengthening of the U.S. dollar against the Canadian dollar of \$13,807.

For purposes of assessing the sensitivity of HIIG's stockholders' equity on the valuation of the Company's investment in the Partnership, if HIIG's stockholders' equity at March 31, 2015 was higher by US\$1,000, both the fair value of the Company's investment in the Partnership at March 31, 2015 and the unrealized gain on investments in private entities for the three months ended March 31, 2015 would have increased by approximately \$561. If HIIG's stockholders' equity at March 31, 2015 was lower by US\$1,000, an opposite effect would have resulted.

A 10% strengthening of the U.S. dollar against the Canadian dollar would have resulted in an increase in the fair value of investments in private entities at March 31, 2015 by approximately \$18,430 and an increase in the unrealized gain on investments in private entities by a corresponding amount. A similar weakening of the U.S. dollar would have had the opposite impact.

(iv) MSA

The Company, through its wholly-owned subsidiary, Westaim HIIG GP Inc., entered into a management services agreement ("MSA") with HIIG commencing upon closing on July 31, 2014, whereby Westaim HIIG GP Inc. is entitled to receive from HIIG an advisory fee of US\$1,000 annually for the first three years of the agreement and US\$500 annually for two years thereafter relating to advisory services provided under the MSA. The Company earned and received fees of \$290 under the MSA in the three months ended March 31, 2015.

**6 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 are as follows:

	Three months ended March 31, 2015	Year ended December 31, 2014
Opening balance	\$ 4,009	\$ 2,219
Changes due to:		
Estimates of future expenditures	-	76
Inflation	-	306
Passage of time and discount rates	960	1,408
Ending balance	\$ 4,969	\$ 4,009

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**6 Site Restoration Provision (continued)**

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.

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, 2015. To calculate the site restoration provision, the estimated cash flows were adjusted for inflation and discounted to March 31, 2015. 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 1.63% per annum over the next 100 years. Discount rates are based on risk free rates which range from 0.6% to 2.0% 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, 2015.

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.

**7 Commitments and Contingent Liabilities**

- (a) In connection with the sale of the operations and assets of the Company's former subsidiary NUCRYST Pharmaceuticals Corp. ("Nucryst") in 2009, Nucryst 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 Nucryst in Fort Saskatchewan, Alberta. No claims have been made under, and no amounts have been accrued related to, these indemnities.
- (b) The Company has operating leases in Toronto with remaining lease terms of up to 5 years. At March 31, 2015, the Company had a total commitment of \$1,254 for future occupancy cost payments including payments due not later than one year of \$269 and payments due later than one year and not later than five years of \$985.
- (c) The Company may be involved in legal matters that arise from time to time in the ordinary course of the Company's business. At this time, the Company is not aware of any legal matters of this type that are believed to be material to the Company's results of operations, liquidity or financial condition.

**8 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. Changes to the Company's share capital are as follows:

	Three months ended		Year ended	
	March 31, 2015		December 31, 2014	
Common shares	Number	Stated Capital	Number	Stated Capital
Opening balance	70,297,342	\$ 346,775	13,902,937	\$ 203,640
Issued	-	-	56,394,405	142,101
Recovery of share issuance costs	-	3,028	-	1,034
Ending balance	70,297,342	\$ 349,803	70,297,342	\$ 346,775

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, 2015 and December 31, 2014.

On April 23, 2014, the Company completed the sale, on an underwritten private placement basis, of 47,180,380 subscription receipts (the "2014 Subscription Receipts") of the Company at a price of \$2.65 per 2014 Subscription Receipt for aggregate gross proceeds to the Company of \$125,028 (the "2014 Offering"). The Company also completed a concurrent non-brokered private placement of 3,815,005 2014 Subscription Receipts on the same terms as the 2014 Offering for aggregate gross proceeds to the Company of \$10,110 (the "2014 Concurrent Private Placement"). Investors in the 2014 Concurrent Private Placement included primarily members of the Company's Board of Directors and management team. Concurrent with the closing of the 2014 Offering and the 2014 Concurrent Private Placement, the Company also entered into irrevocable subscription agreements with certain funds and co-investors (collectively, the "Investors") for the subscription of 5,399,020 common shares of the Company at a price of \$2.65 per share, for aggregate gross proceeds to the Company of \$14,307 (the "Additional Subscription"). Each 2014 Subscription Receipt entitled the holder to receive, for no additional consideration, one common share of the Company.

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**8 Share Capital (continued)**

On July 29, 2014, the 2014 Subscription Receipts were exchanged for 50,995,385 common shares of the Company pursuant to the terms of the 2014 Offering and the 2014 Concurrent Private Placement. Aggregate gross proceeds of the 2014 Offering and the 2014 Concurrent Private Placement to the Company, before share issuance costs, amounted to \$135,138. The Company used \$82,451 of the proceeds from the 2014 Offering and the 2014 Concurrent Private Placement to purchase Class A 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 Initial HIIG Acquisition. See note 5 for additional information on the investment in HIIG. On July 31, 2014, the Company also completed the Additional Subscription and issued 5,399,020 common shares of the Company to the Investors for aggregate gross proceeds of \$14,307. The Company was reimbursed \$913 by HIIG and \$121 by the Partnership in share issuance costs and the total reimbursed amount of \$1,034 was recorded as an increase in the Company's share capital in the year ended December 31, 2014.

The proceeds of the 2014 Offering, the 2014 Concurrent Private Placement and the Additional Subscription to the Company were \$143,135, net of share issuance costs of \$6,310.

On February 25, 2015, the Company received from HIIG a further reimbursement of \$3,028 in share issuance costs in connection with the Company's 2014 Offering. The amount was recorded as an increase in the Company's share capital in the three months ended March 31, 2015.

**9 Share-based Compensation**

At the annual and special meeting (the "Meeting") of the shareholders of the Company held on June 19, 2014, the Company's shareholders approved an amendment to the Company's comprehensive long-term equity incentive plan (the "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 TSXV, with certain exceptions. The amendments included (a) providing for grants of RSUs, stock appreciation rights and other share-based awards in addition to DSUs, (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. Also at the Meeting, the shareholders of the Company approved the adoption of a stand-alone incentive stock option plan (the "Option Plan") in accordance with the policies of the TSXV.

Unless increased in accordance with the terms of the plan and the rules of the TSXV or any other applicable stock exchange, the maximum number of common shares which may be issued under the Incentive Plan is fixed at 7,042,150. The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

**Stock Options** - Changes to the number of stock options for the three months ended March 31, 2015 and 2014 are as follows:

	Three months ended March 31, 2015		Three months ended March 31, 2014	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Common share stock options				
Opening balance	5,000	\$ 158.80	6,000	\$ 165.25
Expired and forfeited	(2,000)	\$ 181.00	(1,000)	\$ 197.50
Ending balance	3,000	\$ 144.00	5,000	\$ 158.80

All stock options outstanding are exercisable, at prices ranging from \$61.50 to \$309.00, and at March 31, 2015 had an average remaining contractual life of 1.6 years. There was no compensation expense relating to options in the three months ended March 31, 2015 and 2014.

**Restricted Share Units** - RSUs vest on specific dates and are payable when vested with either cash or common shares of the Company, at the option of the holder. In certain circumstances such as a change of control of the Company or the sale of substantially all of the assets of the Company, RSUs vest immediately.

Obligations related to RSUs are recorded as liabilities at fair value. At each reporting date they are re-measured at fair value with reference to the fair value of the Company's stock price and the number of units that have vested. The corresponding share-based compensation expense is recognized over the vesting period. When a change in value occurs, it is recognized in share-based compensation expense in the applicable financial period.

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**9 Share-based Compensation (continued)**

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. These RSUs vested as to 33% on December 31, 2014 and will vest 22% on May 31, 2015, with the remaining 45% of the RSUs to vest evenly over 24 months, with the first vesting on June 30, 2015. There were 2,375,000 RSUs outstanding at March 31, 2015 and December 31, 2014. Compensation expense relating to RSUs for the three months ended March 31, 2015 was \$1,930 (three months ended March 31, 2014 - \$nil). At March 31, 2015, a liability of \$4,849 (December 31, 2014 - \$2,919) has been accrued with respect to outstanding RSUs in the statement of financial position.

**Deferred Share Units** - DSUs are issued to non-executive directors of the Company in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant and are paid out in cash when the participant ceases to be a director.

Changes to the number of DSUs for the three months ended March 31, 2015 and 2014 are as follows:

	Three months ended March 31	
	2015	2014
Opening balance	113,200	113,200
Additions	115,136	-
Ending balance	228,336	113,200

On February 2, 2015, 91,138 DSUs were issued at a price of \$2.99 with respect to \$273 in director fees accrued at December 31, 2014. For the three months ended March 31, 2015, compensation expense relating to DSUs was \$422 (three months ended March 31, 2014 - \$84). At March 31, 2015, a liability of \$767 (December 31, 2014 - \$345) has been accrued with respect to outstanding DSUs in the statement of financial position.

**10 Related Party Transactions**

The Company earned fees of \$290 under the MSA in the three months ended March 31, 2015 (three months ended March 31, 2014 - \$nil).

In the year ended December 31, 2014, the Company was reimbursed \$913 by HIIG and \$121 by the Partnership in share issuance costs. The total reimbursed amount of \$1,034 was recorded as an increase in the Company's share capital in the year ended December 31, 2014. In the three months ended March 31, 2015, the Company received from HIIG a further reimbursement of \$3,028 in share issuance costs in connection with the Company's 2014 Offering. The amount was recorded as an increase in the Company's share capital in the three months ended March 31, 2015.

*Transactions with key management personnel*

Related parties include key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel or their close family members. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and include executive officers and directors of the Company.

Compensation expenses related to key management personnel for the three months ended March 31, 2015 and 2014 are as follows:

	Three months ended March 31	
	2015	2014
Salaries and benefits	\$ 52	\$ 246
Share-based compensation	2,210	-
	\$ 2,262	\$ 246

An aggregate of 3,400,000 common shares were issued to certain directors and officers of the Company pursuant to the 2014 Concurrent Private Placement completed on July 29, 2014 for aggregate gross proceeds of \$9,010, on terms equivalent to the other participants in the 2014 Concurrent Private Placement. See note 8 for additional information on the 2014 Concurrent Private Placement.

Consulting fees paid to a company owned by a director of HIIG for the three months ended March 31, 2015 was \$45 (three months ended March 31, 2014 - \$nil). Compensation expense relating to RSUs issued to this company for the three months ended March 31, 2015 was \$142 (three months ended March 31, 2014 - \$nil) and the amount was included in the statement of profit (loss) and other comprehensive income (loss) for the three months ended March 31, 2015 under share-based compensation expense. At March 31, 2015, a liability of \$357 (December 31, 2014 - \$215) has been accrued with respect to these outstanding RSUs in the statement of financial position.



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**11 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.

Deferred tax (liabilities)/assets recognized in profit or loss in relation to:

	Three months ended March 31	
	2015	2014
Unrealized gain on investments in private entities	\$ (5,390)	\$ -
Non-capital loss carry-forwards	5,390	-
	\$ -	\$ -

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

	March 31, 2015	December 31, 2014
Non-capital loss carry-forwards	\$ 32,074	\$ 40,925
Capital loss carry-forwards	6,987	6,987
Deductible temporary differences	13,175	12,546
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 2035, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2028	2,042	2016	\$ 961
2029	103	2017	3,241
2030	252	2018	888
2031	20,968	2019	961
2033	3,830	2020	823
2034	4,879	2021	643
	\$ 32,074	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 (loss) and other comprehensive income (loss):

	Three months ended March 31	
	2015	2014
Profit (loss) before income tax	\$ 12,639	\$ (1,626)
Statutory income tax rate	26.5%	26.5%
Income taxes at statutory income tax rate	3,349	(431)
Variations due to:		
Non-taxable portion of unrealized gain on investments in private entities	(1,999)	-
Tax losses allocated from the Partnership	(9)	-
Unrecognized temporary differences	842	229
(Recognized) unrecognized tax losses	(2,183)	202
Income tax expense	\$ -	\$ -

**12 Earnings per Share**

The Company had 3,000 stock options and 2,375,000 RSUs outstanding at March 31, 2015 and 5,000 stock options and 2,375,000 RSUs outstanding December 31, 2014. The stock options were excluded in the calculation of diluted earnings per share for the three months ended March 31, 2015 and 2014 as they were anti-dilutive. The RSUs were excluded in the calculation of diluted earnings per share for the three months ended March 31, 2015 as they were anti-dilutive.

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### **13 Capital Management**

The Company's capital currently consists of common shareholders' equity. It may have different components in the future.

The Company's guiding principles for capital management are to maintain the stability and safety of the Company's capital for its stakeholders through an appropriate capital mix and a strong balance sheet.

The Company monitors the mix and adequacy of its capital on a continuous basis. The Company employs internal metrics. The capital of the Company is not subject to any restrictions. Units of the Partnership cannot be issued without the prior approval of the unitholders and, in connection with any such issuance, the holders of units have pre-emptive rights entitling them to purchase their pro rata share of any units that may be so issued.

### **14 Financial Risk Management**

The Company is exposed to a number of risks due to its business operations. The Company's statement of financial position at March 31, 2015 consists of short-term financial assets and financial liabilities with maturities of less than one year, investments in private entities and the site restoration provision. The most significant identified risks which arise from holding financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and equity risk. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

#### Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company's credit risk arises primarily from its cash and cash equivalents. The Company manages such risk by maintaining bank accounts with a Schedule 1 bank in Canada.

#### Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Company has made investments in private entities which do not typically have an active market. Private investment transactions can be highly structured and the Company takes measures, where possible, to create defined liquidity events and as part of its strategy, the Company has sought to create or accelerate such liquidity events. However, such liquidity events are rarely expected in the first two or three years of making an investment and may not be realized as expected.

At March 31, 2015, the Company had no debt and its financial assets, excluding investments in private entities, were significantly higher than its financial liabilities, resulting in minimal liquidity risk.

#### Currency risk

The Company's investment in HIIG, through the Partnership, is exposed to foreign exchange risk as HIIG's operations are located in the United States and its functional currency is the U.S. dollar. The Company's functional currency is the Canadian dollar and any fluctuations in the U.S. dollar relative to the Canadian dollar may have a material impact on the fair value of its investment in HIIG, through the Partnership. An increase (a decrease) in the value of the U.S. dollar relative to the Canadian dollar increases (decreases) the value of the investment. A 10% strengthening of the U.S. dollar against the Canadian dollar would have resulted in an increase in the fair value of investments in private entities at March 31, 2015 by approximately \$18,430 and an increase in the unrealized gain on investments in private entities by a corresponding amount. A similar weakening of the U.S. dollar would have had the opposite impact.

The Company also maintains cash balances in U.S. dollars. A 10% strengthening of the U.S. dollar against the Canadian dollar would have increased foreign exchange gain for the three months ended March 31, 2015 by approximately \$996. A similar weakening of the U.S. dollar would have resulted in an opposite effect.

#### Interest rate risk

The Company is subject to nominal interest rate risk on its cash and cash equivalents. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to interest rates on its cash and cash equivalents.

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**14 Financial Risk Management (continued)**

Equity risk

HIIG is a private entity and there is no active market for its shares. The Company's investment in HIIG, through the Partnership, is being held for strategic and not trading purposes. As such, the Company's exposure to equity risk is nominal.

**15 Subsequent Events**

On May 5, 2015, the Company announced the execution of a non-binding term sheet with Arena Investors, LLC ("Arena") relating to the proposed acquisition by Westaim of Arena for nominal consideration and the establishment and funding by Westaim of a specialty finance company, Arena Finance Company ("AFC"). Westaim and Arena intend to build and operate two businesses, namely, Arena and AFC, and Westaim is expected to capitalize AFC with US\$200 million to facilitate the making of fundamentals-based, asset-oriented credit-focused investments. The acquisition of Arena, the establishment, capitalization and organization of AFC and the commencement of operations of each of Arena and AFC are referred to herein as the "Arena Transactions".

Completion of the Arena Transactions is expected to be subject to the satisfaction or waiver of certain conditions including, without limitation, (i) completion of the 2015 Offering and the 2015 Concurrent Private Placement (each as defined below), (ii) Arena having been registered with the United States Securities and Exchange Commission (the "SEC") as an investment adviser, (iii) the negotiation and execution of definitive agreements and other documents necessary or desirable to effect the Arena Transactions in form and substance satisfactory to Westaim and Arena, each acting reasonably (the "Definitive Documents"), (iv) approval of the TSXV, and (v) such other conditions as may be specified in the Definitive Documents. Completion of the Arena Transactions is currently targeted for August 2015.

In order to fund the start-up costs of Arena and AFC and to capitalize AFC, on May 5, 2015 Westaim entered into an agreement with a syndicate of underwriters (collectively, the "Underwriters"), pursuant to which the Underwriters agreed to purchase, on a private placement basis, 61,540,000 special warrants (the "Special Warrants") of the Company at a price of \$3.25 per Special Warrant (the "Offering Price") for aggregate gross proceeds to Westaim of \$200,005 (the "2015 Offering"). In addition, the Company will grant the Underwriters an option (the "Underwriters' Option"), exercisable up to two business days prior to the closing date of the 2015 Offering, to arrange for the purchase of up to an additional 9,231,000 Special Warrants at the Offering Price. If the Underwriters' Option is exercised in full, the total gross proceeds of the 2015 Offering will be \$230,006.

In addition to the 2015 Offering, the Company expects to complete a concurrent non-brokered private placement of Special Warrants on the same terms as the 2015 Offering for an amount of up to approximately \$22,700 (the "2015 Concurrent Private Placement"). Investors in the 2015 Concurrent Private Placement are expected to include certain directors, officers, insiders, related parties of Westaim and/or its subsidiaries and certain other investors determined by Westaim.

Each Special Warrant will be exercisable into one subscription receipt (each, a "2015 Subscription Receipt") of Westaim for no additional consideration. Each 2015 Subscription Receipt will entitle the holder thereof to receive upon the conversion thereof one common share of Westaim. Closing of the 2015 Offering and the 2015 Concurrent Private Placement is expected to occur on or about May 28, 2015.



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