

The Westaim Corporation Reports 2010 Third Quarter Results

Toronto, Canada – November 10, 2010 – The Westaim Corporation (“Westaim”) today announced it recorded net income of \$5.7 million, or \$0.01 per share for the quarter ended September 30, 2010, compared to a net loss of \$0.2 million or \$0.00 loss per share for the quarter ended September 30, 2009. For the nine months ended September 30, 2010, Westaim recorded net income of \$35.2 million, or \$0.08 per share, compared to a net loss of \$4.1 million or \$0.04 loss per share for the nine months ended September 30, 2009. Net income for the first nine months of 2010 includes a gain on the purchase of JEVCO Insurance Company (“Jevco”) of \$25.1 million, \$24.9 million of which was recorded in the first and second quarters of 2010. As of September 30, 2010, Westaim’s Consolidated Shareholders’ Equity increased to \$365.3 million or \$0.57 per share compared to \$49.4 million or \$0.52 per share at December 31, 2009.

Westaim’s acquisition of Jevco closed on March 29, 2010. As a result, Westaim consolidated the results of Jevco beginning in the second quarter of 2010. Jevco is a Canadian open market specialty insurer offering products through two divisions. The Personal Lines Division provides insurance in the non-standard automobile, standard automobile, motorcycle and recreational vehicles product lines. The Commercial Lines Division offers property and liability, niche commercial automobile and surety product lines.

In the third quarter, direct premiums written were \$83.6 million and net premiums written were \$77.2 million. Net premiums earned in the third quarter of 2010 were \$88.5 million producing a Combined Ratio of 97.5%. For the nine months ended September 30, 2010 (reflecting six months of Jevco results) direct premiums written were \$201.3 million and net premiums written were \$189.0 million. Net premiums earned for the nine months were \$167.1 million producing a Combined Ratio of 96.9%.

Total assets for Westaim at September 30, 2010 were \$1.3 billion, compared to \$72.6 million as of December 31, 2009. The increase represents the acquisition of Jevco and the \$275 million equity financing, both completed in the first quarter of 2010. At September 30, 2010, the Company’s investment portfolio of \$1,040.1 million was invested predominantly in corporate and government bonds which produced net investment income and net realized investment gains of \$11.8 million and net unrealized investment gains of \$9.7 million for the third quarter. Financed premiums income of \$0.6 million was included in net investment income. For the nine months ended September 30, 2010, net investment income and net realized gains were \$23.6 million and net unrealized gains were \$20.5 million.

“The March 29, 2010 acquisition of Jevco is operating well and producing the expected results. Our underwriting performance and increased book value was achieved despite the accelerated claims costs related to the Ontario automobile product line” said Cameron MacDonald, Chief Executive Officer of Westaim. “The new provincial legislative changes that became effective September 1, 2010 are expected, in time, to improve the operating results of our Personal Lines. Westaim’s financial strength remains solid and we are positioned to respond to opportunities and execute our business plan.”

Jevco completed the third quarter with an MCT ratio of 305% and a B++ credit rating from AM Best.

Westaim is a financial holding company which is focused on the property and casualty insurance industry. Westaim’s common shares are listed on The Toronto Stock Exchange under the trading symbol WED.

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

THE WESTAIM CORPORATION

Financial Highlights

(unaudited)

(thousands of Canadian dollars except percentage, share and per share data)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---------------------------------|----------|--------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Direct premiums written | \$ 83,637 | \$ - | \$ 201,303 | \$ - |
| Net premiums written | \$ 77,226 | \$ - | \$ 188,983 | \$ - |
| Net premiums earned | \$ 88,535 | \$ - | \$ 167,089 | \$ - |
| Underwriting expenses | 86,444 | - | 162,032 | - |
| Underwriting income | 2,091 | - | 5,057 | - |
| Net investment income and net gain on sale of securities | 12,441 | 132 | 23,575 | 371 |
| Corporate costs and other | (1,116) | (589) | (3,889) | (2,738) |
| Site restoration provision recovery | - | 211 | 514 | 558 |
| Stock-based compensation expense | (1,847) | (145) | (3,916) | (521) |
| Gain on business acquisition | 217 | - | 25,084 | - |
| Costs of business acquisition | (1,266) | - | (2,900) | - |
| Non-controlling interest | - | (133) | - | 329 |
| Income (loss) from continuing operations before income taxes | 10,520 | (524) | 43,525 | (2,001) |
| Income taxes | 4,622 | - | 7,432 | - |
| Income (loss) from continuing operations | 5,898 | (524) | 36,093 | (2,001) |
| (Loss) income from discontinued operations, net of income taxes | (220) | 349 | (932) | (2,143) |
| Net income (loss) | \$ 5,678 | \$ (175) | \$ 35,161 | \$ (4,144) |
| Loss ratio | 71.2% | n/a | 70.9% | n/a |
| Expense ratio | 26.3% | n/a | 26.0% | n/a |
| Combined ratio | 97.5% | n/a | 96.9% | n/a |
| Earnings (loss) per common share | | | | |
| Continuing operations | | | | |
| - basic and diluted | \$0.01 | \$(0.01) | \$0.08 | \$(0.02) |
| Net income (loss) | | | | |
| - basic and diluted | \$0.01 | \$0.00 | \$0.08 | \$(0.04) |
| Book value per diluted common share | \$0.57 | \$0.52 | | |
| Weighted average number of common shares outstanding (in thousands) | | | | |
| - basic | 644,417 | 94,221 | 467,057 | 94,219 |
| - diluted | 645,206 | 94,221 | 468,569 | 94,219 |

| Consolidated Balance Sheets | September 30, 2010 | December 31, 2009 |
|--|--------------------|-------------------|
| Cash and cash equivalents | \$ 25,834 | \$ 62,423 |
| Investments | 1,040,070 | 9,231 |
| Other | 239,222 | 913 |
| Total assets | \$ 1,305,126 | \$ 72,567 |
| Total liabilities | \$ 939,787 | \$ 14,564 |
| Shareholders' equity | 365,339 | 49,419 |
| Non-controlling interest | - | 8,584 |
| Total liabilities and shareholders' equity | \$ 1,305,126 | \$ 72,567 |

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“Westaim” or “Company” in this Management’s Discussion and Analysis (“MD&A”) refer to The Westaim Corporation on a consolidated basis. This MD&A should be read in conjunction with Westaim’s unaudited interim consolidated financial statements including notes for the third quarter of fiscal 2010 and 2009, with the MD&A set out on pages 2 to 19 of the Company’s 2009 Annual Report and with the notes to the audited consolidated financial statements for fiscal 2009 set out on pages 25 to 47 of the Company’s 2009 Annual Report. Financial data in this MD&A has been derived from the unaudited interim consolidated financial statements for the nine months ended September 30, 2010 and 2009.

Westaim uses both generally accepted accounting principles (“GAAP”) and non-GAAP measures to assess performance. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under GAAP and are unlikely to be comparable to similar measures used by other companies. Westaim analyzes insurance operations performance based on operating income and loss ratios, expense ratios and combined ratios. The loss ratio equals net claims incurred divided by net premiums earned. The expense ratio equals the sum of commissions, premium taxes and general and administrative expenses divided by net premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio below 100.0% demonstrates underwriting profit whereas a combined ratio over 100.0% demonstrates an underwriting loss.

The following commentary is current as of November 10, 2010. Additional information relating to Westaim is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

Future Oriented Financial Information

This MD&A may contain forward looking statements that involve risks and uncertainties. The Company’s actual results could differ materially from these forward looking statements as a result of various factors, including those discussed hereinafter or in the Company’s 2010 Annual Information Form and 2009 annual MD&A. Please refer to the cautionary note at the end of this MD&A.

The Westaim Corporation
Management's Discussion and Analysis
Nine months ended September 30, 2010

1. THE COMPANY

Westaim is a financial services holding company that invests directly and indirectly through acquisitions, joint ventures and other arrangements, with the objective of providing its shareholders with capital appreciation and real wealth preservation.

The Company's strategic direction initiated in 2009 was to explore strategic alternatives to grow shareholder value. As part of this, the Company sold the assets and operations of Nucryst Pharmaceuticals Corp. ("Nucryst") in December 2009, which had been the last remaining material business operated by Westaim. With its cash on hand and the proceeds from the sale of Nucryst, Westaim's strategy was to pursue investment opportunities to grow shareholder value (as measured by book value per fully diluted share) over the long term.

On January 25, 2010, the Company announced that it had entered into an agreement to acquire all of the issued and outstanding shares of JEVCO Insurance Company ("Jevco") from Kingsway Financial Services Inc. (the "Acquisition") and had arranged equity financing of \$275 million for the purpose of completing the Acquisition (the "Financing"). The purchase price paid was approximately 94.5% of the book value of Jevco's net assets at December 31, 2009, subject to certain closing and other adjustments.

The Company's principal activities in the first quarter of 2010 were managing its investments, and completing the acquisition and financing of Jevco. Beginning in the second quarter of 2010, the Company's consolidated operating results include those of Jevco.

2. OVERVIEW OF PERFORMANCE

Jevco's operating results prior to the date of acquisition are not included in the Company's interim consolidated financial statements. The interim consolidated financial statements for the nine months ended September 30, 2010 include Jevco's operating results from the date of acquisition on March 29, 2010 to September 30, 2010.

| Highlights (\$millions except per share data) | Three months ended September 30 | | Nine months ended September 30 | |
|---|---------------------------------|----------|--------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Direct premiums written | \$ 83.6 | \$ - | \$ 201.3 | \$ - |
| Net premiums written | 77.2 | - | 189.0 | - |
| Net premiums earned | 88.5 | - | 167.1 | - |
| Underwriting expenses | 86.4 | - | 162.0 | - |
| Underwriting income | 2.1 | - | 5.1 | - |
| Investment results (income and net realized gains and losses) | 12.4 | 0.1 | 23.6 | 0.4 |
| Corporate costs and other | (1.1) | (0.6) | (4.0) | (2.7) |
| Site restoration provision recovery | - | 0.2 | 0.5 | 0.6 |
| Stock-based compensation | (1.8) | (0.1) | (3.9) | (0.5) |
| Other (expense) income, net | (1.1) | (0.1) | 22.2 | 0.2 |
| Income (loss) from continuing operations before income taxes | 10.5 | (0.5) | 43.5 | (2.0) |
| Income tax expense | (4.6) | - | (7.4) | - |
| Income (loss) from continuing operations | 5.9 | (0.5) | 36.1 | (2.0) |
| Income (loss) from discontinued operations, net of Income taxes | (0.2) | 0.3 | (0.9) | (2.1) |
| Net income (loss) | \$ 5.7 | \$ (0.2) | \$ 35.2 | \$ (4.1) |
| Net income (loss) per common share – basic and diluted | \$ 0.01 | \$ 0.00 | \$ 0.08 | \$ (0.04) |
| Book value per diluted common share | \$ 0.57 | \$ 0.52 | | |
| Loss ratio | 71.2% | n/a | 70.9% | n/a |
| Expense ratio | 26.3% | n/a | 26.0% | n/a |
| Combined ratio | 97.5% | n/a | 96.9% | n/a |

2. OVERVIEW OF PERFORMANCE (continued)

Consolidated Results – Three Months ended September 30, 2010

For the three months ended September 30, 2010, the Company reported consolidated net income of \$5.7 million compared to a consolidated net loss of \$0.2 million for the three months ended September 30, 2009. As a result of the sale of Nucryst's operations and assets, its financial results, balance sheet and cash flows are reported as discontinued operations in the interim consolidated financial statements for the three months ended September 30, 2010 and have been reclassified for the comparative three months ended September 30, 2009.

Income from continuing operations before income taxes was \$10.5 million for the three months ended September 30, 2010 compared to a loss of \$0.5 million for the same quarter in 2009. Underwriting income contributed \$2.1 million (2009 – \$nil), which is discussed below under the analysis of financial results, and investment income plus net realized investment gains contributed \$12.4 million (2009 – \$0.1 million). Refinements to the acquisition valuation of the Jevco assets during the quarter resulted in a further gain of \$0.2 million which was more than offset by an additional accrual of acquisition costs of \$1.3 million. Stock-based compensation costs were \$1.8 million (2009 – \$0.1 million) and corporate costs were \$1.1 million (2009 – \$0.6 million).

The loss from discontinued operations of \$0.2 million for the three months ended September 30, 2010 was \$0.5 million more compared to income of \$0.3 million for the three months ended September 30, 2009. Activity levels were nominal at both Nucryst and iFire Technology Ltd. ("iFire") in the third quarter of 2010.

Investment income and net realized gains of \$12.4 million for the quarter consist of \$7.4 million in income earned on portfolio investments, \$0.7 million in income related to financed insurance premiums and \$4.4 million of net realized investment gains.

Net unrealized investment gains of \$6.6 million, related to the available-for-sale investment portfolio, are excluded from net income and are included in other comprehensive income, net of income tax of \$2.0 million. In addition, net unrealized gains of \$3.2 million relating to the held-to-maturity investment portfolio are excluded from net income and other comprehensive income for the three months ended September 30, 2010.

Consolidated Results – Nine months ended September 30, 2010

For the nine months ended September 30, 2010, the Company reported consolidated net income of \$35.2 million compared to a consolidated net loss of \$4.1 million for the nine months ended September 30, 2009.

Income from continuing operations before income taxes was \$43.5 million for the nine months ended September 30, 2010 compared to a loss of \$2.0 million in the same period in 2009. The improvement in income from continuing operations resulted primarily from the gain on acquisition of Jevco of \$25.1 million, partially offset by the costs of the acquisition totaling \$2.9 million. The results for the nine months ended September 30, 2010 also benefited from underwriting income of \$5.1 million (2009 – \$nil), investment income and net realized gain on sale of investments of \$23.6 million (2009 – \$0.4 million). Stock-based compensation expense was \$3.9 million (2009 – \$0.5 million) and corporate costs were \$4.0 million (2009 – \$2.7 million).

The loss from discontinued operations of \$0.9 million for the nine months ended September 30, 2010 was \$1.2 million less than the loss of \$2.1 million for the nine months ended September 30, 2009.

The investment results of \$23.6 million included in net income for the nine months ended September 30, 2010 include a gain on sale and redemption of investments in the first quarter of \$4.0 million.

Net unrealized investment gains of \$15.2 million, related to the available-for-sale investment portfolio, are excluded from net income and are included in other comprehensive income, net of income tax of \$4.6 million. In addition, net unrealized gains of \$5.3 million relating to the held-to-maturity investment portfolio are excluded from net income and other comprehensive income for the nine months ended September 30, 2010.

The Westaim Corporation
Management's Discussion and Analysis
Nine months ended September 30, 2010

3. INSURANCE COMPANY ACQUISITION

On March 29, 2010, the Company acquired all the issued and outstanding shares of Jevco at a purchase price of \$261.4 million. The purchase price was allocated to the estimated fair value of the net assets of Jevco on the acquisition date as follows:

| | | |
|--|----|---------|
| (\$ millions) | | |
| Cash | \$ | 15.7 |
| Investments | | 924.9 |
| Accrued investment income | | 10.0 |
| Financed premiums | | 52.2 |
| Claims recoverable from other insurers | | 27.2 |
| Accounts receivable and other assets | | 32.1 |
| Recoverable from reinsurers | | 47.3 |
| Deferred policy acquisition costs | | 29.5 |
| Future income taxes | | 8.6 |
| Capital assets | | 19.9 |
| Capital assets held for sale | | 34.6 |
| Intangible assets | | 1.3 |
| Accounts payable and accrued liabilities | | (9.6) |
| Income taxes payable | | (4.1) |
| Unearned premiums | | (138.1) |
| Unpaid claims and adjustment expenses | | (765.0) |
| Fair value of net assets on acquisition date | \$ | 286.5 |
| <hr/> | | |
| Purchase price paid | \$ | 261.4 |
| <hr/> | | |
| Gain on business acquisition | \$ | 25.1 |

The gain on business acquisition of \$25.1 million results from the shares of Jevco being acquired at a discount to the book value of its net assets. Refinements to the gain on business acquisition were made in the second and third quarter.

Capital assets held for sale with an estimated value of \$34.6 million included real estate and other assets held by Jevco as at the date of acquisition of Jevco. These assets were subsequently sold on June 15, 2010 for proceeds equal to their carrying value.

4. OVERVIEW OF INSURANCE COMPANY BUSINESS

Established in 1980, Jevco is a provider of property and casualty insurance that operates in Canada distributing its specialty insurance products through a network of independent brokers to both individual and commercial customers. Jevco's vision is to be a first choice specialty insurer while striving to become a recognized alternative to the large players in certain niche insurance markets where it believes it has, or can obtain, a sustainable competitive advantage. The insurance products offered consist of (a) non-standard automobile insurance, (b) insurance for recreational vehicles and motorcycles (c) standard automobile insurance in Quebec, (d) commercial automobile insurance, (e) property and liability insurance, and (f) surety products.

Personal Lines

Personal Lines include non-standard and standard automobile insurance and recreational vehicle insurance

Personal Automobile

Personal automobile lines include the run-off of the discontinued 'Kplus' product (which targeted insureds between the standard and non-standard markets) and the results from mandatory participation in provincial Facility Associations which provide automobile insurance coverage to individuals who are unable to purchase coverage in the voluntary market.

4. OVERVIEW OF INSURANCE COMPANY BUSINESS (continued)

The Company writes non-standard automobile insurance in the provinces of Ontario, Alberta and Quebec as well as standard automobile insurance in Quebec. Jevco began writing non-standard auto insurance in Ontario effective October 1, 2009 after assuming the policy liabilities of Kingsway General Insurance Company ("KGIC"), making it a leading writer of non-standard automobile insurance in Ontario.

Non-standard automobile insurance covers individuals who do not qualify for standard automobile insurance because of their payment history, driving record, vehicle type or other factors. Non-standard automobile insurance is accompanied by increased loss exposure, higher claims experience and higher incidence of consumer and service provider fraud. These factors are mitigated by higher premium rates and the tendency of high-risk individuals to own lower value automobiles and to purchase coverage at the minimum prescribed limits. When the driving records of non-standard drivers improve, they may qualify to obtain insurance in the standard market at lower premium rates. As a result, non-standard automobile insurance policies experience a lower retention rate than that of standard market risk policies.

Standard automobile insurance provides coverage for standard risk drivers of private passenger automobiles. Premiums for these policies are usually lower than premiums charged in the non-standard market for comparable coverage. The frequency and severity of accidents and other loss events are also typically lower.

Motorcycle and Recreational Vehicles

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

Effective October 1, 2009, Jevco assumed policy liabilities associated with KGIC's motorcycle business in Ontario and Alberta. Also, on the same date, Jevco implemented underwriting and pricing methodology consistent with Jevco standards for all KGIC policy renewals in an effort to maintain Jevco's historic underwriting profitability for this business.

Commercial Lines

Commercial Lines include surety, automobile, property and liability insurance as well as the run-off of discontinued long haul trucking and home warranty lines.

Surety

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

Commercial Automobile

The Company focuses on specialty or niche types of products such as taxi, driver training, light commercial business vehicles, short haul or trans-Canada trucking risks and other specialty risks such as sand and gravel, logging and tow trucks. Its strategy is to operate as a niche underwriter of classes that are more difficult to underwrite, and of which it has considerable experience

Property and Liability

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

The Westaim Corporation
Management's Discussion and Analysis
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5. ANALYSIS OF FINANCIAL RESULTS

Jevco's results prior to the date of acquisition are not included in the Company's interim consolidated financial statements. The interim consolidated financial statements for the nine months ended September 30, 2010 include results from insurance operations of Jevco from the date of acquisition on March 29, 2010 to the end of September 30, 2010.

5.1 Underwriting Income

Details of premiums and underwriting income by lines of business are as follows:

| (millions) | Three months ended September 30, 2010 | | | Nine months ended September 30, 2010 | | |
|----------------------------|---------------------------------------|------------------|---------|--------------------------------------|------------------|----------|
| | Personal Lines | Commercial Lines | Total | Personal Lines | Commercial Lines | Total |
| Direct premiums written | \$ 61.8 | \$ 21.8 | \$ 83.6 | \$ 154.1 | \$ 47.2 | \$ 201.3 |
| Net premiums written | 57.3 | 19.9 | 77.2 | 145.8 | 43.2 | 189.0 |
| Net premiums earned | 68.5 | 20.0 | 88.5 | 127.2 | 39.9 | 167.1 |
| Underwriting expenses | 74.5 | 11.9 | 86.4 | 137.8 | 24.2 | 162.0 |
| Underwriting (loss) income | \$ (6.0) | \$ 8.1 | \$ 2.1 | \$ (10.6) | \$ 15.7 | \$ 5.1 |
| Loss ratio | 85.7% | 21.8% | 71.2% | 85.2% | 25.3% | 70.9% |
| Expense ratio | 23.0% | 37.5% | 26.3% | 23.1% | 35.4% | 26.0% |
| Combined ratio | 108.7% | 59.3% | 97.5% | 108.3% | 60.7% | 96.9% |

Underwriting income for the three months ended September 30, 2010 was \$2.1 million (\$5.1 million year-to-date), producing a loss ratio of 71.2% (70.9% year-to-date) and an expense ratio of 26.3% (26.0% year-to-date). Personal Lines produced an underwriting loss of \$6.0 million for the three months ended September 30, 2010 (\$10.6 million year-to-date) which was more than offset by underwriting income of \$8.1 million in Commercial Lines (\$15.7 million year-to-date).

Personal Lines

The underwriting loss in Personal Lines of \$6.0 million for the three months ended September 30, 2010 (\$10.6 million year-to-date) is primarily due to difficult underwriting conditions in Ontario (particularly the Greater Toronto Area) non-standard automobile insurance, driven largely by a frequency increase in accident benefit claims. Automobile insurance reform legislation intended to control costs of accident benefit claims was introduced in Ontario on September 1, 2010. Management has taken a number of steps to address the losses on this line of business including a review of underperforming programs, commission reduction in certain territories as well as the termination of non-profitable business. In July 2010, a 10% rate increase was granted to be effective October 1, 2010 for new business and November 1, 2010 for renewal business. Motorcycle and recreational vehicle business is performing well although increased competition has resulted in premium volumes being lower than previously expected. There has also been unfavourable development on the legacy KGIC motorcycle business which is in run-off.

Commercial Lines

Commercial Lines produced an underwriting profit of \$8.1 million for the three months ended September 30, 2010 (\$15.7 million year-to-date) mainly due to favourable development in the run-off lines and underwriting profit generated from the surety operations. The year-to-date results were also favourably impacted by the mild weather which contributed to the favourable combined ratio.

The expense ratio for Commercial Lines is significantly higher when compared to Personal Lines as commissions paid on commercial business are higher, and a higher level of underwriting expertise required on commercial products typically results in higher salary costs.

The Westaim Corporation
Management's Discussion and Analysis
Nine months ended September 30, 2010

5. ANALYSIS OF FINANCIAL RESULTS (continued)

5.2 Investment income and net realized and unrealized gains

| (millions) | Three months ended September 30, 2010 | | | Nine months ended September 30, 2010 | | |
|--------------------------------|---------------------------------------|---------|-------------------|--------------------------------------|---------|-------------------|
| | Average portfolio | Return | Annualized return | Average portfolio | Return | Annualized return |
| Income net of expenses | | \$ 7.6 | 3.0% | | \$ 14.7 | 3.0% |
| Realized gains | | 4.2 | 1.7% | | 3.4 | 0.7% |
| Change in unrealized gains | | 9.7 | 3.8% | | 20.5 | 4.2% |
| Subtotal – Insurance portfolio | \$ 1,017.3 | 21.5 | 8.5% | \$ 974.3 | \$ 38.6 | 7.9% |
| Financed premiums income | | 0.6 | | | 1.3 | |
| Other investments | | - | | | 4.0 | |
| Other interest | | - | | | 0.2 | |
| | | \$ 22.1 | | | \$ 44.1 | |

On the investment portfolio backing the insurance operations, investment income net of expenses was \$7.6 million for the three months ended September 30, 2010 (\$14.7 million year-to-date) resulting in an annualized yield of 3.0% for the quarter and year-to-date. The portfolio is heavily concentrated in short duration, high quality fixed income securities to protect the portfolio from the impact of rising yields and further rate increases from the Bank of Canada.

On the investment portfolio backing the insurance operations, realized gains of \$4.2 million for the three months ended September 30, 2010 (\$3.4 million year-to-date) arose primarily on the sale of longer duration fixed income securities to crystallize gains where yields on certain positions were concluded to be lower than the fundamentals supported and to position the portfolio more defensively in anticipation of higher yields. Significant foreign and domestic buying of Canadian bonds continued in the current quarter as pessimism about global growth prospects and the possible implementation of additional monetary easing in the U.S. made high quality Canadian bonds more attractive relative to other asset classes. These factors, partially offset by gains crystallized, resulted in an increase in unrealized gains on the investment portfolio backing the insurance operations by \$9.7 million for the three months ended September 30, 2010 (\$20.5 million year-to-date).

In the first quarter of 2010, the Company sold an investment in a U.S. management software and service company for proceeds of \$2.2 million. As the Company had previously written off the investment for accounting purposes, this amount was reported as a realized gain. In addition, the Company disposed of most of its other investments for additional realized gains of \$1.8 million. Most of the proceeds from the sale of these investment assets were used to make an additional capital contribution to Jevco.

5.3 Corporate Costs

Corporate costs for the three months ended September 30, 2010 of \$1.1 million (\$3.9 million year-to-date) increased by \$0.5 million over the comparative three months in 2009 (\$1.2 million year-to-date increase over 2009) mainly as a result of the revised management services agreement with Goodwood Management Inc. ("Goodwood") discussed under Section 10 "Related Party Transactions" of this MD&A.

5.4 Stock-based compensation

Stock-based compensation expense of \$1.8 million for the quarter (\$3.9 million year-to-date) increased by \$1.7 million over the comparative three months in 2009 (\$3.4 million year-to-date increase over 2009) due to the issuance of restricted share units to Goodwood, deferred share units to non-executive members of the board of directors of the Company in lieu of fees, and to officers and employees (see Note 10 of the unaudited interim consolidated financial statements).

5. ANALYSIS OF FINANCIAL RESULTS (continued)

5.5 Other (expense) income, net

Other income of \$22.2 million for the nine months ended September 30, 2010 includes the gain on business acquisition of Jevco of \$25.1 million discussed in Section 3 "Insurance Company Acquisition" of this MD&A, partially offset by related acquisition costs of \$2.9 million. During the three months ended September 30, 2010, additional contingent expenses related to the Jevco acquisition of \$1.1 million were determined, based on Jevco results, to be appropriately accrued and expensed. This contingent expense had previously been reported in the Company's contingency note to the interim consolidated financial statements for the first and second quarters of 2010.

5.6 Income Taxes

Current income tax expense of \$4.7 million for the three months ended September 30, 2010 (\$6.3 million year-to-date) and future income tax recovery for the three months ended September 30, 2010 of \$0.1 million (\$1.1 million expense year-to-date) related to the operating results of Jevco as the Company continued to provide a full valuation allowance against the future income tax assets of other entities within the consolidated group.

In the third quarter of 2010, the Company transferred iFire to Jevco and, as a result, the income tax losses of iFire, in the amount of approximately \$55.0 million, are expected to be available to offset Jevco's income for income tax purposes in future periods. A corresponding future income tax benefit of approximately \$16.0 million will be recognized in the Company's consolidated financial statements when proposed amendments to the relevant tax law are considered to be substantively enacted for accounting purposes, subject to an assessment of whether the future income tax asset is more likely than not to be realized at that time. For tax purposes, Jevco will be filing its tax returns as if the proposed amendments to the relevant tax law had been passed, in accordance with the administration position of Canada Revenue Agency.

5.7 Discontinued Operations

Westaim's former operating business segments, Nucryst and iFire, are presented as discontinued operations in the financial statements.

Nucryst Pharmaceuticals Corp.

In December, 2009, Nucryst sold all its operations and assets including all rights to its proprietary nanocrystalline silver technology for proceeds of \$29.3 million, net of transaction costs, taxes and termination amounts, resulting in a gain of \$10.9 million. On February 8, 2010, the Company completed a capital restructuring and the shares held by the non-controlling shareholders of Nucryst were repurchased for US\$8.2 million.

The loss at Nucryst for the three months ended September 30, 2010 was \$0.2 million compared to net income of \$0.5 million in the same period in 2009, and the loss for the nine months ended September 30, 2010 was \$0.8 million compared to \$1.4 million for the nine months ended September 30, 2009. Nucryst's loss for 2010 relates to operational wind down following the sale of the business, while the loss in 2009 reflects normal operating results.

iFire Technology Ltd.

The loss at iFire for the three months ended September 30, 2010 was nominal compared to \$0.2 million for the three months ended September 30, 2009 and for the nine months ended September 30, 2010 was \$0.8 million compared to \$0.8 million in the same period in 2009. Following the sale of the land and building previously used in iFire's former operations in November 2009, ongoing operating costs related to the maintenance of a leased building that has been partially sublet. This lease was assigned from iFire to Westaim Holdings Limited (formerly "Nucryst") in the second quarter of 2010.

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6. BALANCE SHEET ANALYSIS

The Company's consolidated balance sheet is comprised of the following assets and liabilities:

| (\$millions) | September 30, 2010 | December 31, 2009 |
|--|--------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 25.8 | \$ 62.4 |
| Investments | 1,040.1 | 9.2 |
| Financed premiums | 64.5 | - |
| Claims recoverable from other insurers | 33.0 | - |
| Recoverable from reinsurers | 40.6 | - |
| Deferred policy acquisition costs | 34.8 | - |
| Other assets | 66.3 | 0.9 |
| Total assets | 1,305.1 | 72.5 |
| Liabilities | | |
| Unearned premiums | 160.4 | - |
| Unpaid claims | 747.1 | - |
| Other liabilities | 32.3 | 14.5 |
| | 939.8 | 14.5 |
| Equity | | |
| Shareholders' equity | 365.3 | 49.4 |
| Non-controlling interest | - | 8.6 |
| Liabilities and equity | \$ 1,305.1 | \$ 72.5 |

6.1 Cash and cash equivalents

At September 30, 2010, the Company had consolidated cash and cash equivalents of \$25.8 million compared to \$62.4 million at December 31, 2009. Cash of \$13.5 million at September 30, 2010 was held by Jevco to support the insurance operations. See further discussion below in Section 9 "Liquidity and Capital Resources" of this MD&A.

6.2 Investments

The Company's investment portfolio of \$1,040.1 million at September 30, 2010 is comprised of investments held to support the insurance operations of \$1,039.6 million, discussed further below, and an additional investment of \$0.5 million in common shares held at cost. At December 31, 2009, the Company held investments of \$9.2 million comprised of short term investments of \$5.2 million and Master Asset Vehicle notes and related credit facility repayment option of \$4.0 million.

The Company manages its insurance operations investment portfolio of \$1,039.6 million to support the liabilities of its insurance operations, to preserve capital and to generate investment returns. The investment portfolio held is predominantly corporate and government bonds with relatively short durations. Investments are managed by third-party investment management firms and the Company monitors their performance and their compliance with both their individual mandate and the Company's investment policies and guidelines. The Company's investment guidelines stress preservation of capital and market liquidity to support payment of liabilities and diversification of risk.

Insurance companies must comply with applicable regulations that prescribe the type, quality and concentration of securities. These regulations permit investments in government, provincial, municipal and corporate bonds, and preferred and common equities, within specified limits and subject to certain qualifications.

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6. BALANCE SHEET ANALYSIS (continued)

| (\$millions) | September 30, 2010 | |
|--|--------------------|---------|
| Carrying value of investment portfolio: | | |
| Term deposits | \$ | 248.9 |
| Government bonds | | 190.0 |
| Corporate debt securities | | 510.3 |
| Mortgage and other asset backed securities | | 83.9 |
| | | 1,033.1 |
| Common shares | | 0.5 |
| Preferred shares | | 6.5 |
| | \$ | 1,040.1 |

Carrying value is fair value for available-for-sale securities and amortized cost for held-to maturity securities.

Management performs a quarterly analysis of securities holdings to determine if declines in market value are other-than-temporary. Impairment is charged to income if the fair value of a security falls below its cost/amortized cost, and the decline is considered other-than-temporary. Unrealized losses related to government bonds and term deposits as at September 30, 2010 were considered temporary as there was no evidence of default risk. Corporate bonds continued to pay interest and were not subject to material changes in their respective debt ratings. Management concluded that a default risk did not exist at the time and, therefore, the decline in value was considered temporary. As the Company has the capacity to hold these securities to maturity, no impairment provision was considered necessary. Additional information on the factors considered in establishing an other-than-temporary impairment on an investment security is discussed under Section 12 "Critical Accounting Estimates and Assumptions" of this MD&A and in Note 12 of the unaudited interim consolidated financial statements.

As at September 30, 2010, the net unrealized gain in the available-for-sale investment portfolio was \$15.2 million which equals the unrealized gain since acquisition of the portfolio on March 29, 2010. After income tax of \$4.6 million, a \$10.6 million net of tax increase in unrealized investment gains was included in other comprehensive income. Net unrealized gains on the held-to-maturity portfolio, which is reported at amortized cost on the consolidated balance sheet, were \$5.3 million as at September 30, 2010.

6.3 Financed Premiums

The financed premium asset at September 30, 2010 was \$64.5 million. Premiums are typically payable at the time of policy issue or renewal. The Company offers the option to pay in monthly installments. The insured pays an additional amount for this option, reflecting handling costs and foregone investment income to the Company.

6.4 Claims Recoverable from Other Insurers

Claims recoverable from other insurers totaled \$33.0 million at September 30, 2010. In accordance with the Insurance Act of Ontario (the "Act"), an insurance company has a right of indemnification for certain benefits paid to its own insured from the insurer of a third party at fault. The Act also provides for an arbitration process when the two insurers are not in agreement as to the amount of losses to be transferred. Claims recoverable from other insurers represent management's estimate of the amounts recoverable. Failure of other insurers to honour their obligations could result in losses to the Company.

6.5 Recoverable from Reinsurers

At September 30, 2010, amounts recoverable from reinsurers totaled \$40.6 million. The table below summarizes the credit exposure of the Company for amounts recoverable from reinsurers, by rating assigned by A.M. Best.

| (millions) | September 30, 2010 | |
|--|--------------------|------------|
| | Amount | Percentage |
| Financial strength ratings of reinsurers | | |
| A++ | \$ 2.8 | 7% |
| A+ | 5.8 | 14% |
| A | 31.8 | 78% |
| Not rated | 0.3 | 1% |
| | \$ 40.7 | 100% |

6. BALANCE SHEET ANALYSIS (continued)

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

6.6 Deferred Policy Acquisition Costs

At September 30, 2010, deferred policy acquisition costs were \$34.8 million. The Company defers brokers' commissions, premium taxes and other underwriting and marketing costs relating to the acquisition of premiums written to the extent they are considered recoverable. These costs are expensed as the related premiums are earned. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future claims and expenses to be incurred as premiums are earned. Anticipated investment income is considered in determining the realizable value of the deferred policy acquisition costs. Changes in estimates are reflected in the statement of operations in the period in which such estimates are updated.

6.7 Unearned Premiums

At September 30, 2010, the unearned premium liability was \$160.4 million. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the end of the period. The Company earns motorcycle premiums over the period of risk covered by each policy based on past experience and on all other lines evenly over the period covered by each individual insurance contract. A premium deficiency liability is established if the unearned premiums are determined to be less than estimated future claims and expenses less investment income during the period premiums are earned.

6.8 Provision for Unpaid Claims and Adjustment Expenses

At September 30, 2010, the provision for unpaid claims and adjustment expenses was \$747.1 million. The table below shows the provision for unpaid claims and adjustment expenses by Personal and Commercial Lines of business, gross and net. The net unpaid claims and adjustment expenses are net of both external reinsurance and amounts recoverable from other insurers which are presented as assets on the consolidated balance sheet.

| (millions) | Gross | Net |
|------------------|----------|----------|
| Personal Lines | \$ 475.0 | \$ 435.8 |
| Commercial Lines | 272.1 | 239.2 |
| | \$ 747.1 | \$ 675.0 |

A provision for unpaid claims and adjustment expenses includes several components: a provision for unpaid claims based on estimated liability on individual reported claims (more commonly known as case reserves), an estimated provision for claims that have not yet been reported and expected future development on case reserves, collectively known as the incurred but not reported claims provision ("IBNR"), an estimate of allocated loss adjustment expenses (primarily defense costs) and unallocated loss adjustment expenses (primarily the adjustment handling costs by claims personnel) expected to be incurred in the future. At September 30, 2010, the provision for unpaid claims and adjustment expenses of \$747.1 million was comprised of \$536.5 million related to case reserves and \$210.6 million related to IBNR.

The establishment of a provision for unpaid claims represents management's best estimate of the ultimate cost of both reported but unsettled claims and unreported claims utilizing actuarial and statistical procedures. The provision for unpaid claims represents the discounted estimates of the ultimate net cost of all unpaid claims and loss adjustment expenses plus provisions for adverse deviation. Establishing the provision for unpaid claims relies on the judgment and opinions of a large number of individuals, including the opinions of the external independent Appointed Actuary. Management regularly reviews its estimates and adjusts as experience develops and new information becomes available. In establishing the provision for unpaid claims, the Company also takes into account estimated recoveries, reinsurance, salvage and subrogation.

6. BALANCE SHEET ANALYSIS (continued)

Factors affecting the provision for unpaid claims include the continually evolving and changing regulatory and legal environments, actuarial studies, professional experience and the expertise of claims personnel and independent adjusters retained to handle individual claims. Changes in claims handling procedures and the individuals involved in the reserving process also affect the provision for unpaid claims. Quality of the data used for projection purposes, existing claims management practices (including claims handling and settlement practices), the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes, all affect the provision for unpaid claims.

Time is a critical part of the provision's determination, since the longer the span between the incidence of a loss and the payment or claim settlement, the more variable the ultimate settlement amount can be. Short-tailed claims, such as property claims, tend to be more predictable than long-tailed claims such as general liability and automobile accident benefit claims. The provision for unpaid claims is discounted to reflect the time value of expected future payouts of claims. Adjustments to estimates of the provision for unpaid claims are reflected in the consolidated statement of operations in the period in which they become known. Even after such adjustments, ultimate liability or recovery may exceed or be less than the revised estimates. A change that increases the provision for unpaid claims is known as an unfavourable development and will reduce net income.

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

7. REINSURANCE

For 2010, the Company has purchased reinsurance protection which limits the maximum amount on any one loss to \$1.75 million in the event of a liability claim to a maximum of \$20 million, and \$0.75 million in the event of a property claim to a maximum of \$5.0 million.

In addition, the Company has purchased property catastrophe reinsurance which provides coverage in the event of a series of claims arising out of a single occurrence. Reinsurance limits this exposure to \$2.5 million per occurrence to a maximum of \$25.0 million.

Management is in the process of reviewing its reinsurance program for 2011, taking into account risk tolerance, capital management and cost.

8. OUTLOOK

The March 29, 2010 acquisition of Jevco has produced results as expected for Westaim. Our year-to-date underwriting performance and increased book value was achieved despite the accelerated claims costs related to the Ontario automobile product line. The Company believes that several actions taken by management, along with the provincial legislative changes effective September 1, 2010 and a 10% premium rate increase effective October 1, 2010, should, in time, improve its Personal Lines operating results going forward. Jevco completed the third quarter financially strong, reporting a September 30, 2010 MCT ratio of 305%. The investment portfolio is composed of high quality fixed income securities consisting primarily of Government of Canada, Provincial and Corporate issuers.

Westaim's financial strength remains solid and is positioned to respond to opportunities and execute our business plan.

9. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

The Company manages its liquidity to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The Company believes it has the flexibility to obtain from internal sources the funds needed to fulfill its cash requirements during the following financial year and to satisfy regulatory capital requirements. The liquidity requirements of the Company's business are met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

Equity Financing

At closings held on February 9, 2010 and February 19, 2010, the Company issued and sold, on a private placement basis, an aggregate of 550 million subscription receipts at a purchase price of \$0.50 each for aggregate gross proceeds of \$275.0 million. Following the approval of shareholders at a special meeting on March 25, 2010 and the receipt of the necessary regulatory approvals, the Acquisition was completed on March 29, 2010 for a purchase price of \$261.4 million. Immediately prior to the closing of the Acquisition on March 29, 2010, the subscription receipts were automatically converted into 486,147,088 common shares and 63,852,912 Series 1 Class A non-voting, convertible participating preferred shares ("Series 1 Class A preferred shares") of the Company. In connection with the Financing, the Company also issued 10,000,000 warrants to purchase an equal number of Series 1 Class A preferred shares of the Company at an exercise price of \$0.50 per share. The proceeds of the Financing to the Company were \$265.1 million, net of transaction costs of \$9.9 million. The Financing is discussed in Note 9 to the Company's unaudited interim consolidated financial statements for the nine months ended September 30, 2010.

Regulatory Compliance

Jevco is regulated by the Office of the Superintendent of Financial Institutions Canada ("OSFI") and is required to maintain a level of capital sufficient to support the volume and risk profile of Jevco's business. Generally, OSFI requires insurers to achieve a ratio of at least 150% under a minimum capital test ("MCT") formula.

In connection with the Acquisition, the Company agreed that it would maintain liquid and unencumbered assets up to a maximum of \$20 million at the holding company level and, depending on Jevco's MCT ratio, this amount may not be required at all. On April 9, 2010, the Company injected \$48 million additional cash into Jevco and at September 30, 2010, the MCT ratio of Jevco was 305% which eliminates the requirement to maintain the \$20.0 million liquid and unencumbered assets.

Share Capital

At September 30, 2010 and November 10, 2010, the Company had 580,564,387 common shares and 63,852,912 Series 1 Class A preferred shares outstanding. At those dates, the Company also had 1,432,499 options and 25,775,225 RSUs outstanding, exercisable for common shares, and 10,000,000 warrants outstanding, exercisable for Series 1 Class A preferred shares.

10. RELATED PARTY TRANSACTIONS

In April 2009, the Company entered into a management services agreement ("MSA") with Goodwood, to manage the day-to-day affairs of the Company and to present strategic investment opportunities for the Board of Directors to consider.

Effective April 2010, the MSA was amended so that Goodwood will earn a fixed fee to be determined annually by an independent committee of the Board of Directors based on the recommendations of an independent compensation consultant. The amount of the fixed fee will be designed to compensate Goodwood for the time and attention of its officers and employees incurred in furtherance of the Company's business as well as for the office space, equipment, supplies and other facilities provided or made available by Goodwood to the Company. Goodwood will also be entitled to participate in an annual incentive bonus plan for the purpose of recognizing the contribution of Goodwood to the Company's business and affairs over the preceding year.

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10. RELATED PARTY TRANSACTIONS (continued)

Goodwood earned fees from the MSA of \$0.6 million for the three months ended September 30, 2010 (2009 – \$0.2) and \$1.3 million for the nine months ended September 30, 2010 (2009 – \$0.5 million).

In the second quarter of 2010, Goodwood was granted 25,775,225 RSUs which vest evenly over three years and are payable when fully vested with common shares of the Company.

11. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures (“DC & P”)

DC & P are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed with or submitted to various securities regulators is recorded, processed, summarized and reported within the time periods specified. This information is gathered and reported to the Company's management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), so that timely decisions can be made regarding disclosure.

The Company's management, under the supervision of, and with the participation of, the CEO and CFO, have designed and evaluated the Company's DC & P, as required in Canada by “National Instrument – 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings”. Based on this evaluation, the CEO and CFO have concluded that, as of September 30, 2010, the Company's DC & P were effective.

Internal Control over Financial Reporting (“ICFR”)

Designing, establishing and maintaining adequate ICFR is the responsibility of the Company's management. ICFR is a process designed by, or under the supervision of, senior management, and effected by the Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). Management is responsible for establishing and maintaining ICFR and has designed such controls to ensure that the required objectives of these internal controls have been met. Management uses the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company regularly reviews and enhances its systems of controls and procedures. However, because of the inherent limitations in all control systems, management acknowledges that ICFR will not prevent or detect all misstatements due to error or fraud. Prior to its release, this quarterly report to shareholders was reviewed by the Audit Committee and, on the Audit Committee's recommendation, approved by the Company's Board of Directors, consistent with prior quarters.

There were no changes in the Company's ICFR that occurred during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, ICFR.

As of September 30, 2010, the CEO and the CFO of the Company have evaluated the effectiveness of the Company's ICFR. Based on those evaluations, the CEO and CFO have concluded that at September 30, 2010, the controls and procedures were operating effectively. There are no material weaknesses that have been identified by management in this regard.

With the acquisition of Jevco on March 29, 2010, the Company's certifying officers have limited the scope of design of DC&P and ICFR to exclude the controls, policies and procedures of Jevco, which is consolidated in the unaudited interim financial statements of the Company. With the work currently underway, the Company's certifying officers expect to remove this limitation within the timeframe permitted by regulation.

12. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Preparation of financial statements in conformity with GAAP 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.

Provision for Unpaid Claims and Adjustment Expenses

Significant judgment is required to determine amounts recorded in the interim consolidated financial statements for the provision for unpaid claims. The process for establishing the provision for unpaid claims reflects the uncertainties and significant judgmental factors inherent in predicting future results of both known and unknown claims. As such, the process is inherently complex and imprecise and estimates are constantly refined. The process of establishing the provision for unpaid claims relies on the judgment and opinions of a large number of individuals, including the opinions of the external independent Appointed Actuary. Further information regarding estimates used in determining the Company's provision for unpaid claims is discussed in Section 6 "Balance Sheet Analysis" of this MD&A and in Notes 15 and 16 to the unaudited interim consolidated financial statements for the nine months ended September 30, 2010.

Impairment of Investments

The establishment of an other-than-temporary impairment on an investment security requires a number of judgments and estimates. Management performs a quarterly analysis of the investment holdings to determine if declines in market value are other-than-temporary. Further information regarding analysis procedures used in determining impairment is discussed in Note 5 to the unaudited interim consolidated financial statements for the nine months ended September 30, 2010.

13. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Company's interim consolidated financial statements are prepared in accordance with Canadian GAAP and reported in Canadian dollars. The Company's accounting policies are disclosed in Note 2 to the 2009 audited annual consolidated financial statements and Note 1 to the unaudited interim consolidated financial statements for the nine months ended September 30, 2010. Significant accounting policies followed by Westaim specific to Jevco's results are described in Note 1 to the unaudited interim consolidated financial statements for the nine months ended September 30, 2010.

14. FUTURE ACCOUNTING PRONOUNCEMENTS

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in GAAP, as used by publicly accountable entities, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian publicly accountable entities will be required to start reporting under IFRS. Qualitative disclosure of the impact of the transition is required in companies' 2009 and 2010 interim and annual Management Discussion and Analysis.

Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS. The Company's consolidated financial statements will be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011 and will include comparative information for the prior year.

IFRS uses a formal conceptual framework similar to that of Canadian GAAP, but there are some significant differences in recognition, measurement and disclosures that have been identified and will be addressed in the course of the project implementation.

A formal IFRS Project Charter and a detailed IFRS Project Plan ("Project Plan") were prepared by the Company during the Initial Assessment Phase of the Project, outlining the key elements and timing of its plan, and both were approved by the IFRS Steering Committee and the Audit Committee.

14. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

The Project Charter focuses on the purpose and objectives of the project, expectations and deliverables to key stakeholders, project scope and approach, milestone plan with expected completion dates, criteria and deliverables, significant project risks and mitigation actions, roles and responsibilities of the IFRS Project Steering and Implementation Committee, project management, issue resolution, and communication plan.

IFRS Project Plan

The Company Project Plan consists of four phases:

| Phase | Selected Key elements | Status |
|-----------------------------------|---|--|
| Phase 1 - Initial Assessment | • Establish project structure, including IFRS Steering and Implementation Committee; | • Completed |
| | • Prepare an IFRS project charter and project plan; | • Completed |
| | • Identify significant differences between the existing Canadian GAAP and IFRS and perform a high level impact assessment on the Company's financial statements | • Completed |
| Phase 2 - Detail Assessment | • Identify IFRS standards applicable to the Company and perform Canadian GAAP vs. IFRS accounting/disclosure gap analysis; | • Completed |
| | • Perform a detailed analysis of IFRS. Compare to the Company's accounting policies and document the results. Identify required changes and make accounting policy choices, including those under IFRS 1, "First-Time adoption of IFRS". Conduct a high-level preliminary assessment of their impact; | • Completed for all key standards and significant policy choices (See Summary of Key Expected Changes hereafter). Standards with lower impact and requiring limited data collection are currently under assessment. |
| | • Determine process for approval of key decisions and project oversight; | • An Implementation and Steering Committee has been appointed to approve all significant policy decisions. The Audit Committee receives regular progress updates. |
| | • Identify required changes in internal control over financial reporting, information technology, disclosure controls and procedure and assess business impact; | • Completed for all key standards. |
| | • Comply with the regulatory reporting requirements (i.e. requirements by OSFI, FSCO and CSA) | • Completed through the interim and annual disclosures and through semi-annual IFRS progress report to OSFI. |
| Phase 3 - Solution Development | • Design and develop required changes in information technology, internal control over financial reporting, disclosure controls and procedures; | • No significant change is expected to the information technology, internal controls over financial reporting, disclosure controls and procedures. |
| | • Identify business impact of conversion, including effect on contracts, compensation arrangement and regulatory capital; | • Insurance contracts are being reviewed and no significant impact is expected as a result of conversion to IFRS. Compensation arrangements will be reviewed in the fourth quarter of fiscal year 2010. Effect on regulatory capital is currently under review in conjunction with OSFI requirements. |
| | • Prepare quarterly and year-end IFRS financial statement models; | • In progress |
| | • Design and provide training for the employees directly or indirectly associated with IFRS conversion | • Pending, training will be provided in the fourth quarter of fiscal year 2010. |
| Phase 4 - Implementation | • Implement IFRS accounting policies, perform data gathering and prepare IFRS opening balance sheet and comparative financial information, including additional disclosure and information; | • Data collection for opening balance sheet is in progress. Data collection for each quarter in fiscal year 2010 is intended to be performed shortly following the closing of each quarter under Canadian GAAP. A completed assessment of the impact of adopting IFRS will be performed later in fiscal year 2010, once data collection is completed. Process to track additional disclosure under IFRS will be developed and implemented in parallel with the preparation of the IFRS financial statement models. |
| | • Communicate impact of conversion to IFRS to external Stakeholders; | • Communication will continue to be made through annual and quarterly reports and through semi-annual IFRS progress report to OSFI. |
| | • Prepare quarterly and year-end IFRS financial statements | • To be prepared during fiscal year 2011. |

14. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

Summary of Key Expected Changes on Conversion to IFRS

The International Accounting Standards Board ("IASB") has a number of on-going projects on its agenda. The Company continues to monitor standards issued by the IASB, but does not expect these standards to be mandatory for its 2011 financial statements.

The following summary of key expected changes was completed with the expectation that the Company will apply IFRS as currently written at its transition date. However, the Company will make a final decision regarding early adoption of any new standards as they are issued by the IASB, taking into account OSFI's guidance on early adoption.

IFRS1 applies when an entity adopts IFRS for the first time. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. IFRS 1 also provides certain mandatory and optional exemptions to full retrospective application.

The significant optional exemptions that the Company expects to apply as well as the key changes in accounting policy which are expected to have significant impact with respect to the recognition and measurement of certain balance sheet and statement of operations items are explained within the relevant subject below.

| <u>Accounting policy</u> | <u>Key difference in accounting treatment</u> | <u>Potential key impacts</u> |
|---|--|--|
| Insurance Contracts (IFRS 4) <ul style="list-style-type: none"> • Transitional provision (IFRS 1 optional exception) | Under the exemption allowed by IFRS 1, the Company decided to apply the transitional provisions in IFRS 4 - <i>Insurance Contracts</i> which in effect will leave existing accounting policies for insurance contracts unchanged. | <u>Opening balance sheet and subsequent to transition:</u> As a result, no change is expected due to this election. |
| Property, Plant and Equipment (IAS 16) <ul style="list-style-type: none"> • Componentization | IFRS requires separate amortization of major components of assets. This requirement being less explicit under Canadian GAAP, the Company identified a greater number of major components that will be amortized separately under IFRS. | <u>Opening balance sheet:</u> No significant impact is expected <u>Subsequent to transition:</u> Subsequent depreciation expense will be different under IFRS. The Company has not yet completed its analysis of this item. |
| <ul style="list-style-type: none"> • Subsequent measurement | IFRS allows that property, plant and equipment may be subsequently measured using a "historical cost model" (similar to Canadian GAAP) or at a revalued "fair value". The Company elected to subsequently measure its Property, Plant and Equipment using a "historical cost model". | <u>Opening balance sheet:</u> No impact is expected. <u>Subsequent to transition:</u> Apart from componentization mentioned above, no impact is expected. |
| Business Combination (IFRS 3) <ul style="list-style-type: none"> • Transitional provision (IFRS 1 optional exception) | The Company will apply the business combinations exemption in IFRS 1 to all business combinations taking place prior to the transition date. Accordingly, the Company does not plan to restate its accounting for business combinations that took place prior to January 1, 2010. | <u>Opening balance sheet:</u> No impact is expected. |
| Shared-Based Payment (IFRS 2) <ul style="list-style-type: none"> • Transitional provision (IFRS 1 optional exception) | The Company has elected to apply IFRS 2 – Share-based Payments requirements for equity settled share based payments to awards which vest after the transition date. | <u>Opening balance sheet:</u> No impact is expected. |

The Westaim Corporation
Management's Discussion and Analysis
Nine months ended September 30, 2010

14. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

| Accounting policy | Key difference in accounting treatment | Potential key impacts |
|---|--|---|
| Financial Instruments (IAS 39) | | |
| <ul style="list-style-type: none"> Designation of financial assets and financial liabilities (IFRS 1 optional exception) | The Company will not apply this exemption to modify its investment designations at the transition date. Accordingly, existing financial instrument classifications under Canadian GAAP will be the same as those chosen for IFRS unless a change for IFRS is considered mandatory. | <u>Opening balance sheet:</u> No impact is expected as the Company does not expect to change its investment designations. |
| <ul style="list-style-type: none"> Foreign exchange ("FX") gains or losses on AFS Investments | Unrealized FX Gains or losses on investments designated as Available-for-sale should be recorded directly in net earning under IFRS rather than in Other Comprehensive Income as prescribed by Canadian GAAP. | <u>Opening balance sheet:</u> No impact is expected. <u>Subsequent to transition:</u> Higher net earning volatility is to be expected through the life of foreign currency Available-for-sale Investments under IFRS. |
| <ul style="list-style-type: none"> Impairment of financial assets | Under IFRS, there are some differences with Canadian GAAP with respect to assessing available-for-sale equity investments for as well as the timing of recognition of impairment losses. | <u>Opening balance sheet and subsequent to transition:</u> The Company has not yet completed its analysis of this item. |
| Provision, Contingent liabilities and Contingent Assets (IAS 37) | | |
| <ul style="list-style-type: none"> Provision for site restoration | The provision for site restoration, not being a legal obligation, was recognized as an environmental provision under Canadian GAAP. As such the provision was not subject to present value. According to IFRS, the expected cash outflow should be discounted for the time value of money. | <u>Opening balance sheet:</u> The Company has not yet completed its analysis of this item, but it is possible that the provision for site restoration will be reduced upon transition to IFRS due to the effect of discounting for the time value of money. <u>Subsequent to transition:</u> The increase in the obligation from the passage of time is charged to interest expense. |
| <ul style="list-style-type: none"> Provisions and Contingent liabilities | IFRS requires a provision to be recognized when it is probable (more likely than not) that an outflow or resource will be required to settle the obligation, while a higher threshold is used under Canadian GAAP. | <u>Opening balance sheet and subsequent to transition:</u> The Company has not yet completed its assessment of the impact. It is possible that additional provisions will be recognized under IFRS. |

The differences identified in this section are not an exhaustive list of the impacts of the transition to IFRS and changes could be made before the changeover. Furthermore, the disclosed impacts of the Company's conversion to IFRS reflect the Company's most recent assumptions, estimates and expectations, including its assessment of the IFRS standard expected to be applicable at the time of conversion. As a result of changes in circumstances, such as economic conditions or operations, and the inherent uncertainty from the use of assumptions, the actual impacts of the Company's conversion to IFRS may be different from those presented above.

15. FUTURE ORIENTED FINANCIAL INFORMATION

Certain portions of this MD&A, as well as other public statements by the Company, contain forward-looking statements. In particular, the words "strategy", "may", "will", "continue", "developed", "objective", "potential", "exploring", "could", "expect", "expected", "expects", "tends", "indicates", and words and expressions of similar import, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements concerning: strategies, alternatives and objectives to maximize value for shareholders; expectations and assumptions relating to the Company's business plan; the effect of adverse changes in equity markets or the Company's operations; the Company's ability to compete successfully in the insurance industry; expectations that the Company can continue to set its premiums at a level which produces an acceptable return compared to the risk assumed; the Company's ability to realize its investment objectives; the adequacy of the Company's provision for unpaid claims; the Company's ability to maintain its claims paying ratings; the Company's ability to obtain reinsurance with reliable carriers at acceptable rates; expectations regarding the Company's assets and liabilities; the Company's ability to retain key employees, customers and broker relationships; 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.

15. FUTURE ORIENTED FINANCIAL INFORMATION (continued)

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

The Company's actual results could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company's control, including but not limited to: (i) difficult economic conditions or a prolonged economic downturn may adversely affect the Company's business; (ii) the Company may not be able to realize its investment objectives or its liquid assets may prove to be insufficient to meet future obligations; (iii) the Company or the insurance industry generally may be subject to negative publicity; (iv) the highly competitive nature of the insurance industry; (v) the Company may be unable to maintain its claims paying ratings; (vi) the Company's business could be affected by political, regulatory, economic or other influences; (vii) the Company's provision for unpaid claims may be inadequate; (viii) the Company relies on independent brokers for much of its business; (ix) a majority of the Company's direct premiums written are concentrated in the non-standard automobile and recreational vehicle insurance markets; (x) rising reinsurance rates or a lack of available reinsurance may adversely affect the Company's business; (xi) risks related to litigation and regulatory actions; (xii) failure to comply with applicable insurance laws or regulatory requirements may adversely affect the Company's business; (xiii) the Company's business depends upon certain key employees; (xiv) the Company may have undisclosed liabilities; (xv) the Company may require significant additional funding; and (xvi) other risk factors set forth in the Company's Annual Report or Annual Information Form. Except as required by law, the Company disclaims any intention or obligation to revise forward-looking statements, whether as a result of new information, future developments or otherwise. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

The Westaim Corporation
Consolidated Balance Sheets
(unaudited)

| (thousands of Canadian dollars) | September 30 2010 | December 31 2009 |
|---------------------------------|----------------------|---------------------|
|---------------------------------|----------------------|---------------------|

ASSETS

| | | |
|--|---------------------|------------------|
| Cash and cash equivalents | \$ 25,834 | \$ 62,423 |
| Investments (notes 5 and 12) | 1,040,070 | 9,231 |
| Accrued investment income | 9,430 | - |
| Financed premiums | 64,501 | - |
| Claims recoverable from other insurers (note 14) | 33,013 | - |
| Accounts receivable and other assets | 28,186 | 248 |
| Current assets held for sale (note 3) | - | 665 |
| Recoverable from reinsurers (notes 15 and 16) | 40,646 | - |
| Deferred policy acquisition costs | 34,751 | - |
| Future income taxes (note 8) | 7,536 | - |
| Capital assets (note 6) | 19,574 | - |
| Intangible assets (note 7) | 1,585 | - |
| | \$ 1,305,126 | \$ 72,567 |

LIABILITIES

| | | |
|---|----------------|---------------|
| Accounts payable and accrued liabilities | \$ 16,583 | \$ 2,486 |
| Accounts payable and accrued liabilities held for sale (note 3) | - | 6,553 |
| Income taxes payable | 10,717 | - |
| Unearned premiums | 160,370 | - |
| Unpaid claims and adjustment expenses (notes 15 and 16) | 747,117 | - |
| Provision for site restoration | 5,000 | 5,525 |
| | 939,787 | 14,564 |

Commitments and contingencies (note 17)

SHAREHOLDERS' EQUITY

| | | |
|--|---------------------|------------------|
| Capital stock (note 9) | 691,435 | 426,282 |
| Warrants (note 9) | 1,900 | - |
| Contributed surplus | 11,839 | 8,734 |
| Accumulated other comprehensive income | 10,601 | - |
| Deficit | (350,436) | (385,597) |
| | 365,339 | 49,419 |
| Non-controlling interest (note 3) | - | 8,584 |
| | 365,339 | 58,003 |
| | \$ 1,305,126 | \$ 72,567 |

The Westaim Corporation

 Consolidated Statements of Operations and Comprehensive Income (Loss)
 (unaudited)

| (thousands of Canadian dollars except share and per share data) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|---------------------------------|-----------|--------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Direct premiums written | \$ 83,637 | \$ - | \$ 201,303 | \$ - |
| Premiums ceded | 6,411 | - | 12,320 | - |
| Net premiums written | \$ 77,226 | \$ - | \$ 188,983 | \$ - |
| Revenue | | | | |
| Net premiums earned | \$ 88,535 | \$ - | \$ 167,089 | \$ - |
| Net investment income | 8,059 | 91 | 16,159 | 198 |
| Net realized gain on sale of securities | 4,382 | 41 | 7,416 | 173 |
| | 100,976 | 132 | 190,664 | 371 |
| Expenses | | | | |
| Claims incurred | 63,151 | - | 118,444 | - |
| Commissions and premium taxes | 16,307 | - | 31,163 | - |
| General and administrative | 6,986 | - | 12,425 | - |
| | 86,444 | - | 162,032 | - |
| Operating income | 14,532 | 132 | 28,632 | 371 |
| Corporate costs and other | (1,116) | (589) | (3,889) | (2,738) |
| Site restoration provision recovery | - | 211 | 514 | 558 |
| Stock-based compensation expense (note 10) | (1,847) | (145) | (3,916) | (521) |
| Gain on business acquisition (note 2) | 217 | - | 25,084 | - |
| Costs of business acquisition (notes 2 and 17) | (1,266) | - | (2,900) | - |
| Non-controlling interest | - | (133) | - | 329 |
| | (4,012) | (656) | 14,893 | (2,372) |
| Income (loss) from continuing operations, before income taxes | 10,520 | (524) | 43,525 | (2,001) |
| Income taxes | | | | |
| Current | 4,709 | - | 6,332 | - |
| Future | (87) | - | 1,100 | - |
| | 4,622 | - | 7,432 | - |
| Income (loss) from continuing operations | 5,898 | (524) | 36,093 | (2,001) |
| (Loss) income from discontinued operations, net of income taxes (note 3) | (220) | 349 | (932) | (2,143) |
| Net income (loss) | \$ 5,678 | \$ (175) | \$ 35,161 | \$ (4,144) |
| Consolidated Statements of Comprehensive Income (Loss) | | | | |
| Net income (loss) | \$ 5,678 | \$ (175) | \$ 35,161 | \$ (4,144) |
| Other comprehensive income (loss) | | | | |
| Unrealized gains, net of income taxes | 4,591 | - | 10,601 | - |
| Unrealized loss on translation of net foreign operations | - | (267) | - | (70) |
| Total other comprehensive income (loss) | 4,591 | (267) | 10,601 | (70) |
| Comprehensive income (loss) | \$ 10,269 | \$ (442) | \$ 45,762 | \$ (4,214) |
| Earnings (loss) per common share (note 11) | | | | |
| Continuing operations - basic and diluted | \$ 0.01 | \$ (0.01) | \$ 0.08 | \$ (0.02) |
| Net income (loss) - basic and diluted | 0.01 | 0.00 | 0.08 | (0.04) |
| Weighted average number of common shares outstanding (in thousands) | | | | |
| Basic | 644,417 | 94,221 | 467,057 | 94,219 |
| Diluted | 645,206 | 94,221 | 468,569 | 94,219 |

The Westaim CorporationConsolidated Statements of Accumulated Other Comprehensive Income and Deficit
(unaudited)

| (thousands of Canadian dollars) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---------------------------------|--------------|--------------------------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| Consolidated Statements of Accumulated Other Comprehensive Income | | | | |
| Balance at beginning of period | \$ 6,010 | \$ 1,317 | \$ - | \$ 1,120 |
| Accumulated gains, net of income taxes, on available-for-sale investments | 4,591 | - | 10,601 | - |
| Foreign currency | - | (267) | - | (70) |
| Balance at end of period | \$ 10,601 | \$ 1,050 | \$ 10,601 | \$ 1,050 |
| Consolidated Statements of Deficit | | | | |
| Balance at beginning of period | \$ (356,114) | \$ (390,085) | \$ (385,597) | \$ (386,116) |
| Net income (loss) | 5,678 | (175) | 35,161 | (4,144) |
| Balance at end of period | \$ (350,436) | \$ (390,260) | \$ (350,436) | \$ (390,260) |

The Westaim Corporation
Consolidated Cash Flow Statements
(unaudited)

| (thousands of Canadian dollars) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|---------------------------------|-----------|--------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Operating activities | | | | |
| Income (loss) from continuing operations | \$ 5,898 | \$ (524) | \$ 36,093 | \$ (2,001) |
| Items not affecting cash | | | | |
| Net realized loss (gain) on sales of securities and assets | (4,260) | 41 | (7,577) | 173 |
| Future income taxes | (87) | - | 1,100 | - |
| Amortization of bond premiums | 1,835 | - | 3,442 | - |
| Amortization of capital and intangible assets | 451 | - | 1,061 | - |
| Stock-based compensation expense | 1,847 | 145 | 3,916 | 521 |
| Site restoration provision recovery | - | (211) | (514) | (558) |
| Gain on business acquisition | (217) | - | (25,084) | - |
| Changes in non-cash balances | | | | |
| Deferred policy acquisition costs | 1,823 | - | (5,245) | - |
| Unearned premiums | (11,225) | - | 22,292 | - |
| Unpaid claims | (4,582) | - | (17,858) | - |
| Net change in other non-cash balances | 10,899 | 917 | (222) | 750 |
| Cash provided from (used in) continuing operations | 2,382 | 368 | 11,404 | (1,115) |
| Cash (used in) provided from discontinued operations | (427) | 349 | (6,312) | (2,143) |
| Cash provided from (used in) operating activities | 1,955 | 717 | 5,092 | (3,258) |
| Investing activities | | | | |
| Purchase of investments | (624,623) | (151) | (1,355,343) | (2,131) |
| Proceeds from sale and redemption of investments | 613,561 | 85 | 1,268,435 | 757 |
| Purchase of capital assets | (946) | (86) | (2,153) | (379) |
| Proceeds from sale of capital assets | - | - | 34,808 | - |
| Business acquisition, net of cash acquired (note 2) | - | - | (245,713) | - |
| Proceeds from sale of discontinued operations | - | 1 | - | 1,409 |
| Cash used in investing activities | (12,008) | (151) | (299,966) | (344) |
| Financing activities | | | | |
| Issuance of capital stock, net of issuance cash costs (note 9) | - | - | 267,054 | - |
| Repurchase of shares from non-controlling interest (note 3) | - | - | (8,769) | - |
| Return of capital of subsidiary | - | - | - | (4,644) |
| Cash provided from (used in) financing activities | - | - | 258,285 | (4,644) |
| Effect of exchange rate changes on cash and cash equivalents | - | (193) | - | 40 |
| Net (decrease) increase in cash and cash equivalents | (10,053) | 373 | (36,589) | (8,206) |
| Cash and cash equivalents at beginning of period | 35,887 | 38,189 | 62,423 | 46,768 |
| Cash and cash equivalents at end of period | \$ 25,834 | \$ 38,562 | \$ 25,834 | \$ 38,562 |
| Cash and cash equivalents is comprised of: | | | | |
| Cash | \$ 25,834 | \$ 38,562 | \$ 25,834 | \$ 38,562 |
| Supplemental disclosure of cash flow information: | | | | |
| Interest paid | \$ - | \$ - | \$ 1 | \$ - |
| Income taxes | 103 | - | 4,733 | - |

The Westaim Corporation
Notes to Interim Consolidated Financial Statements for the nine months ended September 30, 2010
(unaudited)
(thousands of dollars except share and per share data)

These interim consolidated financial statements should be read in conjunction with the most recent audited annual consolidated financial statements of The Westaim Corporation (the "Company").

1 Significant Accounting Principles

These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), following the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the adoption of new accounting policies described below and those applicable to the Company's recently acquired business, Jevco Insurance Company ("Jevco"), the accounting principles of which comply with both GAAP and the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") and are disclosed in these interim consolidated financial statements. These interim consolidated financial statements do not include all disclosures that would be included in the Company's audited annual consolidated financial statements. All amounts are expressed in thousands of dollars except share and per share data.

Recently Adopted Accounting Pronouncements

Effective January 1, 2010, the Company early adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1582 "Business Combinations", together with Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Section 1582 requires business acquisitions (including non-controlling interests and contingent consideration) to be measured at the acquisition-date fair value, generally requires acquisition-related costs to be expensed and requires gains from bargain purchases to be recorded in earnings. Section 1582 was applied to the acquisition of Jevco (see Note 2).

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of Sections 1601 and 1602 resulted in non-controlling interest of \$8,584 at December 31, 2009 being presented as a component of equity, rather than as a liability, in the interim consolidated balance sheet. Also, on a prospective basis, net income and components of other comprehensive income attributable to the owners of the parent company and to non-controlling interests are required to be separately disclosed in the consolidated statements of operations and comprehensive income.

Future Accounting Pronouncements

The CICA has announced that Canadian GAAP for publicly accountable enterprise companies will be replaced with International Financial Reporting Standards ("IFRS") over a transitional period expected to end in 2011. The Company will begin reporting its financial statements in accordance with IFRS on January 1, 2011.

Significant Accounting Principles Specific to Jevco:

(a) 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, with the exception of cash equivalents designated as a component of the investment portfolio which are classified as investments.

(b) Investments

Available-for-sale fixed income and equity investments are carried at their fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income ("AOCI") until sale or other-than-temporary impairment is recognized, at which point cumulative unrealized gains or losses are transferred to net income. Realized gains and losses on sale, determined on an average cost basis, and write-downs to reflect other-than-temporary impairments in value are included in net income. Held-to-maturity investments are carried at amortized cost using the effective interest method.

The Company accounts for investments using settlement date accounting. Transaction costs are capitalized and, when applicable, amortized over the expected life of the instrument using the effective interest method. Interest income is included in investment income on an accrual basis. Dividend income on common and preferred shares is included in investment income on the ex-dividend date.

The Westaim Corporation

Notes to Interim Consolidated Financial Statements for the nine months ended September 30, 2010

(unaudited)

(thousands of dollars except share and per share data)

1 Significant Accounting Principles (continued)

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

(c) Deferred policy acquisition costs

The Company defers brokers' commissions, premium taxes and other underwriting and marketing costs relating to the acquisition of premiums written to the extent they are considered recoverable. These costs are then expensed as the related premiums are earned. Changes in estimates are reported as expenses in the accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs.

(d) Capital assets

Capital assets are reported at cost less accumulated depreciation and amortization. Depreciation and amortization of capital assets has been provided using the straight-line method over the estimated useful lives of such assets. The useful lives are 30 years for buildings, 5 years for leasehold improvements, 5 to 7 years for furniture and equipment, and 3 to 5 years for computers and automobiles.

(e) Intangible assets

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

(f) Premium revenue and unearned premiums

The Company earns motorcycle premiums over the period of risk covered by the policy based on its experience. The Company earns premium revenue on all other lines evenly over the period covered by each individual insurance contract. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the end of the period.

The reinsurers' share of unearned premiums is recognized as amounts recoverable using principles consistent with the Company's method for determining the unearned premium liability.

(g) Unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses includes adjustment expenses and represents an estimate of the full amount of all expected costs, including investigation, and the projected final settlements of claims incurred on or before the balance sheet date, including claims incurred but not reported by policy holders ("IBNR"). The provision takes into consideration the time value of money using discount rates based on projected investment income from the assets supporting the provisions and includes an explicit provision for adverse deviation. Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as amounts recoverable at the same time using principles consistent with the Company's method for establishing the related liability.

These estimates of future claims payments are subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in light of emerging claims experience and changing circumstances. The resulting changes in estimates of the ultimate liability are reported as incurred claims expenses in the accounting period in which they are determined.

The Westaim Corporation
Notes to Interim Consolidated Financial Statements for the nine months ended September 30, 2010
(unaudited)
(thousands of dollars except share and per share data)

1 Significant Accounting Principles (continued)

(h) Claims recoverable from other insurers

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

(i) Reinsurance ceded

Premiums earned and claims expenses are reported net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses are reported separately from related estimated amounts payable to policyholders. Unearned premiums and deferred policy acquisition costs are also reported before reduction for business ceded to reinsurers and the reinsurer's portion is classified with amounts recoverable from reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with liabilities associated with the reinsured policy.

(j) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Key areas where management has made difficult, complex or subjective judgments, often as a result of matters inherently uncertain include income taxes, unpaid claims and adjustment expenses and investment impairment. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

2 Business Acquisition

On January 25, 2010, the Company announced that it had agreed to acquire all of the issued and outstanding shares of Jevco from Kingsway Financial Services Inc. (the "Acquisition") and had arranged equity financing of \$275,000 for the purpose of completing the Acquisition (the "Financing").

Jevco, a federal property and casualty insurance company, was incorporated under the Insurance Companies Act on April 10, 1980, and is licensed in all provinces and territories in Canada to write all classes of insurance, other than life. Jevco specializes in providing insurance products covering non-standard auto, recreational vehicles, commercial auto, property and liability. Jevco also provides surety insurance primarily to participants in the Canadian construction industry.

At closings held on February 9, 2010 and February 19, 2010 in connection with the Financing, the Company issued and sold, on a private placement basis, an aggregate of 550,000,000 subscription receipts at a purchase price of \$0.50 each for aggregate gross proceeds of \$275,000. Following the approval of shareholders at a special meeting on March 25, 2010 and the receipt of the necessary regulatory approvals, the Acquisition was completed on March 29, 2010 for a purchase price of \$261,408. Immediately prior to the closing of the Acquisition on March 29, 2010, the subscription receipts were automatically converted into 486,147,088 common shares and 63,852,912 Series 1 Class A non-voting, convertible participating preferred shares of the Company. In connection with the Financing, the Company also issued 10,000,000 warrants to purchase an equal number of Series 1 Class A non-voting, convertible participating shares of the Company at an exercise price of \$0.50 per share. The warrants expire on February 9, 2013 (see Note 9).

Proceeds of the Financing to the Company were \$265,103, net of transaction costs of \$9,897, of which \$1,900 was non-cash and related to the valuation of the warrants issued. The future income tax asset relating to the transaction costs has been fully offset by a valuation allowance.

In accordance with CICA Handbook Section 1582, the difference between the purchase price of \$261,408 and the fair value of net assets of Jevco has been reported as a gain on business acquisition in these interim consolidated financial statements, as follows:

The Westaim Corporation
Notes to Interim Consolidated Financial Statements for the nine months ended September 30, 2010
(unaudited)
(thousands of dollars except share and per share data)

2 Business Acquisition (continued)

| | |
|---|------------|
| Net assets acquired at estimated fair value | |
| Cash | \$ 15,695 |
| Investments | 924,853 |
| Accrued investment income | 9,943 |
| Financed premiums | 52,243 |
| Claims recoverable from other insurers | 27,151 |
| Accounts receivable and other assets | 32,131 |
| Recoverable from reinsurers | 47,326 |
| Deferred policy acquisition costs | 29,506 |
| Future income taxes | 8,609 |
| Capital assets | 19,882 |
| Capital assets held for sale | 34,650 |
| Intangible assets | 1,312 |
| Accounts payable and accrued liabilities | (9,608) |
| Income taxes payable | (4,112) |
| Unearned premiums | (138,078) |
| Unpaid claims and adjustment expenses | (764,975) |
| Unearned reinsurance commissions | (36) |
| | \$ 286,492 |
| | |
| Purchase price paid - cash | \$ 261,408 |
| Gain on business acquisition – excess of fair value over purchase price | 25,084 |
| | \$ 286,492 |

The gain on business acquisition of \$25,084 resulted from the shares of Jevco being acquired at a discount to the book value of its net assets.

At closing of the Acquisition, the Company paid an amount of \$20,000 to be held in escrow in respect of some of the claims reserve for Jevco's insurance business existing at the time of closing. In the event that the related claims reserve development from December 31, 2009 until December 31, 2012 is adverse to Jevco, the purchase price will be reduced, to a maximum amount of \$20,000. No amount has been recognized by the Company with respect to these funds held in escrow.

The transaction costs in connection with the acquisition of Jevco amounted to \$2,900, consisting of consulting, legal, accounting, and investment advisory fees, and were expensed in these interim consolidated financial statements, in accordance with CICA Handbook Section 1582.

Management has used its best estimates in allocating the purchase price of the business acquisition to the fair value of the net assets acquired. In the third quarter of 2010, management has updated the estimated fair value of the net assets acquired based on the latest available information. The net adjustment totaled \$217, resulting in an increase in the gain on business acquisition from \$24,867 to \$25,084.

3 Discontinued Operations

Nucryst Pharmaceuticals Corp.

The Company's ownership in Nucryst Pharmaceuticals Corp. ("Nucryst") was 74.7% at December 31, 2009. On February 8, 2010, the Company completed a capital restructuring and the shares held by the non-controlling shareholders of Nucryst were repurchased for US\$8,202.

The Westaim Corporation

Notes to Interim Consolidated Financial Statements for the nine months ended September 30, 2010 (unaudited)

(thousands of dollars except share and per share data)

3 Discontinued Operations (continued)

The non-controlling interest amounted to a charge of \$133 for the three months ended September 30, 2009 and a recovery of \$329 for the nine months ended September 30, 2009. The Company reported a gain on the issuance of shares of \$11 for the nine months ended September 30, 2009 for shares issued by Nucryst in relation to its stock-based compensation plans.

The results of Nucryst's discontinued operations are as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|----------|-----------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Revenue | \$ - | \$ 6,672 | \$ - | \$ 17,644 |
| (Loss) income from discontinued operations, net of income taxes | \$ (212) | \$ 506 | \$ (782) | \$ (1,381) |

No depreciation or amortization expense was recorded for the nine months ended September 30, 2010. Loss from discontinued operations is net of depreciation and amortization expense of \$442 for the three months ended September 30, 2009 and \$1,337 for the nine months ended September 30, 2009. There was no income tax expense in the nine months ended September 30, 2010 or 2009.

Amounts included in the interim consolidated balance sheets relating to the Nucryst discontinued operations are as follows:

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| Current assets | \$ 5,361 | \$ 651 |
| Accounts payable and accrued liabilities | 548 | 6,137 |

iFire Technology Ltd.

The results of the discontinued operations of iFire Technology Ltd. ("iFire") are as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|----------|-----------------------------------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| Loss related to discontinued operations | \$ (8) | \$ (157) | \$ (150) | \$ (902) |
| Gain on sale of capital assets held for sale | - | - | - | 240 |
| Write-down of discontinued operations to fair value | - | - | - | (100) |
| Loss from discontinued operations net of income taxes | \$ (8) | \$ (157) | \$ (150) | \$ (762) |

There was no depreciation, amortization or income tax expense in the nine months ended September 30, 2010 or 2009.

Amounts included in the interim consolidated balance sheets relating to the iFire discontinued operations are as follows:

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| Current assets held for sale | \$ - | \$ 14 |
| Accounts payable and accrued liabilities held for sale | - | 416 |

Loss per common share from Nucryst and iFire discontinued operations for the three months ended September 30, 2010 was \$nil (2009 -- \$nil) and for the nine months ended September 30, 2010 was \$nil (2009 -- \$0.02).

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4 Gain on Sale and Redemption of Held-for-Trading Investments

The Company reported a gain on sale of Savvion, Inc. of \$2,185 in the first quarter of 2010 which is included in net realized gains on sale of securities. This investment was previously written-off for accounting purposes. An additional amount of US\$530 is being held in escrow for a period of 15 months as security for the satisfaction of any indemnification claims. A further gain will be recorded by the Company upon receipt of this amount held in escrow.

5 Investments

Summary

| | September 30, 2010 | December 31, 2009 |
|--|-----------------------|----------------------|
| Available-for-sale investments carried at fair value | \$ 941,068 | \$ - |
| Held-to-maturity investments carried at amortized cost | 98,502 | - |
| Held-for-trading investments carried at fair value | - | 9,231 |
| Available-for-sale investments carried at cost | 500 | - |
| | \$ 1,040,070 | \$ 9,231 |

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

| | September 30, 2010 | | | |
|-----------------------------|--------------------|------------------------------|-------------------------------|-------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair Value |
| Short-term investments | \$ 248,944 | \$ 3 | \$ 19 | \$ 248,928 |
| Canadian bonds: | | | | |
| - Government | 114,326 | 1,871 | 24 | 116,173 |
| - Corporate | 417,701 | 11,315 | 344 | 428,672 |
| - Mortgage backed | 16,646 | 468 | - | 17,114 |
| - Other asset backed | 66,524 | 320 | 46 | 66,798 |
| U.S. bonds - Corporate | 42,367 | 1,258 | - | 43,625 |
| Other bonds - Corporate | 13,285 | - | 7 | 13,278 |
| | 919,793 | 15,235 | 440 | 934,588 |
| Preferred shares - Canadian | 6,099 | 381 | - | 6,480 |
| | \$ 925,892 | \$ 15,616 | \$ 440 | \$ 941,068 |

The following table shows the amortized cost and fair value of held-to-maturity investments, carried at amortized cost:

| | September 30, 2010 | | | |
|-----------------|--------------------|------------------------------|-------------------------------|-------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Canadian bonds: | | | | |
| - Government | \$ 73,776 | \$ 4,275 | \$ - | \$ 78,051 |
| - Corporate | 24,726 | 1,013 | - | 25,739 |
| | \$ 98,502 | \$ 5,288 | \$ - | \$ 103,790 |

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5 Investments (continued)

The following table shows the amortized cost and fair value of held-for-trading investments, carried at fair value:

| | December 31, 2009 | | | |
|----------------------------------|-------------------|------------------------------|-------------------------------|-----------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Fair value |
| Short-term investments | \$ 5,264 | \$ - | \$ - | \$ 5,264 |
| MAV Notes | 7,902 | - | 4,165 | 3,737 |
| Credit facility repayment option | 230 | - | - | 230 |
| | <u>\$ 13,396</u> | <u>\$ -</u> | <u>\$ 4,165</u> | <u>\$ 9,231</u> |

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

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

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

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

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

As a result of the above analysis performed by management to determine declines in market value that are other-than-temporary, write-downs for other-than-temporary impairments were \$nil.

The MAV Notes and credit facility repayment option had a fair value of \$3,967 at December 31, 2009. The MAV Notes were sold in the second quarter of 2010 for \$4,750, and the corresponding revolving credit facility agreement with a financial institution was terminated.

The available-for-sale investments carried at cost consist of an investment in a private company. This equity investment is carried at cost as a quoted price in an active market does not exist. When there is objective evidence that the investment is impaired, and there is a decline in the recoverable amount below cost that is other-than-temporary, an impairment loss is recorded.

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6 Capital Assets

| | September 30, 2010 | | December 31, 2009 | |
|-------------------------|--------------------|--------------------------|-------------------|----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Land and buildings | \$ 17,828 | \$ 55 | \$ 17,773 | \$ - |
| Furniture and equipment | 1,526 | 132 | 1,394 | - |
| Computers | 751 | 404 | 347 | - |
| Automobiles | 70 | 10 | 60 | - |
| | \$ 20,175 | \$ 601 | \$ 19,574 | \$ - |

Amortization expense related to capital assets during the three months and nine months ended September 30, 2010 was \$187 and \$602, respectively.

7 Intangible Assets

| | September 30, 2010 | | December 31, 2009 | |
|----------------------|--------------------|--------------------------|-------------------|----------------|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Software development | \$ 2,044 | \$ 459 | \$ 1,585 | \$ - |

Amortization expense related to intangible assets during the three months and nine months ended September 30, 2010 was \$264 and \$459, respectively.

8 Income Taxes

The Company's net future income tax asset is comprised of:

| | September 30, 2010 | December 31, 2009 |
|--|--------------------|-------------------|
| Future income tax assets: | | |
| Tax benefit of loss carry-forwards and tax credits | \$ 56,043 | \$ 52,855 |
| Unpaid claims and adjustment expenses | 9,260 | - |
| Provisions and reserves | 1,975 | 3,151 |
| Other | 2,777 | 171 |
| Less valuation allowance | (60,902) | (56,177) |
| | 9,153 | - |
| Future income tax liabilities: | | |
| Investments | (326) | - |
| Capital, intangible and other | (1,291) | - |
| | (1,617) | - |
| Future income tax assets, net | \$ 7,536 | \$ - |

In August 2010, Jevco acquired iFire and as a result, the income tax losses of iFire, in the amount of approximately \$55,000, are expected to be available to offset Jevco's income for income tax purposes in future periods. A corresponding future income tax benefit of approximately \$16,000 will be recognized in the Company's consolidated financial statements when proposed amendments to the relevant tax law are considered to be substantively enacted for accounting purposes, subject to an assessment of whether the future income tax asset is more likely than not to be realized at that time.

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9 Capital Stock

The Company's authorized share capital consists of an unlimited number of common shares, Class A preferred shares and Class B preferred shares. For purposes of the Financing, on February 26, 2010, the Company amended its articles for the issuance of Series 1 Class A non-voting, convertible participating preferred shares ("Series 1 Class A preferred shares"). The Series 1 Class A preferred shares are entitled to dividends as the directors may declare, provided that an equal dividend is declared on the common shares, and rank equally with the common shares with respect to liquidation proceeds. The Series 1 Class A preferred shares are convertible into common shares, on a one to one basis, subject to any adjustments resulting from subdivision or consolidation of the common shares, provided that the conversion does not result in the holder owning common shares exceeding an ownership limit of 40%.

The Company's share capital at September 30, 2010 and December 31, 2009 is as follows:

| | September 30, 2010 | December 31, 2009 |
|-----------------------------------|-----------------------|----------------------|
| Common shares | \$ 660,651 | \$ 426,282 |
| Series 1 Class A preferred shares | 30,784 | - |
| | \$ 691,435 | \$ 426,282 |

Changes in the Company's common shares and Series 1 Class A preferred shares outstanding during the three months and nine months ended September 30, 2010 and September 30, 2009 are as follows:

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|--|---------------------------------|--------|----------------|-----------|--------------------------------|--------|----------------|-----------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Common shares (000) | Number | | Stated Capital | | Number | | Stated Capital | |
| Balance at beginning of period | 580,565 | 94,221 | \$660,651 | \$426,282 | 94,221 | 94,215 | \$426,282 | \$426,280 |
| Issued upon private placement (Note 2) | - | - | - | - | 486,147 | - | 234,319 | - |
| Options exercised | - | - | - | - | 197 | - | 50 | - |
| RSUs exercised | - | - | - | - | - | 6 | - | 2 |
| Balance at end of period | 580,565 | 94,221 | \$660,651 | \$426,282 | 580,565 | 94,221 | \$660,651 | \$426,282 |

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---------------------------------|------|----------------|------|--------------------------------|------|----------------|------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Series 1 Class A preferred shares (000) | Number | | Stated Capital | | Number | | Stated Capital | |
| Balance at beginning of period | 63,853 | - | \$30,784 | \$ - | - | - | \$ - | \$ - |
| Issued upon private placement (Note 2) | - | - | - | - | 63,853 | - | 30,784 | - |
| Balance at end of period | 63,853 | - | \$30,784 | \$ - | 63,853 | - | \$30,784 | \$ - |

To finance the Acquisition, the Company issued and sold, on a private placement basis, an aggregate of 550,000,000 subscription receipts for aggregate gross proceeds of \$275,000. Following the approval of shareholders at a special meeting on March 25, 2010 and the receipt of the necessary regulatory approvals, the Acquisition was completed on March 29, 2010. Immediately prior to the closing of the Acquisition on March 29, 2010, the subscription receipts were automatically converted into 486,147,088 common shares and 63,852,912 Series 1 Class A preferred shares. The proceeds of the Financing to the Company were \$265,103, net of transaction costs of \$9,897, of which \$1,900 was non-cash and related to the valuation of the warrants issued.

In connection with the Financing, 10,000,000 warrants were issued to purchase an equal number of Series 1 Class A preferred shares of the Company at an exercise price of \$0.50 per share. The fair value of the warrants at the time of issuance on February 9, 2010 was \$1,900 and was reported as a separate component of shareholders' equity. The fair value of the warrants was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.59% and a volatility of 30.0%. The warrants expire on February 9, 2013.

In the second quarter of 2010, 196,667 common shares were issued upon the exercise of 196,667 stock options. In the first quarter of 2009, 6,000 common shares were issued as settlement for 6,000 fully vested Restricted Share Units ("RSUs").

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10 Stock-based Compensation Plans

On April 12, 2010, the Board of Directors of the Company approved the adoption of a comprehensive long-term equity incentive plan (the "Incentive Plan"), ratified at the Company's annual general meeting of shareholders held on May 12, 2010, designed to combine the Company's prior equity incentive plans, being the Employee and Director Stock Option Plan, the Directors and Officers Share Purchase Program, the Restricted Share Unit Plan, and the Deferred Share Unit Plan, collectively, the "Prior Plans". All awards granted under the Prior Plans remain in full force and effect in accordance with their terms, however, no additional grants will be made under the Prior Plans. Under the Incentive Plan, the Company may grant share-based awards for an initial number of 63,858,049 common shares of the Company.

Stock Options – Changes to stock options for the three months and nine months ended September 30, 2010 and 2009 are as follows:

| | Three months ended | | Nine months ended | |
|------------------------------------|--------------------|-------|-------------------|---------|
| | September 30 | | September 30 | |
| Common share stock options (000) | 2010 | 2009 | 2010 | 2009 |
| Outstanding at beginning of period | 1,432 | 2,913 | 2,292 | 4,099 |
| Exercised | - | - | (197) | - |
| Expired and forfeited | - | - | (663) | (1,186) |
| Outstanding at end of period | 1,432 | 2,913 | 1,432 | 2,913 |

No stock options were granted in the nine months ended September 30, 2010 or 2009.

In the second quarter of 2010, 196,667 options with exercise prices ranging from \$0.22 to \$0.45 per share were exercised for 196,667 common shares.

Deferred Share Units – Deferred Share Units ("DSUs") are granted to non-executive Directors of the Company as well as officers and employees of Jevco and are issued at the market value of the Company's shares at the date of grant. Directors may elect to receive DSUs in lieu of fees, which are issued at the market value of the Company's shares at the date of grant (prior to June 30, 2010 were issued at 90% of the market value). DSUs issued to officers and employees of Jevco vest as to one-third on the first anniversary, one-third on the second anniversary and one-third on the third anniversary of their date of grant. Vested DSUs are paid out when the participant ceases to be a director, officer or employee.

Changes to DSUs for the three months and nine months ended September 30, 2010 and 2009 are as follows:

| | Three months ended | | Nine months ended | |
|------------------------------------|--------------------|-------|-------------------|---------|
| | September 30 | | September 30 | |
| DSUs (000) | 2010 | 2009 | 2010 | 2009 |
| Outstanding at beginning of period | 4,241 | 2,321 | 2,633 | 2,861 |
| Granted | 196 | 115 | 1,804 | 865 |
| Exercised | - | - | - | (1,290) |
| Outstanding at end of period | 4,437 | 2,436 | 4,437 | 2,436 |

Compensation recovery relating to DSUs for the three months ended September 30, 2010 amounted to \$48 (2009 – expense \$145) and compensation expense relating to DSUs for the nine months ended September 30, 2010 amounted to \$752 (2009 – \$521), and at September 30, 2010, a liability of \$1,818 (December 31, 2009 – \$1,066) has been accrued with respect to issued DSUs. In the second quarter of 2009, 1,290,128 DSUs were exercised and settled with a cash payment of \$355.

Restricted Share Units – RSUs vest over three years and are payable when fully vested with common shares of the Company. Compensation expense with respect to RSUs for the three months ended September 30, 2010 amounted to \$1,895 (2009 – \$nil) and for the nine months ended September 30, 2010 amounted to \$3,164 (2009 – recovery \$5). In the third quarter of 2009, no RSUs were settled. For the nine months ended September 30, 2009, 101,876 RSUs with a value of \$26 were settled with the issuance of 6,000 common shares of the Company and cash payments of \$25. There were 25,775,225 RSUs outstanding at September 30, 2010 (December 31, 2009 – nil).

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11 Earnings per Share

The Company uses the treasury stock method to calculate diluted earnings per share. Under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculation, as the assumed exercise of the Company's stock options and warrants does not result in an adjustment to income. The reconciliation of the denominator in calculating diluted earnings per share is as follows:

| (number of shares in thousands) | Three months ended | | Nine months ended | |
|--|--------------------|--------|-------------------|--------|
| | September 30 | | September 30 | |
| | 2010 | 2009 | 2010 | 2009 |
| Weighted average number of common shares and Series 1 Class A preferred shares outstanding | | | | |
| - basic earnings per share | 644,417 | 94,221 | 467,057 | 94,219 |
| Effect of dilutive securities | | | | |
| - warrants | 729 | - | 1,409 | - |
| - stock options | 60 | - | 103 | - |
| Weighted average number of common shares and Series 1 Class A preferred shares outstanding | | | | |
| - diluted earnings per share | 645,206 | 94,221 | 468,569 | 94,219 |

The Series 1 Class A preferred shares are considered in-substance common shares and have been included in the calculation of the weighted average number of common shares and Series 1 Class A preferred shares outstanding for purposes of the basic and diluted earnings per share computation.

Options to purchase 1,432,499 common shares were outstanding at September 30, 2010 (December 31, 2009 – 2,291,999) and warrants to purchase 10,000,000 Series 1 Class A preferred shares were outstanding at September 30, 2010.

12 Financial Instruments and Financial Risk Management

(a) Financial risk management objectives and policies

By virtue of the nature of Jevco's business activities, financial instruments make up the majority of the Company's interim consolidated balance sheet at September 30, 2010. The risks which arise from holding financial instruments include credit risk, market risk, liquidity risk and cash flow risk. The market risk exposure of the Company is primarily related to changes in interest rates, equity prices and foreign currency. These risks may be caused by factors specific to an individual instrument or factors affecting all instruments traded in the market. The Investment Committee of the Board and senior management of the Company monitor the Company's risk exposures and activities that give rise to these exposures. Jevco has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

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

Credit risk:

Jevco is exposed to credit risk principally through its investments and balances recoverable from reinsurers. Jevco monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of Canadian government bonds) as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. Jevco's credit exposure to any one individual policyholder is not material. Jevco has policies to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer's insolvency.

The tables below summarize the Company's credit exposure from its investments in fixed income securities by rating.

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12 Financial Instruments and Financial Risk Management (continued)

Available-for-sale fixed income portfolio (measured at fair value)

| DBRS Limited rating | September 30, 2010 | |
|---------------------|--------------------|--------|
| AAA | \$ 338,808 | 36.3% |
| AA | 261,830 | 28.0% |
| A | 275,907 | 29.5% |
| BBB | 56,794 | 6.1% |
| Non-rated | 1,249 | 0.1% |
| | \$ 934,588 | 100.0% |

Held-to-maturity fixed income portfolio (measured at amortized cost)

| DBRS Limited rating | September 30, 2010 | |
|---------------------|--------------------|--------|
| AAA | \$ 18,966 | 19.3% |
| AA | 65,923 | 66.9% |
| A | 13,613 | 13.8% |
| | \$ 98,502 | 100.0% |

At September 30, 2010, 93.8% of the Company's available-for-sale fixed income portfolio and 100.0% of held-to-maturity fixed income portfolio was rated "A" or better.

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

| A.M. Best rating | September 30, 2010 | |
|------------------|--------------------|--------|
| A++ | \$ 2,758 | 6.8% |
| A+ | 5,813 | 14.3% |
| A | 31,700 | 78.0% |
| B++ | 74 | 0.2% |
| Not rated | 301 | 0.7% |
| | \$ 40,646 | 100.0% |

Interest rate risk:

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

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

(i) An immediate hypothetical 100 basis point or 1 percent parallel increase in interest rates would decrease the market value of the available-for-sale fixed income securities by approximately \$23,800 at September 30, 2010, representing 2.5% of the \$934,600 fair value of the available-for-sale fixed income securities portfolio.

(ii) An immediate hypothetical 100 basis point or 1 percent parallel decrease in interest rates would increase the market value of the unpaid claims liabilities by approximately \$13,700 at September 30, 2010, representing 2.0% of the \$675,000 of net unpaid claims liabilities carried on the interim consolidated balance sheet.

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

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12 Financial Instruments and Financial Risk Management (continued)

- the securities in the Company's portfolio are not impaired;
- credit and liquidity risks have not been considered;
- interest rates and equity prices move independently; and
- shifts in the yield curve are parallel.

Foreign currency risk:

The Company holds U.S. dollar denominated provincial government bonds with a market value of \$21,500 at September 30, 2010. The Company is exposed to changes in the Canadian dollar value of its U.S. dollar denominated securities to the extent that the Canadian to U.S. dollar exchange rate changes. An increase in the value of the U.S. dollar relative to the Canadian dollar increases the market value of these holdings. A 1 cent increase in the value of the U.S. dollar increases the market value of these holdings by approximately \$200. The reverse is true during periods of a weakening U.S. dollar.

Equity price risk:

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

At September 30, 2010, management estimates that a 10% increase in prices of equity securities held as available-for-sale, with all other variables held constant, would increase comprehensive income before tax by approximately \$600. A 10% decrease in equity prices would have the corresponding opposite effect on comprehensive income. Equities comprise 0.7% of the fair value of the Company's available-for-sale investments portfolio at September 30, 2010.

Liquidity risk and cash flow risk:

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

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

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12 Financial Instruments and Financial Risk Management (continued)

| At September 30, 2010 | One year or less | One to five years | Five to ten years | More than ten years | No Specific Date | Total |
|---|---------------------|----------------------|----------------------|------------------------|------------------------|--------------|
| Assets: | | | | | | |
| Cash and cash equivalents | \$ 25,834 | \$ - | \$ - | \$ - | \$ - | \$ 25,834 |
| Investments (Available-for-sale) | 327,272 | 426,900 | 180,417 | - | 6,979 | 941,568 |
| Investments (Held-to-maturity) | - | - | 98,502 | - | - | 98,502 |
| Accrued investment income | 9,430 | - | - | - | - | 9,430 |
| Financed premiums | 64,501 | - | - | - | - | 64,501 |
| Claims recoverable | 33,013 | - | - | - | - | 33,013 |
| Accounts receivable and other assets | 28,186 | - | - | - | - | 28,186 |
| Recoverable from reinsurers | 12,995 | 23,225 | 4,117 | 309 | - | 40,646 |
| | \$ 501,231 | \$ 450,125 | \$ 283,036 | \$ 309 | \$ 6,979 | \$ 1,241,680 |
| Liabilities: | | | | | | |
| Accounts payable and accrued liabilities | \$ 16,583 | \$ - | \$ - | \$ - | \$ - | \$ 16,583 |
| Unpaid claims and adjustment expenses | 238,853 | 426,903 | 75,683 | 5,678 | - | 747,117 |
| | \$ 255,436 | \$ 426,903 | \$ 75,683 | \$ 5,678 | \$ - | \$ 763,700 |

The liquidity of the Company's investment portfolio is sufficient to generate cash to meet short term operational needs that are not met through cash flows from operations.

The coupon rates for the fixed term investments range from 1.1% to 12.2% at September 30, 2010. The average effective yield (using amortized cost and the contractual interest rates, adjusted for any amortization of premiums and discounts) is 3.0%.

(b) Fair value

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and are best evidenced by quoted market prices, if they exist. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. For the Company's financial instruments carried at cost or amortized cost, the book value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes as it is the Company's intention to hold them until there is a recovery of fair value, which may be to maturity.

The Company uses fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information (Level 3) in the valuation of the Company's investments at September 30, 2010 is as follows:

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12 Financial Instruments and Financial Risk Management (continued)

| Description | Fair value | Level 1 | Level 2 | Level 3 |
|---------------------------------|--------------|----------|--------------|---------|
| Available-for-sale investments: | | | | |
| Short-term investments | \$ 248,928 | \$ - | \$ 248,928 | \$ - |
| Fixed income investments: | | | | |
| Canadian bonds: | | | | |
| - Government | 116,174 | - | 116,174 | - |
| - Corporate | 428,672 | - | 427,772 | 900 |
| - Mortgage backed | 17,114 | - | 17,114 | - |
| - Other asset backed | 66,798 | - | 66,798 | - |
| U.S. bonds: | | | | |
| - Corporate | 43,624 | - | 43,624 | - |
| Other bonds: | | | | |
| - Corporate | 13,278 | - | 13,278 | - |
| Preferred investments: | | | | |
| - Canadian | 6,480 | 6,480 | - | - |
| | \$ 941,068 | \$ 6,480 | \$ 933,688 | \$ 900 |
| Held-to-maturity investments: | | | | |
| Fixed income investments: | | | | |
| Canadian bonds: | | | | |
| -Government | 78,051 | - | 78,051 | - |
| -Corporate | 25,739 | - | 25,739 | - |
| | \$ 1,044,858 | \$ 6,480 | \$ 1,037,478 | \$ 900 |

The provision for unpaid claims and adjustment expenses is based on the present value of future cash flows plus provisions for adverse development and is considered to be an indicator of fair value as there is no ready market for the trading of insurance policy liabilities. The carrying value of all other financial instruments approximates their fair value due to the short term to maturity of those financial instruments.

13 Capital Management

The Company's objectives when managing capital are:

- meeting regulatory requirements;
- maintaining strong credit rating; and
- maximizing shareholder value.

The Company's capital is comprised of its shareholders' equity. These funds are mainly invested in the equity of Jevco.

In order to achieve the Company's capital management objectives, it employs a strong and efficient capital base and manages capital in accordance with policies established by the Board of Directors. These policies relate to capital strength, capital mix, dividends and return on capital. The Company has a capital management process in place to measure, deploy and monitor its available capital to assess its adequacy on a continuous basis. Management develops the capital strategy and oversees the capital management processes. Capital is managed using both regulatory capital measures and internal metrics.

Jevco is regulated by OSFI and is required to maintain a level of capital sufficient to support the volume and risk profile of Jevco's business. Generally, OSFI requires insurers to achieve a ratio of at least 150% of a minimum capital test ("MCT") formula.

In connection with the Acquisition, the Company has agreed that it would maintain liquid and unencumbered assets up to a maximum of \$20,000 and depending on Jevco's MCT ratio, this amount may not be required at all. On April 9, 2010, the Company injected \$48,000 of additional share capital into Jevco and at September 30, 2010, the MCT ratio of Jevco was 305% which eliminates the requirement to maintain the \$20,000 liquid and unencumbered assets described earlier.

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14 Claims Recoverable from Other Insurers

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

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

15 Underwriting Policy and Reinsurance Ceded

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

Underwriting risk:

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

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

Pricing risk:

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

Reinsurance risk:

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

The amount recoverable from reinsurers is detailed as follows:

| At September 30, 2010 | |
|---------------------------------------|-----------|
| Unearned premiums | \$ 1,549 |
| Unpaid claims and adjustment expenses | 39,097 |
| | \$ 40,646 |

Jevco follows the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of Jevco to a maximum amount on any one loss.

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15 Underwriting Policy and Reinsurance Ceded (continued)

Jevco has purchased reinsurance protection which limits the maximum amount on any one loss to \$1,750 in the event of a liability claim, to a maximum of \$20,000 and \$750 in the event of a property claim, to a maximum of \$5,000. In addition, Jevco has purchased property catastrophe reinsurance which provides coverage in the event of a series of claims arising out of a single occurrence. The reinsurance limits this exposure to \$2,500 per occurrence, to a maximum of \$25,000.

16 Unpaid Claims and Adjustment Expenses

(a) Nature of unpaid claims and adjustment expenses

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include Jevco's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims and adjustment expenses, product mix or concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of Jevco's claim departments' personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability and automobile accident benefit claims.

The process of establishing the provision relies on the judgment and opinions of a large number of individuals, on historical precedents and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The provision reflects expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known together with a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

Variables in affecting the determination of the provision are the receipt of additional claim information and other internal and external factors, such as changes in claims handling procedures, economic inflation, legal and judicial trends, legislative changes, and inclusion of exposures not contemplated at the time of policy inception. Jevco's provision for claims is reviewed separately by, and must be acceptable to, internal actuaries at Jevco, and the independent appointed actuary.

(b) Provision for unpaid claims and adjustment expenses

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

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

The gross provision and estimates of amounts recoverable are as follows:

| At September 30, 2010 | | |
|--|--------------|------------|
| | Undiscounted | Discounted |
| Gross provision | \$ 732,468 | \$ 747,117 |
| Reinsurance recoverable and claims recoverable from other insurers | (73,475) | (72,109) |

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16 Unpaid Claims and Adjustment Expenses (continued)

An evaluation of the adequacy of policy liabilities is completed at the end of each financial quarter. This evaluation includes a re-estimation of the liability for unpaid claims and adjustment expenses relating to each preceding financial quarter compared to the liability that was originally established.

The change in the provision for unpaid claims and adjustment expenses is as follows:

| | Three months ended September 30, 2010 | Nine months ended September 30, 2010 |
|--|--|---|
| Balance at beginning of period, net | \$ 678,255 | |
| Balance at date of acquisition – March 29, 2010 | | \$ 691,649 |
| Provision for claims relating to: | | |
| - current period | 74,061 | 137,398 |
| - prior periods | (10,973) | (18,952) |
| Claims paid during the period | (66,335) | (135,087) |
| Unpaid claims at end of period, net | 675,008 | 675,008 |
| Reinsurers' share | 39,096 | 39,096 |
| Other insurers' share | 33,013 | 33,013 |
| Unpaid claims and adjustment expenses at end of period | \$ 747,117 | \$ 747,117 |

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

| At September 30, 2010 | |
|-----------------------|------------|
| Personal lines | \$ 475,053 |
| Commercial lines | 272,064 |
| | \$ 747,117 |

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

| At September 30, 2010 | |
|-----------------------|------|
| Personal lines | 76% |
| Commercial lines | 24% |
| | 100% |

17 Commitments and Contingent Liabilities

- (a) In connection with the Acquisition, the Company has agreed that it would maintain liquid and unencumbered assets up to a maximum of \$20,000 and depending on Jevco's MCT ratio, this amount may not be required at all. On April 9, 2010, the Company injected \$48,000 of additional share capital into Jevco and at September 30, 2010, the MCT ratio of Jevco was 305% which eliminates the requirement to maintain the \$20,000 liquid and unencumbered assets described earlier.
- (b) In connection with its operations, the Company is from time to time named as defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal damages or expenses in excess of amounts provided for. The Company does not believe that it will incur any significant additional loss or expense in connection with such actions.
- (c) Future minimum annual lease payments under operating leases for premises and equipment for the next five years and thereafter are:

| | |
|------------|-----------|
| 2010 | \$ 597 |
| 2011 | \$ 2,082 |
| 2012 | \$ 2,649 |
| 2013 | \$ 2,436 |
| 2014 | \$ 2,468 |
| Thereafter | \$ 29,859 |

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17 Commitments and Contingent Liabilities (continued)

- (d) The Company agreed to pay a third party a transaction fee related to the Acquisition contingent upon the future financial performance of Jevco, to a maximum of \$1,100 over three years. The full amount of \$1,100 in respect of this agreement was accrued and reported as a cost of business acquisition in the interim consolidated statement of operations for the three months ended September 30, 2010.
- (e) Jevco has purchased a number of annuities in settlement of claims. These annuities have been purchased from registered Canadian life insurers with high claims paying ability ratings as determined by outside rating organizations. Jevco has a contingent credit risk with respect to the failure of these life insurers which management has assessed as not being material.

18 Management Services Agreement

In April 2009, the Company entered into a management services agreement ("MSA") with Goodwood Management Inc. ("Goodwood") to manage the day-to-day affairs of the Company and to present strategic investment opportunities for the Board of Directors to consider. Effective April 2010, the MSA was amended so that Goodwood will earn a fixed fee to be determined annually by an independent committee of the Board of Directors based on the recommendations of an independent compensation consultant. The amount of the fixed fee will be designed to compensate Goodwood for the time and attention of its officers and employees incurred in furtherance of the Company's business as well as for the office space, equipment, supplies and other facilities provided or made available by Goodwood to the Company. Goodwood will also be entitled to participate in an annual incentive bonus plan for the purpose of recognizing the contribution of Goodwood to the Company's business.

For the three months ended September 30, 2010, Goodwood earned fees from the MSA of \$576 (2009 – \$232) and for the nine months ended September 30, 2010, Goodwood earned fees of \$1,334 (2009 – \$463). At September 30, 2010, fees of \$212 were included in accounts payable and accrued liabilities (December 31, 2009 – \$1,093).

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19 Segmented Information

The Company has one reportable segment which comprises the Company's property and casualty insurance business. All other includes corporate activities and the Company's discontinued operations.

| | Three Months Ended September 30, 2010 | | | Nine Months Ended September 30, 2010 | | |
|---|---------------------------------------|------------|--------------|--------------------------------------|-----------|---------|
| | Insurance segment | All other | Total | Insurance segment | All other | Total |
| Direct premiums written | \$ 83,637 | \$ - | \$ 83,637 | \$ 201,303 | \$ - | 201,303 |
| Premiums ceded | 6,411 | - | 6,411 | 12,320 | - | 12,320 |
| Net premiums written | \$ 77,226 | \$ - | \$ 77,226 | \$ 188,983 | \$ - | 188,983 |
| Revenue | | | | | | |
| Net premiums earned | \$ 88,535 | \$ - | \$ 88,535 | \$ 167,089 | \$ - | 167,089 |
| Net investment income | 8,031 | 28 | 8,059 | 16,029 | 130 | 16,159 |
| Net realized gain on sale of securities | 4,386 | (4) | 4,382 | 3,450 | 3,966 | 7,416 |
| | 100,952 | 24 | 100,976 | 186,568 | 4,096 | 190,664 |
| Expenses | | | | | | |
| Claims incurred | 63,151 | - | 63,151 | 118,444 | - | 118,444 |
| Commissions and premium taxes | 16,307 | - | 16,307 | 31,163 | - | 31,163 |
| General and administrative | 6,986 | - | 6,986 | 12,425 | - | 12,425 |
| | 86,444 | - | 86,444 | 162,032 | - | 162,032 |
| Operating income | 14,508 | 24 | 14,532 | 24,536 | 4,096 | 28,632 |
| Corporate costs and other | - | (1,116) | (1,116) | - | (3,889) | (3,889) |
| Site restoration provision recovery | - | - | - | - | 514 | 514 |
| Stock-based compensation expense | (104) | (1,743) | (1,847) | (165) | (3,751) | (3,916) |
| Gain on business acquisition | - | 217 | 217 | - | 25,084 | 25,084 |
| Costs of business acquisition | - | (1,266) | (1,266) | - | (2,900) | (2,900) |
| | (104) | (3,908) | (4,012) | (165) | 15,058 | 14,893 |
| Income (loss) from continuing operations, before income taxes | 14,404 | (3,884) | 10,520 | 24,371 | 19,154 | 43,525 |
| Income taxes | | | | | | |
| Current | 4,709 | - | 4,709 | 6,332 | - | 6,332 |
| Future | (87) | - | (87) | 1,100 | - | 1,100 |
| | 4,622 | - | 4,622 | 7,432 | - | 7,432 |
| Income (loss) from continuing operations | 9,782 | (3,884) | 5,898 | 16,939 | 19,154 | 36,093 |
| Loss from discontinued operations, net of income taxes | - | (220) | (220) | - | (932) | (932) |
| Net income (loss) | \$ 9,782 | \$ (4,104) | \$ 5,678 | \$ 16,939 | \$ 18,222 | 35,161 |
| Net income (loss) | | | | | | |
| Net income (loss) | \$ 9,782 | \$ (4,104) | \$ 5,678 | \$ 16,939 | \$ 18,222 | 35,161 |
| Other comprehensive income | | | | | | |
| Unrealized gains, net of income taxes | 4,591 | - | 4,591 | 10,601 | - | 10,601 |
| Total other comprehensive income | 4,591 | - | 4,591 | 10,601 | - | 10,601 |
| Comprehensive income (loss) | \$ 14,373 | \$ (4,104) | \$ 10,269 | \$ 27,540 | \$ 18,222 | 45,762 |
| Total assets as at September 30, 2010 | | | | | | |
| | \$ 1,291,695 | \$ 13,431 | \$ 1,305,126 | | | |