



**Second Quarter Report to Shareholders
for the quarter ended June 30, 2015**

TABLE OF CONTENTS

1. THE COMPANY
2. OVERVIEW OF PERFORMANCE
3. INVESTMENTS IN PRIVATE ENTITIES
4. EQUITY FINANCINGS
5. ANALYSIS OF FINANCIAL RESULTS
6. ANALYSIS OF FINANCIAL POSITION
7. OUTLOOK
8. LIQUIDITY AND CAPITAL RESOURCES
9. RELATED PARTY TRANSACTIONS
10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
11. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS
12. QUARTERLY FINANCIAL INFORMATION
13. RISKS
14. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

"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 and six months ended June 30, 2015 and 2014 as set out on pages 17 to 33 of this quarterly report. Financial data in this MD&A has been derived from the unaudited consolidated financial statements for the three and six months ended June 30, 2015 and 2014 and is intended to enable the reader to assess Westaim's results of operations for the three and six months ended June 30, 2015 and financial condition as at June 30 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 noon exchange rate used to convert one U.S. dollar to Canadian dollar at June 30, 2015 is 1.2474. The following commentary is current as of August 13, 2015. Additional information relating to Westaim is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

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. Adjusted book value per share represents book value per share at the end of the period adjusted to include or exclude one or more items required by IFRS but which are either unusual or non-recurring.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2015
(Currency amounts in Canadian dollars unless otherwise indicated)

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 and six months ended June 30, 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 U.S. 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 of 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, in the Company's Annual Information Form for the fiscal year ended December 31, 2014 dated March 31, 2015 and in the Company's preliminary short form prospectus dated July 24, 2015, both of which are available on SEDAR at www.sedar.com. Please refer to the cautionary note in Section 14 of this MD&A.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2015
(Currency amounts in Canadian dollars unless otherwise indicated)

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.

During 2014, 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.

On May 5, 2015, the Company announced the execution of a non-binding term sheet with U.S.-based Arena Investors, LLC to develop (i) an investment management business that will manage fundamentals-based, asset-oriented credit investments for third-party investors and (ii) a specialty finance business that will make fundamentals-based, asset-oriented credit investments. For additional information on the Arena Transactions (as hereinafter defined) and related financing transactions, see discussion in Section 3, *Investments in Private Entities* and Section 4, *Equity Financings* of this MD&A.

2. OVERVIEW OF PERFORMANCE

Highlights (millions except share and per share data)	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Revenue	\$ 0.4	\$ -	\$ 0.8	\$ 0.1
Net results of investments	(2.7)	-	12.4	-
Share-based compensation expense	(1.1)	-	(3.5)	(0.1)
Other expenses	(1.0)	(2.9)	(1.5)	(4.5)
(Loss) profit and other comprehensive (loss) income	\$ (4.4)	\$ (2.9)	\$ 8.2	\$ (4.5)
(Loss) earnings per share - basic and diluted	\$ (0.06)	\$ (0.21)	\$ 0.12	\$ (0.33)
At June 30:				
Shareholders' equity	\$ 198.8	\$ 22.5	\$ 198.8	\$ 22.5
Number of common shares outstanding	70,297,342	13,902,937	70,297,342	13,902,937
Book value per share	\$ 2.82 ⁽¹⁾	\$ 1.62	\$ 2.82 ⁽¹⁾	\$ 1.62
Adjustments	\$ 0.09	\$ 0.51	\$ 0.09	\$ 0.51
Adjusted book value per share	\$ 2.91 ⁽²⁾	\$ 2.13 ⁽³⁾	\$ 2.91 ⁽²⁾	\$ 2.13 ⁽³⁾

⁽¹⁾ Book value per share at the end of the period represents shareholders' equity at the end of the period determined on an IFRS basis and adjusted upwards by the Company's liability with respect to RSUs (June 30, 2015 - \$5.9 million; June 30, 2014 - \$nil), 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 (June 30, 2015 - 2,375,000 units, June 30, 2014 - nil) were exercised.

⁽²⁾ Adjusted book value per share at June 30, 2015 represents book value per share after adjustment of share issuance costs of \$6.5 million incurred by the Company in connection with equity financing transactions related to the Arena Transactions. The net proceeds from these equity financing transactions are expected to be released from escrow in the third quarter of 2015.

⁽³⁾ Adjusted book value per share at June 30, 2014 represents book value per share after giving effect to the reimbursement of \$3.1 million of transaction and related costs incurred by the Company in connection with the investment in HIIG and on behalf of the Partnership, and adjustment of share issuance costs of \$3.8 million incurred by the Company in connection with equity financing transactions related to HIIG.

2. OVERVIEW OF PERFORMANCE (continued)

Three months ended June 30, 2015 and 2014

The Company reported a loss of \$4.4 million for the three months ended June 30, 2015 (2014 - loss \$2.9 million).

Revenue for the three months ended June 30, 2015 of \$0.4 million (2014 - \$nil) consisted of interest income of \$0.1 million (2014 - \$nil) and advisory fees of \$0.3 million (2014 - \$nil). Net results of investments were \$(2.7) million for the three months ended June 30, 2015 (2014 - \$nil), representing an unrealized loss 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 June 30, 2015 of \$2.1 million (2014 - \$2.9 million) included share-based compensation expense of \$1.1 million (2014 - \$nil), site restoration provision recovery of \$0.8 million (2014 - expense of \$0.8 million), professional fees of \$1.2 million (2014 - \$0.8 million), general and administrative costs of \$0.7 million (2014 - \$0.5 million), and a foreign exchange gain on U.S. dollar bank balances of \$0.1 million (2014 - loss of \$0.8 million).

Six months ended June 30, 2015 and 2014

The Company reported a profit of \$8.2 million for the six months ended June 30, 2015 (2014 - loss \$4.5 million).

Revenue for the six months ended June 30, 2015 of \$0.8 million (2014 - \$0.1 million) consisted of interest income of \$0.2 million (2014 - \$0.1 million) and advisory fees of \$0.6 million (2014 - \$nil). Net results of investments were \$12.4 million for the six months ended June 30, 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 six months ended June 30, 2015 of \$5.0 million (2014 - \$4.6 million) included share-based compensation expense of \$3.5 million (2014 - \$0.1 million), site restoration provision expense of \$0.1 million (2014 - \$0.8 million), professional fees of \$1.8 million (2014 - \$2.1 million), general and administrative costs of \$1.1 million (2014 - \$0.9 million), and a foreign exchange gain on U.S. dollar bank balances of \$1.5 million (2014 - loss of \$0.7 million).

3. INVESTMENTS IN PRIVATE ENTITIES

A. 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.

3. INVESTMENTS IN PRIVATE ENTITIES (continued)

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.

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.

At June 30, 2015, the Partnership owned 75.6% of the HIIG Shares and the Company owned 58.5% of the Partnership, representing an approximate 44.2% 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. 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 \$181.6 million at June 30, 2015 was derived from a valuation of 100% of HIIG's stockholders' equity at June 30, 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 completed in January 2015.

In the three months ended June 30, 2015, the Company recorded an unrealized loss on its investment in the Partnership of \$2.7 million, reflecting a change in the fair value of the investment in the Partnership resulting from an increase in the value of HIIG of \$0.3 million and a weakening of the U.S. dollar against the Canadian dollar of \$3.0 million. In the six months ended June 30, 2015, the Company recorded an unrealized gain on its investment in the Partnership of \$12.4 million, reflecting a change in the fair value of the investment in the Partnership resulting from an increase in the value of HIIG of \$1.6 million and a strengthening of the U.S. dollar against the Canadian dollar of \$10.8 million.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2015
(Currency amounts in Canadian dollars unless otherwise indicated)

3. INVESTMENTS IN PRIVATE ENTITIES (continued)

(iv) Selected Financial Information of Houston International Insurance Group, Ltd. for the three and six months ended June 30, 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 and six months ended June 30, 2015 and 2014, prepared in accordance with US GAAP and presented in U.S. 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.

(unaudited) (US\$ millions)	Three months ended June 30		Six months ended June 30	
	2015	2014 ⁽¹⁾	2015	2014 ⁽¹⁾
<u>Income Statement</u>				
Gross written premium	\$ 140.9	\$ 155.9	\$ 261.9	\$ 254.2
Net premiums written	\$ 81.8	\$ 73.7	\$ 162.6	\$ 152.2
Net premiums earned	\$ 73.9	\$ 83.3	\$ 148.1	\$ 156.0
Net income	\$ 3.7	\$ 5.3	\$ 6.4	\$ 8.5
<u>Selected Information</u>				
Net premiums written:				
Accident and health	\$ 7.2	\$ -	\$ 11.4	\$ -
Construction	4.5	10.4	18.5	23.9
Energy	8.9	12.7	20.8	26.6
Specialty	28.9	35.5	63.8	67.9
Professional	8.0	7.9	16.8	14.4
Property	24.3	5.7	31.5	15.8
Non-continuing and other lines	-	1.5	(0.2)	3.6
	\$ 81.8	\$ 73.7	\$ 162.6	\$ 152.2
Net Loss and LAE Ratio:				
Accident and health	66%	n/a	66%	n/a
Construction	95%	58%	94%	61%
Energy	52%	54%	47%	55%
Specialty	64%	76%	63%	71%
Professional	21%	63%	37%	60%
Property	39%	38%	35%	36%
Non-continuing and other lines	n.m. ⁽²⁾	n.m. ⁽²⁾	n.m. ⁽²⁾	n.m. ⁽²⁾
	67%	68%	66%	66%
<u>Balance Sheet Information</u>				
	June 30, 2015	December 31, 2014		
Investments, cash and cash equivalents	\$ 705.7	\$ 626.9		
Stockholders' equity	\$ 322.8	\$ 248.1		

⁽¹⁾ Certain prior period figures have been reclassified for comparison purposes.

⁽²⁾ Not meaningful, but included in the aggregate ratios.

3. INVESTMENTS IN PRIVATE ENTITIES (continued)

Gross written premium for the three months ended June 30, 2015 was US\$140.9 million versus US\$155.9 million for the three months ended June 30, 2014, a decrease of 9.6%. The decrease resulted from a decline in the property division related primarily to a fee-based fronting program that was not renewed by HIIG in April 2015, partially offset by the contribution from the Elite acquisition completed in January 2015. Gross written premium was US\$261.9 million versus US\$254.2 million for the six months ended June 30, 2015 and 2014, respectively, an increase of 3.0%, resulting from the items discussed above, offset by growth in other lines of business in the first quarter of 2015.

Net premiums written for the three months ended June 30, 2015 was US\$81.8 million versus US\$73.7 million for the three months ended June 30, 2014, an increase of 11.0%. Net premiums written was US\$162.6 million versus US\$152.2 million for the six months ended June 30, 2015 and 2014, respectively, an increase of 6.8%. The contribution from the Elite acquisition and additional premium retained beginning in the second quarter in the property division was partially offset by declines in the other divisions due to the increased use of proportional reinsurance. While there is a cost to the use of reinsurance, its increased use is designed to allow HIIG to better regulate growth of net premiums written in a competitive industry environment, and reduce its exposure to catastrophic events. This is also expected to allow for future expansion of net written premium by HIIG when appropriate.

Net premiums earned for the three months ended June 30, 2015 was US\$73.9 million versus US\$83.3 million for the three months ended June 30, 2014, a decrease of 11.3%. Net premiums earned was US\$148.1 million versus US\$156.0 million for the six months ended June 30, 2015 and 2014, respectively, a decrease of 5.1%. The decrease for the quarter and year-to-date relate to a decline in the net earned premium in the property, construction and energy divisions, partially offset by the contribution from the Elite acquisition for the periods.

The overall net loss and LAE ratio for the three and six months ended June 30, 2015 was higher than expected due to unfavourable prior period development in the construction division, largely offset by favourable prior period development in the energy and professional divisions. In addition, HIIG experienced unfavourable prior period development in the non-continuing lines of business representing approximately 6% of the net loss and LAE ratio for the year-to-date period (YTD 2014 – 6%). At June 30, 2015, non-continuing net loss reserves were 24% (US\$70.8 million) of total net reserves, compared to 51% (US\$121.7 million) at December 31, 2013 as HIIG continues to accelerate the settlement of outstanding non-continuing claims. The total net loss and LAE ratio for the three and six months ended June 30, 2015 was consistent with the prior year periods.

HIIG's stockholders' equity increased to US\$322.8 million at June 30, 2015 from US\$321.8 million at March 31, 2015 and US\$248.1 million at December 31, 2014. The increase in the second quarter was the result of the net income for the period, partially offset by unrealized losses on HIIG's investment portfolio. The year-to-date increase was the result of net income for the period, and the capital raise completed by HIIG in the first quarter of 2015.

Westaim believes that HIIG is well capitalized which should allow it to execute its business plan and expand its operations, strategically positioning itself for long term profitable growth of the business and returns on capital as the business grows.

B. Arena Transactions

On April 27, 2015, the Company entered into a non-binding letter of intent with U.S.-based Arena Investors, LLC to develop (i) an investment management business that will manage fundamentals-based, asset-oriented credit investments for third-party investors and (ii) a specialty finance business that will make fundamentals-based, asset-oriented credit investments.

Fundamentals-based, asset-oriented credit investments refer to loans or credit arrangements which are generally secured by assets. These assets could include hard assets such as real estate, inventory, vehicles, aircraft, watercraft, oil and gas reserves, or a borrower's plant and equipment and other hard assets, or soft assets such as securities, receivables, contractual income streams, and certain intellectual property types. Fundamentals-based, asset-oriented lenders manage their risk and exposure by carefully assessing the value of the assets securing the loan, receiving periodic and frequent reports on collateral value and the status of those assets, and tracking the financial performance of borrowers.

Arena Investors, LP ("Arena Investors") was established to undertake the investment management business. Arena Finance Company Inc. ("AFC") was set up as a specialty finance company that will primarily purchase fundamentals-based, asset-oriented credit investments for its own account, and Arena Origination Co., LLC ("AOC") was set up to facilitate the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to AFC, clients of Arena Investors and/or other third parties. The establishment, capitalization and organization of Arena Investors, AFC and AOC (collectively "Arena") are referred to herein as the "Arena Transactions".

3. INVESTMENTS IN PRIVATE ENTITIES (continued)

Completion of the Arena Transactions is subject to the satisfaction or waiver of certain conditions including, without limitation, (i) the release from escrow of the Escrowed Funds (as defined in Section 4, *Equity Financings* of this MD&A), (ii) registration of Arena Investors as an investment adviser with the U.S. Securities and Exchange Commission (the "SEC"), (iii) execution of definitive agreements and other documents necessary to effect the Arena Transactions (the "Definitive Documents"), (iv) approval of the TSX Venture Exchange (the "TSXV"), and (v) such other conditions as may be specified in the Definitive Documents. The Arena Transactions are expected to close in the third quarter of 2015.

Costs of \$1.2 million incurred with respect to the Arena Transactions, which consisted mainly of professional fees, were expensed in the statement of profit (loss) and other comprehensive income (loss) in the three months ended June 30, 2015.

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

4. EQUITY FINANCINGS

A. 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.

B. Arena Financing

In order to fund the start-up costs of the Arena Transactions, including the capitalization of Arena Investors, AFC and AOC, on May 28, 2015 the Company entered into an agreement (the "Underwriting 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 of the Company (the "Special Warrants") 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"). The Company also granted the Underwriters an option (the "Underwriters' Option") to arrange for the purchase of up to an additional 9,231,000 Special Warrants at the Offering Price.

Each Special Warrant is deemed to be exercisable into one subscription receipt of Westaim (each, a "2015 Subscription Receipt"), without further consideration or action, and each 2015 Subscription Receipt will entitle the holder to receive upon the deemed conversion thereof one common share of Westaim subject to adjustment, without further consideration or action.

On May 28, 2015, the Company completed the 2015 Offering and an aggregate of 65,296,993 Special Warrants were sold pursuant to the Underwriting Agreement for aggregate gross proceeds of approximately \$212.2 million. The Special Warrants sold included the partial exercise of the Underwriters' Option. An additional 6,823,152 Special Warrants were sold pursuant to a concurrent non-brokered private placement of Special Warrants on the same terms as the 2015 Offering (the "2015 Concurrent Private Placement") for additional aggregate gross proceeds of approximately \$22.2 million. The 2015 Concurrent Private Placement included subscriptions by members of the Company's board of directors and management team. Total gross proceeds to the Company from the 2015 Offering and the 2015 Concurrent Private Placement were approximately \$234.4 million. At June 30, 2015, the Company had an aggregate of 72,120,145 Special Warrants outstanding.

The gross proceeds from the sale of the Special Warrants, less an amount equal to 50% of the Underwriters' commission and certain costs and expenses of the Underwriters, of \$228.5 million (the "Escrowed Funds") are being held in escrow, pending the satisfaction or waiver of certain escrow release conditions ("Escrow Release Conditions") provided that such conditions have been satisfied at or prior to: (i) 4:30 pm (Toronto time) on September 15, 2015; and (ii) the time and date, if any, that the Arena Transactions are terminated pursuant to their terms (in either case, the "Termination Time"). The Escrow Release Conditions include, without limitation, (i) satisfaction or waiver of all conditions required to complete the Arena Transactions, (ii) approval by the TSXV of the listing of the Company's common shares issuable on the deemed conversion of the 2015 Subscription Receipts and the Arena Transactions, and (iii) the SEC having approved the registration of Arena Investors as an investment adviser. Subsequent to June 30, 2015, the SEC issued an order declaring Arena Investors' registration as an investment adviser to be effective. In addition, the TSXV has accepted the listing of the Company's common shares issuable on the deemed conversion of the 2015 Subscription Receipts.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2015
(Currency amounts in Canadian dollars unless otherwise indicated)

4. EQUITY FINANCINGS (continued)

Concurrent with closing of the 2015 Offering and the 2015 Concurrent Private Placement, the Company entered into a subscription agreement with the Chief Executive Officer of Arena Investors, LLC, Daniel B. Zwirn, pursuant to which Mr. Zwirn agreed to irrevocably subscribe for 769,231 common shares of Westaim at a price of \$3.25 per share for aggregate gross proceeds of approximately \$2.5 million (the "Zwirn Subscription"), and the Company agreed to purchase from Mr. Zwirn limited partnership interests in Lantern Endowment Partners, L.P. with a net asset value of approximately \$2.5 million (the "Lantern Purchase"). Completion of each of the Zwirn Subscription and the Lantern Purchase is conditional upon the completion of the Arena Transactions and the receipt of TSXV approval.

Shares issuance costs of \$6.5 million, representing 50% of the Underwriters' fees and other professional fees, incurred up to June 30, 2015 in connection with the 2015 Offering and the 2015 Concurrent Private Placement were deducted from share capital at June 30, 2015.

The net proceeds to the Company from the 2015 Offering, the 2015 Concurrent Private Placement and the Zwirn Subscription are expected to be approximately \$224.5 million, after estimated share issuance costs of \$12.4 million.

The Escrow Release Conditions are expected to be satisfied in the third quarter of 2015 and the Company intends to use the net proceeds of the 2015 Offering and 2015 Concurrent Private Placement and its existing cash resources to fund the start-up costs of Arena of approximately US\$4.3 million, including capitalizing the operations of Arena Investors as an investment manager, and to capitalize AFC and AOC in an aggregate amount estimated to be approximately US\$185 million. The final funding amount for AFC and AOC will be determined primarily based on the U.S. dollar / Canadian dollar exchange rate at the time the Escrowed Funds are released, and could be higher or lower than estimated.

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

5. ANALYSIS OF FINANCIAL RESULTS

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

(millions)	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Revenue	\$ 0.4	\$ -	\$ 0.8	\$ 0.1
Net results of investments	(2.7)	-	12.4	-
Expenses				
Salaries and benefits	0.3	0.2	0.4	0.4
Office expenses	0.4	0.3	0.7	0.5
Professional fees	1.2	0.8	1.8	2.1
Site restoration provision (recovery) expense	(0.8)	0.8	0.1	0.8
Share-based compensation	1.1	-	3.5	0.1
Foreign exchange (gain) loss	(0.1)	0.8	(1.5)	0.7
Total expenses	2.1	2.9	5.0	4.6
(Loss) profit	\$ (4.4)	\$ (2.9)	\$ 8.2	\$ (4.5)

5.1 Revenue

Revenue for the three months ended June 30, 2015 of \$0.4 million (2014 - \$nil) consisted of interest income of \$0.1 million (2014 - \$nil) and advisory fees of \$0.3 million (2014 - \$nil). Revenue for the six months ended June 30, 2015 of \$0.8 million (2014 - \$0.1 million) consisted of interest income of \$0.2 million (2014 - \$0.1 million) and advisory fees of \$0.6 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 and \$0.6 million in the three and six months ended June 30, 2015, respectively.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2015
(Currency amounts in Canadian dollars unless otherwise indicated)

5. ANALYSIS OF FINANCIAL RESULTS (continued)

5.2 Net Results of Investments

In the three months ended June 30, 2015, the Company recorded an unrealized loss on its investment in the Partnership of \$2.7 million, reflecting a change in the fair value of the investment in the Partnership resulting from an increase in the value of HIIG of \$0.3 million which was offset by a loss in value related to a strengthening of the Canadian dollar against the U.S. dollar of \$3.0 million. In the six months ended June 30, 2015, the Company recorded an unrealized gain on its investment in the Partnership of \$12.4 million, reflecting a change in the fair value of the investment in the Partnership resulting from an increase in the value of HIIG of \$1.6 million and a strengthening of the U.S. dollar against the Canadian dollar of \$10.8 million.

5.3 Expenses

Total expenses were \$2.1 million for the three months ended June 30, 2015 compared to \$2.9 million for the same period in the prior year, a decrease of \$0.8 million. In the three months ended June 30, 2015, the Company recorded a site restoration provision recovery of \$0.8 million, compared to an expense of \$0.8 million in the same period in 2014. Operating results also benefited from a foreign exchange gain on U.S. dollar bank balances of \$0.1 million in the second quarter of 2015, compared to a loss of \$0.8 million in the second quarter of 2014. These changes were in part offset by higher share-based compensation expense of \$1.1 million relating primarily to the Company's outstanding RSUs, an increase in professional fees of \$0.4 million primarily related to the Arena Transactions and an increase in general and administrative expenses of \$0.2 million.

Total expenses were \$5.0 million for the six months ended June 30, 2015 compared to \$4.6 million for the six months ended June 30, 2014. The increase in total expenses of \$0.4 million in the first half of 2015 compared to the same period in the prior year was due to an increase in share-based compensation expense of \$3.4 million and an increase in general and administrative expenses of \$0.2 million, in part offset by a reduction in site restoration provision expense of \$0.7 million, a favorable foreign exchange gain from holding U.S. dollar bank balances of \$2.2 million and a reduction in professional fee expense of \$0.3 million.

6. ANALYSIS OF FINANCIAL POSITION

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

(millions)	June 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$ 35.3	\$ 92.9
Accounts receivable and other assets	0.4	0.6
Investments in private entities	181.6	108.7
	\$ 217.3	\$ 202.2
Liabilities		
Accounts payable and accrued liabilities	\$ 14.1	\$ 4.2
Deferred revenue	0.3	-
Site restoration provision	4.1	4.0
	18.5	8.2
Shareholders' equity	198.8	194.0
Total liabilities and shareholders' equity	\$ 217.3	\$ 202.2

6.1 Cash and Cash Equivalents

At June 30, 2015, the Company had cash and cash equivalents of \$35.3 million compared to \$92.9 million at December 31, 2014.

On January 14, 2015, the Company made an additional cash 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 June 30, 2015 included \$0.2 million in capital assets (December 31, 2014 - \$0.2 million). Depreciation expense for the capital assets was nominal for the three and six months ended June 30, 2015 (2014 - \$nil).

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2015
(Currency amounts in Canadian dollars unless otherwise indicated)

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.3 Investments in Private Entities

The Company's investments in private entities at June 30, 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 \$181.6 million at June 30, 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 \$14.1 million at June 30, 2015 and \$4.2 million at December 31, 2014. Accounts payable and accrued liabilities at June 30, 2015 included a liability of deferred share units ("DSUs") and RSUs of \$0.8 million and \$5.9 million, respectively, as well as accrued share issuance costs of \$6.1 million related to the 2015 Offering and the 2015 Concurrent Private Placement and other costs of \$1.1 million related to the Arena Transactions. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans, Section 4, *Equity Financings* of this MD&A for additional information on the 2015 Offering and the 2015 Concurrent Private Placement and Section 3, *Investments in Private Entities* of this MD&A for additional information on the Arena Transactions.

6.5 Deferred Revenue

Deferred revenue of \$0.3 million was related to advisory fees received under the MSA which had not been earned at June 30, 2015.

6.6 Site Restoration Provision

The site restoration provision of \$4.1 million at June 30, 2015 and \$4.0 million at December 31, 2014 relates to costs associated with soil and groundwater reclamation and remediation costs. The provision recovery of \$0.8 million and expense of \$0.1 million for the three and six months ended June 30, 2015, respectively, resulted primarily from a change in the discount rate used during the respective periods. The Company conducts periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements. Future 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 and six months ended June 30, 2015 and 2014.

6.7 Shareholders' Equity

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

(millions)	June 30, 2015	December 31, 2014
Common shares	\$ 343.3	\$ 346.7
Contributed surplus	12.9	12.9
Deficit	(157.4)	(165.6)
Shareholders' equity	\$ 198.8	\$ 194.0

In the six months ended June 30, 2015, the Company received an additional reimbursement of \$3.1 million in share issuance costs in connection with the equity financings completed in 2014. In the same period, the Company incurred \$6.5 million in share issuance costs related to the 2015 Offering and the 2015 Concurrent Private Placement (see Section 4, *Equity Financings* of this MD&A). The net amount was recorded as a decrease in the Company's share capital as at June 30, 2015.

At June 30, 2015 and December 31, 2014, the Company had 70,297,342 common shares outstanding.

The decrease in deficit of \$8.2 million from December 31, 2014 to June 30, 2015 is due to the profit for the six months ended June 30, 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.

7. OUTLOOK (continued)

On May 28, 2015, the Company completed the 2015 Offering and the 2015 Concurrent Private Placement for purposes of completing the Arena Transactions (see discussion in Section 3, *Investments in Private Entities* of this MD&A). The Arena Transactions are expected to close in the third quarter of 2015 and to provide Westaim with the opportunity to make fundamentals-based, asset-oriented credit investments under the management of an experienced investment management team. Westaim intends to fund the startup costs of the Arena Transactions of up to US\$4.3 million. Thereafter, Westaim plans to finance the Arena Transactions in 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.

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.

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 six 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 and incurred \$6.5 million in share issuance costs related to the 2015 Offering and the 2015 Concurrent Private Placement. At June 30, 2015 and December 31, 2014, the Company had 70,297,342 common shares outstanding, with a stated capital of \$343.3 million at June 30, 2015 and \$346.7 million at December 31, 2014.

There were no Class A or Class B preferred shares outstanding at June 30, 2015 and December 31, 2014.

Dividends

No dividends were paid in the six months ended June 30, 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 amended and restated 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 or as may be approved by the TSXV and the shareholders of the Company from time to time, 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.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2015
(Currency amounts in Canadian dollars unless otherwise indicated)

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

At June 30, 2015, the Company had 3,000 stock options outstanding (December 31, 2014 - 5,000 stock options outstanding) and 252,782 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, with respect to the DSUs that are outstanding, are paid out in cash no later than the end of the calendar year following the year the participant ceases to be a director. At June 30, 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 22% on May 31, 2015. The remaining 45% of the RSUs 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 June 30, 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 \$5.9 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. As part of pursuing one or more new opportunities, the Company may from time to time issue shares from treasury.

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

June 30, 2015 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	\$ 35.3	\$ -	\$ 35.3
Accounts receivable and other assets	0.2	-	0.2
Investments in private entities	-	181.6	181.6
Total financial assets	35.5	181.6	217.1
Financial obligations:			
Accounts payable and accrued liabilities	14.1	-	14.1
Deferred revenue	0.3	-	0.3
Site restoration provision	-	4.1	4.1
Total financial obligations	14.4	4.1	18.5
Financial assets net of financial obligations	\$ 21.1	\$ 177.5	\$ 198.6

December 31, 2014 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	\$ 92.9	\$ -	\$ 92.9
Accounts receivable and other assets	0.4	-	0.4
Investments in private entities	-	108.7	108.7
Total financial assets	93.3	108.7	202.0
Financial obligations:			
Accounts payable and accrued liabilities	4.2	-	4.2
Site restoration provision	-	4.0	4.0
Total financial obligations	4.2	4.0	8.2
Financial assets net of financial obligations	\$ 89.1	\$ 104.7	\$ 193.8

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.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2015
(Currency amounts in Canadian dollars unless otherwise indicated)

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 six months ended June 30, 2015, the Company was further reimbursed \$3.1 million in share issuance costs by HIIG and the amount was recorded as an increase in the Company's share capital.

The Company earned fees of \$0.3 million and \$0.6 million from HIIG under the MSA in the three and six months ended June 30, 2015, respectively (2014 - \$nil).

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, including non-executive directors, are as follows:

(millions)	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Salaries and benefits	\$ 0.3	\$ 0.2	\$ 0.4	\$ 0.4
Share-based compensation	1.0	-	3.2	-
	\$ 1.3	\$ 0.2	\$ 3.6	\$ 0.4

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. On May 28, 2015, pursuant to the 2015 Concurrent Private Placement, 6,823,152 Special Warrants were sold for aggregate gross proceeds of \$22.2 million to members of the Company's board of directors and management team, a shareholder of HIIG and members of the future Arena management team as well as to HIIG and certain HIIG subsidiaries for portfolio investment purposes, on terms equivalent to the other participants in the 2015 Concurrent Private Placement. Concurrent with closing of the 2015 Offering and the 2015 Concurrent Private Placement, the Company also entered into agreements for the Zwrn Subscription and the Lantern Purchase. 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 consulting services provided to the Company for the three and six months ended June 30, 2015 was \$0.1 million and \$0.2 million, respectively, and the amount was included in the statement of profit (loss) and other comprehensive income (loss) for the three and six months ended June 30, 2015 under share-based compensation expense. An RSU liability of \$0.4 million due to the same company was accrued at June 30, 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 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. 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 and six months ended June 30, 2015 and 2014.

12. QUARTERLY FINANCIAL INFORMATION

(millions)	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013
Revenue	\$ 0.4	\$ 0.4	\$ 0.6	\$ 0.6	\$ -	\$ 0.1	\$ 0.1	\$ 0.1
Net results of investments	(2.7)	15.1	13.2	13.0	-	-	-	-
Expenses (recovery)	2.1	2.9	5.7	(2.8)	2.9	1.7	2.1	0.6
(Loss) profit and other comprehensive (loss) income	(4.4)	12.6	8.1	16.4	(2.9)	(1.6)	(2.0)	(0.5)

Revenue consisted of investment income and advisory fee income. Prior to Q3, 2014, quarterly revenue consisted of investment income only. Net results of investments represented unrealized gains (losses) on investments in private entities recognized by the Company related to its investment in the Partnership. Expenses in Q2, 2015 included \$1.0 million in stock-based compensation with respect to outstanding RSUs, \$1.2 million in professional fees incurred mainly in connection with the Arena Transactions and a recovery of site restoration provision of \$0.8 million. Expenses in Q1, 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 Q4, 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 Q3, 2014, \$0.5 million in Q2, 2014, \$1.2 million in Q1, 2014 and \$2.0 million in Q4, 2013, with \$3.1 million reimbursed to the Company Q3, 2014. The Company recorded a foreign exchange gain of \$0.8 million in Q3, 2014.

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 dated March 31, 2015 and in the Company's preliminary short form prospectus dated July 24, 2015, both of which are available on SEDAR at www.sedar.com.

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 Time and complete the Arena Transactions or any portion thereof on the terms contemplated or at all; if the Arena Transactions are completed, the risks relating to Arena, and those relating to the specialty finance operations; the Company's ability to implement its investment strategies or operate its business as management currently expects; the Company's ability to generate investment revenue 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

14. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION (continued)

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; fluctuations in the U.S. dollar to Canadian dollar exchange rate; 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)	June 30 2015	December 31 2014
ASSETS		
Cash and cash equivalents	\$ 35,318	\$ 92,914
Accounts receivable and other assets (note 4)	389	644
Investments in private entities (note 5)	181,625	108,667
	\$ 217,332	\$ 202,225
LIABILITIES		
Accounts payable and accrued liabilities (note 8)	\$ 14,120	\$ 4,215
Deferred revenue (note 5)	312	-
Site restoration provision (note 6)	4,145	4,009
	18,577	8,224
Commitments and contingent liabilities (note 7)		
SHAREHOLDERS' EQUITY		
Share capital (note 8)	343,317	346,775
Contributed surplus	12,890	12,890
Deficit	(157,452)	(165,664)
	198,755	194,001
	\$ 217,332	\$ 202,225

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 share and per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Revenue				
Investment income	\$ 62	\$ 29	\$ 151	\$ 87
Fee income (notes 5 and 10)	317	-	607	-
	379	29	758	87
Net results of investments				
Unrealized (loss) gain on investments in private entities (note 5):				
Unrealized gain on investments before foreign exchange gain	360	-	1,637	-
Unrealized foreign exchange (loss) gain on investments	(3,038)	-	10,769	-
	(2,678)	-	12,406	-
Expenses				
Salaries and benefits	360	223	460	469
Office expenses	418	338	679	488
Professional fees (note 5)	1,159	752	1,786	2,054
Site restoration provision (recovery) expense (note 6)	(824)	808	136	817
Share-based compensation (note 9)	1,082	39	3,434	123
Depreciation and amortization (note 4)	12	-	24	-
Foreign exchange (gain) loss	(79)	768	(1,567)	661
	2,128	2,928	4,952	4,612
(Loss) profit and other comprehensive (loss) income	\$ (4,427)	\$ (2,899)	\$ 8,212	\$ (4,525)
(Loss) earnings per share - basic and diluted (note 12)	\$ (0.06)	\$ (0.21)	\$ 0.12	\$ (0.33)
Weighted average number of common shares outstanding (in thousands)				
Basic and diluted	70,297	13,903	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)

Six Months ended June 30, 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
Share issuance costs (note 8)	(3,458)	-	-	(3,458)
Profit and other comprehensive income	-	-	8,212	8,212
Balance at June 30, 2015	\$ 343,317	\$ 12,890	\$ (157,452)	\$ 198,755

Six Months ended June 30, 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
Share issuance costs	(3,836)	-	-	(3,836)
Loss and other comprehensive loss	-	-	(4,525)	(4,525)
Balance at June 30, 2014	\$ 199,804	\$ 12,890	\$ (190,153)	\$ 22,541

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

The Westaim Corporation
Consolidated Cash Flow Statements
(unaudited)

(thousands of Canadian dollars)	Six Months Ended June 30	
	2015	2014
Operating activities		
Profit (loss)	\$ 8,212	\$ (4,525)
Unrealized gain on investments in private entities	(12,406)	-
Share-based compensation	3,434	123
Site restoration provision expense	136	817
Lease expense	(64)	-
Depreciation and amortization	24	-
Net change in other non-cash balances		
Accounts receivable and other assets	248	58
Accounts payable and accrued liabilities ¹	456	(747)
Deferred revenue	312	-
Cash provided from (used in) operating activities	352	(4,274)
Investing activities		
Purchase of capital assets	(17)	-
Purchase of investment in private entities	(60,552)	-
Cash used in investing activities	(60,569)	-
Financing activities		
Recovery of share issuance costs (share issuance costs) ¹	2,621	(40)
Cash provided from (used in) financing activities	2,621	(40)
Net decrease in cash and cash equivalents	(57,596)	(4,314)
Cash and cash equivalents, beginning of period	92,914	35,412
Cash and cash equivalents, end of period	\$ 35,318	\$ 31,098
Cash and cash equivalents is composed of:		
Cash	\$ 35,318	\$ 31,098

¹ Excludes non-cash share issuance costs of \$6,079 at June 30, 2015 and \$3,796 at June 30, 2014.

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

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

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 August 13, 2015.

Westaim is an investment company focused 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 (the "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 controlled by the Company which provide investment-related services to external parties are consolidated. The financial results of these entities 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 (loss) 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.

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

2 Summary of Significant Accounting Policies (continued)

(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.

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.

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 financial assets and instruments that are not traded in an active market, including private entities, 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. 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 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. Any sale, size or other liquidity restrictions on the investment are also 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.

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 no market exists or where 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 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.

(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.

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

2 Summary of Significant Accounting Policies (continued)

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.

(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 June 30, 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 and six months ended June 30, 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.

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

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 six months ended June 30, 2015 are as follows:

Six months ended June 30, 2015	Cost			Accumulated depreciation			Net book value
	Opening balance	Additions	Ending balance	Opening balance	Depreciation	Ending balance	Ending balance
Leasehold improvements	\$ 78	\$ -	\$ 78	\$ 4	\$ 8	\$ 12	\$ 66
Furniture and equipment	64	13	77	2	7	9	68
Computers	54	4	58	5	9	14	44
	\$ 196	\$ 17	\$ 213	\$ 11	\$ 24	\$ 35	\$ 178

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 June 30, 2015	Fair value	Level 1	Level 2	Level 3
Investments in private entities	\$ 181,625	\$ -	\$ -	\$ 181,625

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:

	Six months ended June 30, 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	12,406	26,216
Ending balance	\$ 181,625	\$ 108,667

There were no transfers between any levels during the three and six months ended June 30, 2015 or year ended December 31, 2014.

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

5 Investments (continued)

Investment in private entities

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 75.6% of the issued and outstanding common shares of HIIG ("HIIG Shares") at June 30, 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).

On March 30, 2015, a new investor acquired Class A Units of the Partnership for US\$1,000. At June 30, 2015, the Partnership owned 75.6% of the HIIG Shares and the Company owned 58.5% of the Class A Units of the Partnership, representing an approximate 44.2% indirect ownership interest in HIIG.

(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 \$181,625 at June 30, 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 \$181,625 at June 30, 2015 was derived from a valuation of 100% of HIIG's stockholders' equity at June 30, 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 completed in January 2015.

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

5 Investments (continued)

In the three months ended June 30, 2015, the Company recorded an unrealized loss on its investment in the Partnership of \$2,678, reflecting a change in the fair value of the investment in the Partnership resulting from an increase in the value of HIIG of \$360 which was offset by a loss in value related to a weakening of the U.S. dollar against the Canadian dollar of \$3,038. In the six months ended June 30, 2015, the Company recorded an unrealized gain on its investment in the Partnership of \$12,406, reflecting a change in the fair value of the investment in the Partnership resulting from an increase in the value of HIIG of \$1,637 and a strengthening of the U.S. dollar against the Canadian dollar of \$10,769.

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 June 30, 2015 was higher by US\$1,000, the fair value of the Company's investment in the Partnership at June 30, 2015 would have increased by approximately \$551 and the unrealized loss on investments in private entities for the three months ended June 30, 2015 would have decreased by approximately \$551. If HIIG's stockholders' equity at June 30, 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 June 30, 2015 by approximately \$18,163 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 fees of \$317 and \$607 under the MSA in the three and six months ended June 30, 2015, respectively. Fees totaling \$629 were received in the three months ended June 30, 2015 and \$312 was recorded as deferred revenue in the statement of financial position at June 30, 2015.

ARENA TRANSACTIONS

On April 27, 2015, the Company entered into a non-binding letter of intent with U.S.-based Arena Investors, LLC to develop (i) an investment management business that will manage fundamentals-based, asset-oriented credit investments for third-party investors and (ii) a specialty finance business that will make fundamentals-based, asset-oriented credit investments. Arena Investors, LP ("Arena Investors") was established to undertake the investment management business. Arena Finance Company Inc. ("AFC") was set up as a specialty finance company that will primarily purchase fundamentals-based, asset-oriented credit investments for its own account, and Arena Origination Co., LLC ("AOC") was set up to facilitate the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to AFC, clients of Arena Investors and/or other third parties. The establishment, capitalization and organization of Arena Investors, AFC and AOC (collectively "Arena") are referred to herein as the "Arena Transactions".

Completion of the Arena Transactions is subject to the satisfaction or waiver of certain conditions including, without limitation, (i) the release from escrow of the Escrowed Funds (as defined in note 8), (ii) registration of Arena Investors as an investment adviser with the U.S. Securities and Exchange Commission (the "SEC"), (iii) execution of definitive agreements and other documents necessary to effect the Arena Transactions (the "Definitive Documents"), (iv) approval of the TSXV, and (v) such other conditions as may be specified in the Definitive Documents. Subsequent to June 30, 2015, the SEC issued an order declaring Arena Investors' registration as an investment adviser to be effective. In addition, the TSXV has accepted the listing of the Company's common shares issuable on the deemed conversion of the 2015 Subscription Receipts. The Arena Transactions are expected to close in the third quarter of 2015.

Costs of \$1,206 incurred with respect to the Arena Transactions, which consisted mainly of professional fees, were expensed in the statement of profit (loss) and other comprehensive income (loss) in the three months ended June 30, 2015, \$1,076 of which was included in accounts payable and accrued liabilities at June 30, 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.

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

6 Site Restoration Provision (continued)

Changes to the site restoration provision are as follows:

	Six months ended June 30, 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	136	1,408
Ending balance	\$ 4,145	\$ 4,009

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 June 30, 2015. To calculate the site restoration provision, the estimated cash flows were adjusted for inflation and discounted to June 30, 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% (December 31, 2014 - 1.63%) per annum over the next 100 years. Discount rates are based on risk free rates which range from 0.5% to 2.3% (December 31, 2014 - 1.0% to 2.3%) 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 June 30, 2015.

Future reimbursements of 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 June 30, 2015, the Company had a total commitment of \$1,700 for future occupancy cost payments including payments due not later than one year of \$304 and payments due later than one year and not later than five years of \$1,396.
- (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:

	Six months ended June 30, 2015		Year ended December 31, 2014	
	Number	Stated Capital	Number	Stated Capital
Opening balance	70,297,342	\$ 346,775	13,902,937	\$ 203,640
Issued	-	-	56,394,405	149,445
Share issuance costs	-	(6,486)	-	(7,344)
Recovery of share issuance costs	-	3,028	-	1,034
Ending balance	70,297,342	\$ 343,317	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 June 30, 2015 and December 31, 2014.

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

8 Share Capital (continued)

Equity Financing Related to HIIG

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, and in July 2014, all subscription receipts were exchanged for common shares.

Aggregate gross proceeds of the 2014 Offering, the 2014 Concurrent Private Placement and the Additional Subscription to the Company, before share issuance costs, amounted to \$149,445. The Company used \$82,451 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. 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 six months ended June 30, 2015.

Equity Financing Related to the Arena Transactions

In order to fund the start-up costs of the Arena Transactions, including the capitalization of Arena Investors, AFC and AOC (see Note 5), on May 28, 2015 the Company entered into an agreement (the "Underwriting 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 of the Company (the "Special Warrants") at a price of \$3.25 per Special Warrant (the "Offering Price") for aggregate gross proceeds to Westaim of \$200,005 (the "2015 Offering"). The Company also granted the Underwriters an option (the "Underwriters' Option") to arrange for the purchase of up to an additional 9,231,000 Special Warrants at the Offering Price.

Each Special Warrant is deemed to be exercisable into one subscription receipt of Westaim (each, a "2015 Subscription Receipt"), without further consideration or action, and each 2015 Subscription Receipt will entitle the holder to receive upon the deemed conversion thereof one common share of Westaim subject to adjustment, without further consideration or action.

On May 28, 2015, the Company completed the 2015 Offering and an aggregate of 65,296,993 Special Warrants were sold pursuant to the Underwriting Agreement for aggregate gross proceeds of approximately \$212,215. These Special Warrants sold included the partial exercise of the Underwriters' Option. An additional 6,823,152 Special Warrants were sold pursuant to a concurrent non-brokered private placement of Special Warrants on the same terms as the 2015 Offering (the "2015 Concurrent Private Placement") for additional aggregate gross proceeds of approximately \$22,175. The 2015 Concurrent Private Placement included subscriptions by members of the Company's board of directors and management team. Total gross proceeds to the Company from the 2015 Offering and the 2015 Concurrent Private Placement were approximately \$234,390. At June 30, 2015, the Company had an aggregate of 72,120,145 Special Warrants outstanding.

The gross proceeds from the sale of the Special Warrants, less an amount equal to 50% of the Underwriters' commission and certain costs and expenses of the Underwriters, of \$228,481 (the "Escrowed Funds") are being held in escrow, pending the satisfaction or waiver of certain escrow release conditions ("Escrow Release Conditions") provided that such conditions have been satisfied at or prior to: (i) 4:30 pm (Toronto time) on September 15, 2015; and (ii) the time and date, if any, that the Arena Transactions are terminated pursuant to their terms (in either case, the "Termination Time"). The Escrow Release Conditions include, without limitation, (i) satisfaction or waiver of all conditions required to complete the Arena Transactions (see note 5), (ii) approval by the TSXV of the listing of the Company's common shares issuable on the deemed conversion of the 2015 Subscription Receipts and the Arena Transactions, and (iii) the SEC having approved the registration of Arena Investors as an investment adviser. Subsequent to June 30, 2015, the SEC issued an order declaring Arena Investors' registration as an investment adviser to be effective. In addition, the TSXV has accepted the listing of the Company's common shares issuable on the deemed conversion of the 2015 Subscription Receipts. The remaining Escrow Release Conditions are expected to be satisfied in the third quarter of 2015.

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

8 Share Capital (continued)

Concurrent with closing of the 2015 Offering and the 2015 Concurrent Private Placement, the Company entered into a subscription agreement with the Chief Executive Officer of Arena Investors, LLC, Daniel B. Zwirn, pursuant to which Mr. Zwirn agreed to irrevocably subscribe for 769,231 common shares of Westaim at a price of \$3.25 per share for aggregate gross proceeds of approximately \$2,500 (the "Zwirn Subscription"), and the Company agreed to purchase from Mr. Zwirn limited partnership interests in Lantern Endowment Partners, L.P. with a net asset value of approximately \$2,500 (the "Lantern Purchase"). Completion of each of the Zwirn Subscription and the Lantern Purchase is conditional upon the completion of the Arena Transactions and the receipt of TSXV approval. As at June 30, 2015, no amounts in respect of this agreement have been recorded in these financial statements.

Shares issuance costs of \$6,486, representing 50% of the Underwriters' fees and other professional fees, incurred up to June 30, 2015 in connection with the 2015 Offering and the 2015 Concurrent Private Placement were deducted from share capital at June 30, 2015. Of this amount, \$6,079 was included in accounts payable and accrued liabilities in the statement of financial position at June 30, 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 amended and restated 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 or as may be approved by the TSXV and the shareholders of the Company from time to time, 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 six months ended June 30, 2015 and 2014 are as follows:

	Six months ended June 30, 2015		Six months ended June 30, 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 June 30, 2015 had an average remaining contractual life of 1.3 years. There was no compensation expense relating to options in the three and six months ended June 30, 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.

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 22% on May 31, 2015. The remaining 45% of the RSUs vest evenly over 24 months, with the first vesting on June 30, 2015. There were 2,375,000 RSUs outstanding at June 30, 2015 and December 31, 2014. Compensation expense relating to RSUs for the three and six months ended June 30, 2015 was \$1,025 and \$2,955, respectively (three and six months ended June 30, 2014 - \$nil and \$nil, respectively). At June 30, 2015, a liability of \$5,873 (December 31, 2014 - \$2,919) has been accrued with respect to outstanding RSUs in the statement of financial position.

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

9 Share-based Compensation (continued)

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 no later than the end of the calendar year following the year the participant ceases to be a director.

Changes to the number of DSUs for the six months ended June 30, 2015 and 2014 are as follows:

	Six months ended June 30	
	2015	2014
Opening balance	113,200	113,200
Additions	139,582	-
Ending balance	252,782	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. In the six months ended June 30, 2015, an additional 23,998 DSUs were issued at a price of \$3.36 and 24,446 DSUs were issued at a price of \$3.26 in lieu of director fees. For the three months and six months ended June 30, 2015, compensation expense relating to DSUs was \$57 and \$479, respectively (three and six months ended June 30, 2014 - \$39 and \$123, respectively). At June 30, 2015, a liability of \$824 (December 31, 2014 - \$345) has been accrued with respect to outstanding DSUs in the statement of financial position.

10 Related Party Transactions

In the three and six months ended June 30, 2015, the Company earned fees from HIIG of \$317 and \$607, respectively, under the MSA (three and six months ended June 30, 2014 - \$nil and \$nil, respectively).

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 six months ended June 30, 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 six months ended June 30, 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 and six months ended June 30, 2015 and 2014 are as follows:

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Salaries and benefits	\$ 317	\$ 223	\$ 369	\$ 469
Share-based compensation	1,006	-	3,216	-
	\$ 1,323	\$ 223	\$ 3,585	\$ 469

Consulting fees paid to a company owned by a director of HIIG for the three and six months ended June 30, 2015 was \$45 and \$90, respectively. Compensation expense relating to RSUs issued to this company for the three and six months ended June 30, 2015 was \$76 and \$218, respectively (three and six months ended June 30, 2014 - \$nil and \$nil, respectively) and the amount was included in the statement of profit (loss) and other comprehensive income (loss) for the three and six months ended June 30, 2015 under share-based compensation expense. At June 30, 2015, a liability of \$433 (December 31, 2014 - \$215) has been accrued with respect to these outstanding RSUs in the statement of financial position.

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.

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

10 Related Party Transactions (continued)

On May 28, 2015, pursuant to the 2015 Concurrent Private Placement, 6,823,152 Special Warrants were sold for aggregate gross proceeds of \$22,175 to members of the Company's board of directors and management team, a shareholder of HIIG and members of the future Arena management team as well as to HIIG and certain HIIG subsidiaries for portfolio investment purposes, on terms equivalent to the other participants in the 2015 Concurrent Private Placement. See note 8 for additional information on the 2015 Concurrent Private Placement.

Concurrent with closing of the 2015 Offering and the 2015 Concurrent Private Placement, the Company entered into agreements for the Zwirn Subscription and the Lantern Purchase (see note 8).

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 June 30		Six months ended June 30	
	2015	2014	2015	2014
Unrealized loss (gain) on investments in private entities	\$ 355	\$ -	\$ (5,035)	\$ -
Non-capital loss carry-forwards	(355)	-	5,035	-
	\$ -	\$ -	\$ -	\$ -

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

	June 30, 2015	December 31, 2014
Non-capital loss carry-forwards	\$ 33,982	\$ 40,925
Capital loss carry-forwards	6,987	6,987
Deductible temporary differences	14,500	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 2034, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2028	3,950	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
	\$ 33,982	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 June 30		Six months ended June 30	
	2015	2014	2015	2014
(Loss) profit before income tax	\$ (4,427)	\$ (2,899)	\$ 8,212	\$ (4,525)
Statutory income tax rate	26.5%	26.5%	26.5%	26.5%
Income taxes at statutory income tax rate	(1,173)	(768)	2,176	(1,199)
Variations due to:				
Non-allowable (non-taxable) portion of unrealized loss (gain) on investments in private entities	355	-	(1,644)	-
Tax losses allocated from the Partnership	(6)	-	(15)	-
Unrecognized temporary differences	318	260	1,160	489
Unrecognized (recognized) tax losses	506	508	(1,677)	710
Income tax expense	\$ -	\$ -	\$ -	\$ -

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and six months ended June 30, 2015 and 2014

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

12 Earnings per Share

The Company had 3,000 stock options and 2,375,000 RSUs outstanding at June 30, 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 and six months ended June 30, 2015 and 2014 as they were anti-dilutive. The RSUs were excluded in the calculation of diluted earnings per share for the three and six months ended June 30, 2015 as they were anti-dilutive.

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 June 30, 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 June 30, 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 June 30, 2015 by approximately \$18,163 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 June 30, 2015 by approximately \$3,155. A similar weakening of the U.S. dollar would have resulted in an opposite effect.

The Westaim Corporation

Notes to Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2015 and 2014

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

14 Financial Risk Management (continued)

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.

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.



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