WESTAIM

Third Quarter Report to Shareholders
for the quarter ended September 30, 2012

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"Westaim" or the "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation on a consolidated basis. This MD&A, which has been approved by the Westaim Board of Directors, should be read in conjunction with Westaim's unaudited interim consolidated financial statements including notes for the nine months ended September 30, 2012 and 2011 as set out on pages 14 to 33 of this Quarterly Report. Financial data in this MD&A has been derived from the unaudited interim consolidated financial statements for the nine months ended September 30, 2012 and 2011 and is intended to enable the reader to assess Westaim's results of operations for the three and nine months ended September 30, 2012 and financial condition as at September 30, 2012. The Company reports its consolidated financial statements using accounting policies consistent with International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise indicated. The following commentary is current as of November 9, 2012. Additional information relating to Westaim is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

Non-GAAP measures
Westaim uses both IFRS and non-generally accepted accounting principles ("non-GAAP") measures to assess performance. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. Book value per share represents shareholders' equity at the end of the period, determined on an IFRS basis, divided by the total number of common shares plus convertible preferred shares outstanding on the same date.

Future Oriented Financial Information
This MD&A may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter or in the Company's 2011 Annual Information Form. Please refer to the cautionary note in Section 15 of this MD&A.

1. THE COMPANY

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

Until September 4, 2012, the Company held all the issued and outstanding shares of JEVCO Insurance Company ("Jevco"). Jevco is a leading Canadian property and casualty ("P&C") insurer that sells P&C products through a distribution network of over 2,000 independent brokers. Section 3, *Sale of Jevco* of this MD&A provides details of the disposition of Jevco on September 4, 2012.

2. OVERVIEW OF PERFORMANCE

Highlights (millions except per share data)	Three months ended September 30 2012	 2011	Nine months ended September 30 2012	 2011
Continuing operations				
Revenue	$ -	$ -	$ 0.2	$ 2.8
Corporate costs excluding share-based compensation	(5.7)	(1.0)	(12.3)	(3.6)
Share-based compensation	(10.7)	(1.1)	(20.3)	(4.5)
Loss from continuing operations	(16.4)	(2.1)	(32.4)	(5.3)
Discontinued operations				
Gain on sale of Jevco, net of income tax expense	108.1	-	106.7	-
Profit of discontinued operations, net of income tax expense	3.7	15.6	29.7	33.5
Income from discontinued operations	111.8	15.6	136.4	33.5
Net income and comprehensive income	$ 95.4	$ 13.5	$ 104.0	$ 28.2
Earnings per share				
- Loss from continuing operations	$ (0.02)	$ 0.00	$ (0.05)	$ (0.01)
- Income from discontinued operations	$ 0.16	$ 0.02	$ 0.20	$ 0.05
- Net income – basic and diluted	$ 0.14	$ 0.02	$ 0.15	$ 0.04
Book value per share				
- at September 30			$ 0.05	$ 0.63
- return of capital to shareholders on September 28, 2012			$ 0.75	
- prior to return of capital at September 28, 2012			$ 0.80	

Consolidated Results – Three months ended September 30, 2012

For the three months ended September 30, 2012, the Company reported consolidated net income of $95.4 million which comprised of loss from continuing operations of $16.4 million, gain on the sale of Jevco of $108.1 million and profit of discontinued operations of $3.7 million, compared to consolidated net income for the three months ended September 30, 2011 of $13.5 million which was comprised of a loss from continuing operations of $2.1 million and a profit of discontinued operations of $15.6 million.

Consolidated Results – Nine months ended September 30, 2012

For the nine months ended September 30, 2012, the Company reported consolidated net income of $104.0 million which was comprised of a loss from continuing operations of $32.4 million, gain on the sale of Jevco of $106.7 million and profit of discontinued operations of $29.7 million, compared to consolidated net income for the nine months ended September 30, 2011 of $28.2 million which was comprised of a loss from continuing operations of $5.3 million and a profit of discontinued operations of $33.5 million.

3. SALE OF JEVCO

On May 2, 2012 the Company announced that it had entered into a definitive agreement (the "Agreement") with Intact Financial Corporation ("Intact") pursuant to which, subject to the terms and conditions of the Agreement, Intact agreed to purchase from the Company all of the issued and outstanding shares in the capital of Jevco for $530.0 million in cash (the "Transaction").

Shareholder approval for the Transaction was received at a special shareholder meeting on June 28, 2012. All regulatory approvals were received and other conditions of the Agreement were met during the third quarter and the Transaction closed on September 4, 2012. The Transaction was reflected in Westaim's statements of financial position, comprehensive income, equity and cash flow for the three and nine months ended September 30, 2012.

For the nine months ended September 30, 2012, a gain on sale of discontinued operations before income tax of $108.2 million was realized on the sale, after deducting the carrying value of Jevco of $414.3 million and costs related to the sale of $7.5 million. The post-tax gain on the sale was $106.7 million.

In connection with the Transaction and as approved by the shareholders at a special meeting on June 28, 2012, Westaim completed a cash distribution by way of a return of capital to its common shareholders (the "Cash Distribution"). The Cash Distribution was made on September 28, 2012 to common shareholders of record on September 21, 2012 at $0.75 per common share. The amount was determined by the Board of Directors based on the present and contingent liabilities of Westaim, as well as its future business objectives. The total amount of the Cash Distribution of $521.4 million was recorded as a reduction of stated common share capital.

4. ANALYSIS OF FINANCIAL RESULTS

The Company's operating results include the results from continuing operations, the gain on sale of Jevco and the discontinued insurance operations.

4.1 Continuing Operations

Details of continuing operations are as follows:

Continuing operations (millions)	Three months ended September 30 2012	Three months ended September 30 2011	Nine months ended September 30 2012	Nine months ended September 30 2011
Revenue	$ -	$ -	$ 0.2	$ 2.8
Expenses				
Salaries and benefits	0.2	-	0.4	0.1
Management services	5.4	0.6	8.4	2.7
Office expenses	-	0.2	0.5	0.5
Professional fees	0.1	0.2	3.0	0.4
Site restoration provision recovery	-	-	-	(0.1)
Corporate costs	5.7	1.0	12.3	3.6
Share-based compensation	10.7	1.1	20.3	4.5
Total expenses	16.4	2.1	32.6	8.1
Loss from continuing operations	$ (16.4)	$ (2.1)	$ (32.4)	$ (5.3)

Revenue of Continuing Operations

Revenue of continuing operations for the three and nine months ended September 30, 2012 was $nil and $0.2 million (2011 - $nil and $2.8 million). In the three months ended September 30, 2012, interest income of $0.4 million earned on the proceeds from the sale of Jevco was offset by an investment write-down of $0.4 million. In the nine months ended September 30, 2011, the Company realized a gain on sale of an investment of $0.5 million and an additional gain of $2.3 million in connection with its acquisition of Jevco in 2010. In 2010, the Company paid an amount of $20.0 million to be held in escrow in respect 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 was adverse to Jevco, the purchase price would have been reduced, to a maximum amount of $20.0 million. In March 2011, this escrow amount was released upon agreement between the parties in exchange for a payment of $2.3 million to the Company.

4. ANALYSIS OF FINANCIAL RESULTS (continued)

Corporate Costs

Corporate costs, excluding share-based compensation, for the three and nine months ended September 30, 2012 were $5.7 million and $12.3 million (2011 - $1.0 million and $3.6 million). Corporate costs include fees for management services provided by Goodwood Management Inc. ("GMI"), as discussed in Section 9, *Related Party Transactions* of this MD&A. Corporate costs were $4.7 million higher in the three months ended September 30, 2012 compared to the same period in 2011 due to an accounting charge of $5.0 million arising from the extinguishment of the management services contract upon the windup of GMI following the acquisition of GMI by the Company. Corporate costs were $8.7 million higher in the nine months ended September 30, 2012 compared to the same period in 2011 due to this $5.0 million charge and the remainder is mainly due to $2.6 million of professional fees and other costs incurred to investigate an investment opportunity which Westaim ultimately decided not to pursue.

Share-based Compensation

Share-based compensation expense for the three and nine months ended September 30, 2012 was $10.7 million and $20.3 million (2011 - $1.1 million and $4.5 million). Share-based compensation expense relates to the revaluation of the Company's outstanding restricted share units ("RSUs") granted to GMI and outstanding deferred share units ("DSUs") granted to directors and officers of the Company. Share-based compensation costs were $9.6 million higher in the three months ended September 30, 2012 when compared to the three months ended September 30, 2011 mainly due to the recognition of an expense of $9.1 million to reflect the value of the RSUs which were extinguished as a result of the windup of GMI.

4.2 Gain on Sale of Discontinued Operations

On September 4, 2012, the Company sold its investment in Jevco. Included in the Company's net income for the three and nine months ended September 30, 2012 is the Company's gain on sale of Jevco. Details of the gain are as follows:

Discontinued operations (millions)	Three months ended September 30, 2012	Nine months ended September 30, 2012
Proceeds on sale	$ 530.0	$ 530.0
Carrying value of Jevco	(414.3)	(414.3)
Transaction costs	(6.1)	(7.5)
Pre-tax gain on sale	109.6	108.2
Income tax expense	(1.5)	(1.5)
Post-tax gain on sale	$ 108.1	$ 106.7

The post-tax gain on sale of Jevco is $108.1 million for the three months ended September 30, 2012 and 106.7 million for the nine months ended September 30, 2012, with $1.4 million in transaction costs recorded in the second quarter of 2012. Cash proceeds of $530.0 million were received on September 4, 2012. The carrying value of Jevco on the date of sale was $414.3 million. Transaction costs of $7.5 million include financial, legal and consulting fees.

The Company utilized capital loss carryforwards and non-capital loss carryforwards to offset the taxable income arising from the sale of Jevco. The benefit of these tax loss carryforwards had not previously been recognized in the statement of financial position. Corporate minimum tax of $1.5 million, computed based on income determined under IFRS, has been accrued as a result of the sale.

4.3 Profit of Discontinued Operations

The results of Jevco's operations prior to the sale of Jevco on September 4, 2012 are included in consolidated comprehensive income and presented as discontinued operations. The profit of discontinued operations is summarized as follows:

Discontinued operations	Three months ended September 30		Nine months ended September 30	
(millions)	2012	2011	2012	2011
Revenue	$ 80.5	$ 110.1	$ 275.7	$ 289.2
Expenses	75.8	88.7	236.9	243.1
Pre-tax profit of discontinued operations	4.7	21.4	38.8	46.1
Income tax expense	1.0	5.8	9.1	12.6
Post-tax profit of discontinued operations	$ 3.7	$ 15.6	$ 29.7	$ 33.5

4. ANALYSIS OF FINANCIAL RESULTS (continued)

The three and nine months ended September 30, 2012 included Jevco's results to the date of sale on September 4, 2012. Revenue of discontinued operations includes unrealized gains and losses on available-for-sale investments as unrealized gains and losses of a subsidiary are considered realized and included in net income upon the sale of a subsidiary. Income tax expense includes income tax previously deducted to determine net income and income tax on unrealized gains previously included in other comprehensive income.

Pre-tax profit of discontinued operations for the two months of operations included in the third quarter results was lower than the earlier quarters of the year due to poor results in the motorcycle business, increased reserves from lower discount rates and an additional premium deficiency reserve.

5. ANALYSIS OF FINANCIAL POSITION

The Company's consolidated statement of financial position is comprised of the following:

(millions)	September 30, 2012	December 31, 2011
Assets of continuing operations		
Cash and cash equivalents	$ 42.4	$ 14.7
Other assets	0.3	0.6
Total assets of continuing operations	42.7	15.3
Assets of operations sold in 2012	-	1,280.8
Total assets	$ 42.7	$ 1,296.1
Liabilities of continuing operations	$ 7.1	$ 14.3
Liabilities of operations sold in 2012	-	864.6
Total liabilities	7.1	878.9
Shareholders' equity	35.6	417.2
Total liabilities and shareholders' equity	$ 42.7	$ 1,296.1

5.1 Cash and Cash Equivalents

At September 30, 2012, the Company had cash and cash equivalents related to continuing operations of $42.4 million compared to $14.7 million at December 31, 2011. See further discussion in Section 7, *Liquidity and Capital Resources* of this MD&A.

5.2 Assets of Operations Sold in 2012

At December 31, 2011, the Company held $1,280.8 million in assets of the insurance operations which were sold in 2012. These assets included cash of $9.7 million, investments plus investment income due and accrued of $1,023.6 million, insurance policy related assets of $183.4 million, accounts receivable of $27.3 million, income tax assets of $10.2 million, property and equipment of $22.8 million, and intangible assets of $3.8 million.

5.3 Liabilities of Continuing Operations

Liabilities of continuing operations were $7.1 million at September 30, 2012 compared to $14.3 million at December 31, 2011. The decrease of $7.2 million is due to a $10.3 million decrease in share-based compensation liabilities partially offset by additional accruals for income taxes and other expenses. Included in liabilities of continuing operations at both September 30, 2012 and December 31, 2011 is $2.4 million related to the provision for site restoration. The provision for site restoration relates to costs associated with soil and groundwater reclamation and remediation costs. The Company conducts periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements. Potential reimbursements of costs resulting from indemnifications provided by previous owners of the industrial sites have not been recognized in these consolidated financial statements. Any future reimbursements will be recorded when received.

5.4 Liabilities of Operations Sold in 2012

Liabilities of operations sold in 2012 of $864.6 million at December 31, 2011 relate to the insurance operations and are comprised of liabilities related to insurance policies of $839.6 million, leasehold inducement of $2.6 million and payables and accruals of $22.4 million.

5. ANALYSIS OF FINANCIAL POSITION (continued)

5.5 Shareholders' Equity

The details of shareholders' equity are as follows:

(millions)	September 30, 2012	December 31, 2011
Common shares	$ 203.6	$ 656.6
Preferred shares	-	30.8
Warrants	-	1.9
Contributed surplus	12.9	12.9
Deficit	(180.9)	(284.9)
Shareholders' equity	$ 35.6	$ 417.3

The decrease in common shares from December 31, 2011 to September 30, 2012 of $453.0 million is due to the return of capital to the common shareholders of $521.4 million, partially offset by $30.8 million as a result of the conversion of the preferred shares held at December 31, 2011 into common shares, $6.9 million from the exercise of all warrants outstanding, $27.4 million for shares issued upon the acquisition of GMI and $3.3 million of proceeds on the issuance of common shares in connection with elections exercised under share based compensation plans. The changes in share capital are further discussed under *Share Capital* and *Share-based Compensation Plans* in Section 7, *Liquidity and Capital Resources* of this MD&A. The decrease in deficit of $104.0 million from December 31, 2011 to September 30, 2012 is due to the net income for the nine months ended September 30, 2012.

6. OUTLOOK

Westaim completed a positive first nine months in 2012 allowing the Company's book value per share, prior to the $0.75 per share distribution to shareholders on September 28, 2012, to appreciate by 23% from $0.65 at December 31, 2011 to $0.80 at September 28, 2012. Subsequent to the payment of the $0.75 per share distribution to shareholders, at September 30, 2012 the book value per share was $0.05 and the Company's shareholder's equity was $35.6 million.

Westaim's management is continuing to pursue the Company's business strategy, by searching for and investigating potential investment opportunities to grow shareholder value (as measured by book value per share) over the long term.

7. LIQUIDITY AND CAPITAL RESOURCES

Capital Management Objectives

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

Towards achieving these objectives, the Company employs a strong and efficient capital base and manages capital in accordance with policies established by the Board of Directors. These policies relate to capital strength and capital mix. The Company has a capital management process in place to measure, deploy and monitor its available capital to assess its adequacy on a continuous basis. Management develops the capital strategy and oversees the capital management processes of the Company. The Company's capital consists of its shareholders' equity.

Share Capital

At September 30, 2012 and November 9, 2012, the Company had 695,209,711 common shares outstanding and 372,800 stock options outstanding.

On September 4, 2012, 36,514,902 common shares were issued as partial consideration for the acquisition of GMI. In the three months ended September 30, 2012, 27,200 common shares were issued upon the exercise of 27,200 stock options. DSUs vested upon the sale of Jevco and certain directors of Westaim and Jevco and certain officers of Jevco elected to exercise their right to apply the cash compensation received to purchase common shares of Westaim. The Company issued 4,470,737 common shares as a result of these elected subscriptions. 10,000,000 warrants were exercised for 10,000,000 Series 1 Class A preferred shares and the resulting preferred shares totaling 73,852,912 were converted into common shares on a one for one basis.

The Company's authorized share capital consists of an unlimited number of common shares, Class A preferred shares and Class B preferred shares. At September 30, 2012 and November 9, 2012, there were no Class A or Class B preferred shares outstanding.

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 non-voting 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.

As of September 11, 2012, Westaim had 63,852,912 non-voting Series 1 Class A preferred shares issued and outstanding ("Non-Voting Shares") registered in the name of 1523488 Alberta Ltd., a holding company with an investment portfolio managed by Alberta Investment Management Corporation. 1523488 Alberta Ltd. was also, as of September 11, 2012, the registered and beneficial owner of 232,147,088 common shares of the Company, being 37.4% of the outstanding common shares, and of warrants to acquire an additional 10,000,000 Non-Voting Shares. Any holder of Non-Voting Shares may convert any or all Non-Voting Shares held by such holder into common shares based on the then applicable exercise number (which at the date hereof is one common share for each Non-Voting Share). The terms of the Series 1 Class A preferred shares initially prohibited conversion of such shares if such conversion would result in the holder, together with such holder's "associates" and "affiliates" (as such terms are defined in the *Securities Act* (Alberta)), and any person or company acting jointly or in concert with such parties: (i) being the registered holder of; (ii) being the beneficial owner of; and/or (iii) exercising control or direction over, greater than 40% of the issued and outstanding common shares. On September 11, 2012, in order to enable 1523488 Alberta Ltd. to participate in the Cash Distribution in respect of its Non-Voting Shares on the same basis as the common shareholders, Westaim effected an amendment to the terms of the Non-Voting Shares to remove the conversion restrictions, as approved by the common shareholders at the special meeting on June 28, 2012. This allowed 1523488 Alberta Ltd. to convert the Non-Voting Shares held by it (including the Non-Voting Shares acquired pursuant to the exercise of the Warrants) into common shares prior to the Cash Distribution.

Cash Distribution and Stated Share Capital Reduction

In connection with the Transaction and as approved by the shareholders at the special meeting on June 28, 2012, Westaim completed the Cash Distribution to its common shareholders in the form of a return of capital. The Cash Distribution was made on September 28, 2012 to common shareholders of record on September 21, 2012 at $0.75 per common share. The amount was determined by the Board of Directors based on the present and contingent liabilities of Westaim, as well as its future business objectives. The total amount of the Cash Distribution of $521.4 million was recorded as a reduction of stated common share capital.

Dividends

No dividends were paid in the nine months ended September 30, 2012 or 2011.

7. LIQUIDITY AND CAPITAL RESOURCES (continued)

Share-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. See Note 11 to the unaudited consolidated financial statements for the nine months ended September 30, 2012.

On September 4, 2012, the Company purchased all the issued and outstanding shares of GMI for $4.2 million cash and 36,514,902 common shares of the Company. GMI was the holder of all of the outstanding RSUs and Westaim had accrued a liability in respect of the RSUs. The share consideration paid for GMI reflected the fair value of the RSUs held by GMI at the time of the acquisition. Immediately following Westaim's acquisition of GMI, GMI was wound up into Westaim and an additional expense of $9.1 million was recognized to reflect the additional value of the RSUs which were extinguished as a result of the windup of GMI.

DSUs are granted at the market value of the Company's shares at the date of grant to non-executive directors of the Company in lieu of fees, and prior to the sale of Jevco, to non-executive directors, officers and employees of Jevco. Vested DSUs are paid out in cash when the participant ceases to be a director, officer or employee. All DSUs vested and were exercised upon the sale of Jevco. As determined by Westaim's Board of Directors, in connection with the completion of the sale of Jevco, each holder of DSUs was entitled to receive a cash payment in consideration for relinquishing their rights in respect of each such DSU equal to the "market price" of the common shares (as determined in accordance with the terms of the Incentive Plan) immediately prior to the completion of the sale (being $0.75) less any required withholdings, and could elect to apply all or a part of such cash payment to a subscription for common shares at the same price per share. An aggregate total of 4,470,737 common shares were issued to former DSU holders in connection with the entitlements.

In July 2012, 27,200 stock options were exercised at $0.22 per share. At September 30, 2012 and November 9, 2012, the Company had 372,800 stock options outstanding.

Volatility of Share Price

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

Market for Securities

The common shares of The Westaim Corporation are listed on the Toronto Stock Exchange (the "TSX") under the symbol "WED". On September 11, 2012, Westaim announced that its Board of Directors had concluded that a listing with the TSX Venture Exchange ("TSX-V") would best suit the needs of the Company while providing continued trading liquidity for the Company's shareholders. As such, the Board of Directors approved the making of a listing application to the TSX-V and has applied to voluntarily de-list from the TSX in order to seek a TSX-V listing. The Company expects approval of its listing on the TSX-V prior to the de-listing from the TSX becoming effective.

Normal Course Issuer Bid

On August 24, 2011, Westaim announced that the TSX had approved a notice of the Company's intention to make a normal course issuer bid. In the third and fourth quarters of 2011, pursuant to the terms of the bid, Westaim purchased 6,455,000 of its own common shares for cancellation through the facilities of the TSX at the prevailing market price of the common shares.

Cash Flow Objectives

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 its liquidity requirements for the next year will be met with the cash and cash equivalents on hand. Although the Company currently does not have any operating assets that generate revenue, the Company has sufficient funds to meet its financial obligations and pursue other opportunities. As part of pursuing one or more new opportunities, the Company may from time to time issue shares from treasury.

7. LIQUIDITY AND CAPITAL RESOURCES (continued)

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

September 30, 2012 (millions)	One year or less	1 to 3 years	4 to 5 Years	More than 5 years	No specific date	Total
Financial assets:						
Cash and cash equivalents	$ 42.4	$ -	$ -	$ -	$ -	$ 42.4
Other assets	0.3	-	-	-	-	0.3
Total financial assets	42.7	-	-	-	-	42.7
Financial obligations:						
Accounts payable and accrued liabilities	3.2	-	-	-	-	3.2
Income taxes, due and accrued	1.5	-	-	-	-	1.5
Site restoration provision	-	-	-	-	2.4	2.4
Total financial obligations	4.7	-	-	-	2.4	7.1
Financial assets net of financial obligations	$ 38.0	$ -	$ -	$ -	$ (2.4)	$ 35.6

December 31, 2011 (millions)	One year or less	1 to 3 years	4 to 5 years	More than 5 years	No specific date	Total
Financial assets:						
Cash and cash equivalents	$ 24.3	$ -	$ -	$ -	$ -	$ 24.3
Investment income due and accrued	5.6	-	-	-	-	5.6
Investments available-for-sale	183.6	343.6	189.3	87.6	116.5	920.6
Investments held-to-maturity	-	-	-	97.5	-	97.5
Instalment premiums	62.8	-	-	-	-	62.8
Accounts receivable and other assets	27.4	-	-	-	0.5	27.9
Recoverable from reinsurers	11.7	12.9	6.0	3.4	-	34.0
Claims recoverable from other insurers	17.6	19.4	8.9	5.1	-	51.0
Total financial assets	333.0	375.9	204.2	193.6	117.0	1,223.7
Financial obligations:						
Accounts payable and accrued liabilities	25.5	5.3	-	-	2.7	33.5
Income taxes, due and accrued	0.8	-	-	-	-	0.8
Unearned premiums	164.4	-	-	-	-	164.4
Unpaid claims and adjustment expenses	231.7	257.5	117.8	68.1	-	675.1
Lease commitments	3.0	5.5	5.4	24.9	-	38.8
Site restoration provision	-	-	-	-	2.4	2.4
Total financial obligations	425.4	268.3	123.2	93.0	5.1	915.0
Financial assets net of financial obligations	$ (92.4)	$ 107.6	$ 81.0	$ 100.6	$ 111.9	$ 308.7

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

<u>Indemnification</u>

In connection with the sale of the operations and assets of a subsidiary, the subsidiary provided an indemnity to the purchaser against certain losses to an aggregate maximum of US$11 million. The Company also agreed to indemnify the directors, officers and employees of the purchaser, for an indefinite period, from certain potential environmental costs relating to premises formerly leased by the subsidiary.

8. RISKS

Westaim is subject to a number of risks, including the risks described below and in the Company's MD&A for the year ended December 31, 2011. The risks and uncertainties described below and in the annual MD&A are those believed to be material, but they may not be the only ones faced by Westaim. If any of these risks, or any other risks and uncertainties that have not yet been identified by Westaim or that Westaim currently considers not to be material, actually occur or become material risks, the business, prospects, financial condition, results of operations and cash flows of Westaim could be materially and adversely affected.

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

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

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

Risks inherent in acquisitions

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

Volatile stock price

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

Liquidity and financing risks

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

Potential taxes in respect of the transaction

Westaim recognized a gain for accounting purposes on the Transaction as the carrying value of the common shares of Jevco was lower than the net proceeds of the Transaction. However, in computing its taxable income for the year, Westaim expects to offset any taxable capital gain realized on the sale of Jevco with certain tax loss carryforwards. It is possible that tax authorities could review Westaim's tax position and conclude that Westaim is liable for additional tax for the year of the Transaction. Such a review could take place years after the period which included the tax position in question and it may take a substantial amount of time before the final outcome of any such review is known. The outcome of any such review could differ materially from the amounts recorded in Westaim's financial statements and have a material effect on Westaim's financial position and/or net income in the period such determination is made.

9. RELATED PARTY TRANSACTIONS

Key management personnel

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

Compensation for key management personnel of the Company, including non-executive directors, is as follows:

	Three months ended September 30		Nine months ended September 30	
(millions)	2012	2011	2012	2011
Salaries and other benefits	$ 0.3	$ -	$ 0.4	$ 0.1
Share-based payments	-	(0.1)	1.1	(0.1)
	$ 0.3	$ (0.1)	$ 1.5	$ -

No loans were extended to key management personnel during the nine months ended September 30, 2012, and there were no outstanding loans as at September 30, 2012.

Management services agreement

Prior to September 4, 2012, the Company had a management services agreement ("MSA") with GMI to manage the day-to-day affairs of the Company and to present strategic investment opportunities for the Board of Directors to consider. GMI was required to provide certain services to the Company including the services of two directors, one of whom was also President and Chief Executive Officer, and a Chief Financial Officer. The MSA provided that GMI was paid an annual service fee designed to compensate GMI 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 made available by GMI to the Company. The amount of the services fee was based on a report prepared by an independent compensation consultant. GMI was also entitled to participate in an annual incentive bonus plan for the purpose of recognizing the contribution of GMI to the Company's business.

Prior to the purchase of GMI by the Company on September 4, 2012, GMI was controlled by corporations controlled by two directors of the Company. For the three and nine months ended September 30, 2012, GMI fee expense, inclusive of harmonized sales tax, was $431 and $3,473 (2011 - $597 and $2,677). At September 30, 2012, fees of $nil (December 31, 2011 - $226) were included in accounts payable and accrued liabilities. Upon the extinguishment of the MSA, an expense of $4,966 was recognized in the statement of comprehensive income.

All RSUs previously outstanding were held by GMI (details discussed under *Share-based Compensation Plans* in Section 9, *Capital and Liquidity Resources* of this MD&A).

Acquisition of GMI

On September 4, 2012, the Company purchased all the issued and outstanding shares of GMI for $4,190 in cash and 36,514,902 common shares of the Company. The consideration paid reflected the fair value of the assets and liabilities of GMI, including the RSUs held by GMI and the management contract with the Company. As the fair value of the consideration paid was determined to be equal to the fair value of the assets and liabilities of GMI, no goodwill was recorded. Immediately following the acquisition, GMI was wound up into the Company.

Former employees of GMI who are now employees of the Company are considered key management personnel for related party disclosure purposes beginning on September 4, 2012.

10. 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, 2012, the Company's DC&P were effective.

10. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (continued)

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 affected 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 IFRS. 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, similar to prior quarters.

There were no changes in the Company's ICFR that occurred during the nine months ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, ICFR.

As of September 30, 2012, 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, 2012, the controls and procedures were operating effectively. There are no material weaknesses that have been identified by management in this regard.

11. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

12. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

As required for publicly accountable enterprises, the Company reported in accordance with IFRS commencing with the fiscal year beginning on January 1, 2011. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("CGAAP"). The Company's accounting policies are disclosed in Note 2 to the unaudited consolidated financial statements for the nine months ended September 30, 2012.

13. FUTURE ACCOUNTING PRONOUNCEMENTS

IFRS 9 "*Financial Instruments*" ("IFRS 9") was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 "*Financial Instruments – Recognition and Measurement*" ("IAS 39"), for debt instruments with a new mixed measurement model having only two categories: "amortized cost" and "fair value through profit or loss". IFRS 9 also replaces the models for measuring equity instruments, and such instruments will either be categorized as "fair value through profit or loss" or at "fair value through other comprehensive income". Requirements for financial liabilities were added to IFRS 9 in October 2010 and largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss will generally be recorded in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company has not yet determined the impact of the standard.

IFRS 10 *"Consolidated Financial Statements"* ("IFRS 10"), issued in May 2011, replaces IAS 27 *"Consolidated and Separate Financial Statements"* and SIC-12 *"Consolidation – Special Purpose Entities"*. The Company does not currently apply SIC-12 as it does not have special purpose entities. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. IFRS 10 also sets out the accounting requirements for the preparation of consolidated financial statements. The three elements of control identified in IFRS 10 are power over the investee, exposure or rights to variable returns from involvement with the investee and investor ability to use power over the investee to affect the amount of the investor's returns. The Company expects that the adoption of IFRS 10 will not have a material impact on its financial statements.

13. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

IFRS 12 *"Disclosure of Interests in Other Entities"* ("IFRS 12") requires a company to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is required to be applied by an entity that has an interest in subsidiaries. The Company expects that the adoption of IFRS 12 will not have a material impact on its financial statements.

IFRS 13 *"Fair Value Measurement"* ("IFRS 13"), issued in May 2011, establishes a single source of guidance for fair value measurement under IFRS. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. IFRS 13 does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another IFRS or IAS requires it. IFRS 13 should be applied prospectively from the beginning of the annual period in which it is adopted. The Company expects that the adoption of IFRS 13 will not have a material impact on its financial statements.

IFRS 10, IFRS 12 and IFRS 13 are effective for annual periods beginning on or after January 1, 2013.

14. QUARTERLY FINANCIAL INFORMATION

(millions)	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Revenue of continuing operations	$ -	$ 0.1	$ -	$ 0.4	$ -	$ 0.5	$ 2.3	$ 0.1
Expenses of continuing operations	16.4	9.6	6.5	4.3	2.1	3.1	2.9	3.6
Gain on sale of discontinued operations	108.1	(1.4)	-	-	-	-	-	-
Profit of discontinued operations	3.7	12.8	13.2	15.5	15.6	14.1	3.8	0.8
Comprehensive income	95.4	1.9	6.7	11.6	13.5	11.5	3.2	(2.7)

Quarterly revenue from continuing operations includes miscellaneous investment income. In the first quarter of 2011, the Company realized an additional gain of $2.3 million in connection with its acquisition of Jevco in 2010. In the second quarter of 2011, the Company realized a gain on sale of an investment of $0.5 million. Expenses of continuing operations vary from quarter to quarter mainly due to the stock-based compensation expense which varies according to the market price of Westaim's shares. In addition, costs of $1.3 million were incurred in each of the first and second quarters of 2012 to investigate an acquisition which Westaim ultimately did not pursue.

Gain on sale of discontinued operations is the gain from the sale of Jevco. Expenses of $1.4 million related to the sale were recorded in the second quarter of 2012.

During the third quarter of 2012, profit of discontinued operations included two months of operating results to the date of sale of Jevco on September 4, 2012. Profit of discontinued operations in the fourth quarter of 2011 included $2.9 million relating to the recognition of deferred income tax assets for non-capital losses which were expected to be realized following an internal corporate reorganization.

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; expectations regarding the Company's assets and liabilities; the Company's ability to retain key employees, management's belief that its estimates for determining the valuation of the Company's assets and liabilities are appropriate; the Company's views regarding potential future remediation costs; the effect of changes to interpretations of tax legislation on income tax provisions in future periods; and the Company's determination that the adoption of new accounting standards will not have a material impact on its consolidated financial statements.

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

The Company's actual results could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company's control, including but not limited to: (i) 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 may have undisclosed liabilities; (iv) the Company may require significant additional funding; and (v) other risk factors set forth herein or in the Company's Annual Report or the Management Information Circular. 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 Statements of Financial Position
(unaudited)

(thousands of Canadian dollars)		September 30 2012		December 31 2011
ASSETS				
Cash and cash equivalents	$	42,371	$	24,347
Investment income due and accrued		-		5,567
Investments (note 4)		-		1,018,059
Instalment premiums		-		62,781
Income taxes recoverable		-		115
Accounts receivable and other assets		367		27,954
Recoverable from reinsurers		-		33,970
Claims recoverable from other insurers		-		50,969
Deferred policy acquisition expenses		-		35,601
Deferred income taxes (note 13)		-		10,108
Property and equipment (note 5)		-		22,818
Intangible assets (note 6)		-		3,844
	$	42,738	$	1,296,133
LIABILITIES				
Accounts payable and accrued liabilities	$	3,180	$	33,523
Income taxes due and accrued		1,530		821
Unearned premiums		-		164,437
Unpaid claims and adjustment expenses (note 7)		-		675,094
Leasehold inducements		-		2,594
Site restoration provision (note 8)		2,437		2,401
		7,147		878,870
Commitments and contingent liabilities (note 9)				
SHAREHOLDERS' EQUITY				
Share capital (note 10)		203,640		687,402
Warrants (note 10)		-		1,900
Contributed surplus (notes 2r and 10)		12,890		12,890
Deficit		(180,939)		(284,929)
		35,591		417,263
	$	42,738	$	1,296,133

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

The Westaim Corporation
Consolidated Statements of Comprehensive income
(unaudited)

(thousands of Canadian dollars except share and per share data)	Three Months Ended September 30 2012	Three Months Ended September 30 2011	Nine Months Ended September 30 2012	Nine Months Ended September 30 2011
Revenue				
Investment income	$ 474	$ 23	$ 633	$ 81
Realized gains and losses on sale of investments	(442)	-	(442)	515
Other income	-	-	-	2,250
	32	23	191	2,846
Expenses				
Management services	5,397	597	8,439	2,677
Salaries and benefits	265	27	383	71
Office expenses	8	186	424	481
Share-based compensation	10,675	1,119	20,302	4,552
Professional fees	115	169	2,967	452
Site restoration provision expense (recovery) (note 8)	12	12	36	(107)
	16,472	2,110	32,551	8,126
Loss from continuing operations	(16,440)	(2,087)	(32,360)	(5,280)
Gain on sale of discontinued operations				
Proceeds on sale of subsidiary	530,000	-	530,000	-
Carrying value of subisdiary	(414,289)	-	(414,289)	-
Transaction costs	(6,085)	-	(7,498)	-
Gain on sale of discontinued operations	109,626	-	108,213	-
Income tax expense	1,530	-	1,530	-
Post-tax gain on sale of discontinued operations	108,096	-	106,683	-
Discontinued operations				
Revenue	80,496	110,157	275,740	289,223
Expenses	75,758	88,728	236,903	243,150
Pre-tax profit of discontinued operations	4,738	21,429	38,837	46,073
Income tax expense	1,034	5,798	9,170	12,532
Post-tax profit of discontinued operations	3,704	15,631	29,667	33,541
Income from discontinued operations	111,800	15,631	136,350	33,541
Comprehensive income	$ 95,360	$ 13,544	$ 103,990	$ 28,261
Earnings per share (note 14)				
Loss from continuing operations - basic and diluted	$ (0.02)	$ -	$ (0.05)	$ (0.01)
Income from discontinued operations - basic and diluted	$ 0.16	$ 0.02	$ 0.20	$ 0.05
Comprehensive income - basic and diluted	$ 0.14	$ 0.02	$ 0.15	$ 0.04
Weighted average number of common and Series 1 Class A preferred shares outstanding (in thousands)				
Basic	658,016	650,412	648,804	647,610
Diluted	679,664	661,679	671,622	658,318

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

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

Nine months ended September 30, 2012

(thousands of Canadian dollars)	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2012	$ 687,402	$ 1,900	$ 12,890	$ (284,929)	$ 417,263
Comprehensive income	-	-	-	103,990	103,990
Share capital issued and paid (note 10)	30,745	-	-	-	30,745
Exercise of warrants	6,900	(1,900)	-	-	5,000
Return of capital	(521,407)	-	-	-	(521,407)
Balance at September 30, 2012	$ 203,640	$ -	$ 12,890	$ (180,939)	$ 35,591

Nine months ended September 30, 2011

(thousands of Canadian dollars)	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2011	$ 691,435	$ 1,900	$ 8,734	$ (324,745)	$ 377,324
Comprehensive income	-	-	-	28,261	28,261
Share capital issued and paid (note 10)	3,270	-	-	-	3,270
Repurchase of shares	(6,374)	-	3,628	-	(2,746)
Balance at September 30, 2011	$ 688,331	$ 1,900	$ 12,362	$ (296,484)	$ 406,109

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

The Westaim Corporation
Consolidated Cash Flow Statements
(unaudited)

(thousands of Canadian dollars)	Nine Months Ended September 30 2012	2011
Operating activities		
Loss from continuing operations	$ (32,360)	$ (5,280)
Items not affecting cash		
Net realized loss (gain) on investments	442	(515)
Share-based compensation	20,302	4,551
Extinguishment of management contract (note 12)	4,966	-
Net change in other non-cash balances	(1,792)	(16,462)
Cash used in continuing operations	(8,442)	(17,706)
Discontinued operations operating activities	34,120	37,199
Cash provided from operating activities	25,678	19,493
Investing activities		
Purchase of subsidiary, net of cash acquired (note 12)	(4,155)	-
Proceeds from sale of investments	-	515
Proceeds from sale of discontinued operations	530,000	-
Cash of discontinued operations	(22,551)	-
Transaction costs incurred upon sale of discontinued operations	(7,498)	-
Discontinued operations investing activities	9,598	(38,732)
Cash provided from (used in) investing activities	505,394	(38,217)
Financing activities		
Issuance of share capital, net of cash issuance costs	8,359	3,270
Normal course issuer bid (note 10)	-	(2,746)
Return of capital to common shareholders	(521,407)	-
Cash (used in) provided from financing activities	(513,048)	524
Net increase (decrease) in cash and cash equivalents	18,024	(18,200)
Cash and cash equivalents, beginning of period	24,347	32,897
Cash and cash equivalents, end of period	$ 42,371	$ 14,697
Cash and cash equivalents is comprised of:		
Cash	$ 42,371	$ 14,697

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

1 Nature of Operations and Basis of Preparation

The Westaim Corporation (the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company trades on the Toronto Stock Exchange under the symbol WED. The Company's registered office is located at 201-212 King Street West, Toronto, Ontario, Canada. These financial statements were authorized for issue by the Board of Directors of the Company on November 9, 2012.

Until September 4, 2012, the Company operated in the insurance industry in Canada through its wholly-owned subsidiary, Jevco Insurance Company ("Jevco"). Jevco was sold on September 4, 2012. Note 18 *Sale of Subsidiary* provides information regarding the sale of the Company's investment in Jevco and Jevco's results of operations to the date of sale.

These financial statements also include, on a consolidated basis, the accounts of wholly-owned subsidiaries, Westaim Holdings Limited ("WHL"), 1686581 Alberta Ltd. (formerly 2266098 Ontario Ltd.), 1685740 Alberta Ltd. (formerly 2301862 Ontario Ltd.) and 1685753 Alberta Ltd. (formerly 2301863 Ontario Ltd.). On July 1, 2012, WHL, 1685740 Alberta Ltd. and 1685753 Alberta Ltd. amalgamated with the Company.

These financial statements are prepared in compliance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34 "*Interim Financial Reporting*".

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

2 Summary of Significant Accounting Policies

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

(a) Principles of consolidation

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

(b) Use of estimates

The preparation of financial statements requires management to make estimates 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 reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the reporting period in which they are determined. Key estimates are discussed in the following accounting policies and applicable notes.

(c) Judgments made by management

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include: valuation techniques for fair value determination of investments, investment impairment, income taxes, provision for unpaid claims and adjustment expenses and site restoration provision. For additional information on these judgments, see note 4 for investments, note 13 for income taxes, note 7 for unpaid claims and adjustment expenses and note 8 for site restoration provision.

(d) Foreign currency translation

The Canadian dollar is the functional and presentation currency of the Company. Transactions in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange. Translation differences on available-for-sale investments are classified as relating either to the amortized cost of the investment or to other changes in the carrying value of the investment.

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less, with the exception of cash equivalents designated as a component of the investment portfolio which are classified as investments.

2 Summary of Significant Accounting Policies (continued)

Cash and cash equivalents which are not designated as a component of the investment portfolio are classified in the financial instrument category of loans and receivables for purposes of measurement. Cash and cash equivalents are valued at fair value at the issuance date and subsequently at amortized cost using the effective interest method. Carrying value is a reasonable approximation of fair value.

(f) Investments and investment income

Investments are classified according to four accounting models: available-for-sale, fair value through profit or loss ("FVTPL"), held-to-maturity and cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Most of the investments are classified as available-for-sale because the Company's risk management strategy is to manage its investments to support its insurance liabilities.

Available-for-sale investments are carried at their fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income ("AOCI") until sale or impairment is recognized, at which time 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 objective evidence of impairment in value are included in 'realized gains and losses on sale of investments'. Changes in the fair value of investments designated as FVTPL are charged or credited to investment income for the current reporting period. Held-to-maturity investments are carried at amortized cost using the effective interest method. When a reliable estimate of the fair value of unquoted equity investments cannot be determined, the equity investment is reported at cost.

The Company accounts for investments using settlement date accounting. Transaction costs for FVTPL investments are expensed as incurred. Transaction costs for all other categories of investments are capitalized and, when applicable, amortized over the expected life of the investment using the effective interest method.

The Company conducts quarterly reviews to identify and evaluate investments that show objective indications of possible impairment. Impairment exists when there is objective evidence that, as a result of one or more events occurring after the initial recognition of a debt investment, the estimated future cash flows of the investment have been affected. For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

(g) Instalment premiums

The instalment premiums asset represents the premiums related to the unexpired portion of the period of risk.

(h) 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 expenses are also reported before reduction for amounts 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. Amounts recoverable from reinsurers are assessed for indicators of impairment at the end of each reporting period. An impairment loss is recognized and the amount recoverable from reinsurers is reduced by the amount by which the carrying value exceeds the expected recoverable amount under the impairment analysis.

(i) Claims recoverable from other insurers

The expected recoveries from other insurers on claims paid to policyholders are recognized as amounts recoverable at the same time as the related liability is recognized using principles consistent with the Company's method for establishing the related liability. Claims recoverable from other insurers are assessed for indicators of impairment at the end of each reporting period. An impairment loss is recognized and the amount of claims recoverable from other insurers is reduced by the amount by which the carrying value exceeds the expected recoverable amount under the impairment analysis.

(j) Deferred policy acquisition expenses

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

2 Summary of Significant Accounting Policies (continued)

(k) Income taxes

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

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

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

(l) Property and equipment

Property and equipment are reported at cost less accumulated depreciation. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of such assets. The useful lives are 19 to 43 years for buildings, 5 to 15 years for leasehold improvements, 5 to 7 years for furniture and equipment, and 3 to 5 years for computers and automobiles. At the end of each reporting period, management reviews the carrying amounts of property and equipment for indication of impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use.

(m) Intangible assets

Intangible assets are reported at amortized cost and consist of purchased software and internally developed software. Amortization of intangible assets is provided using the straight-line method over estimated useful lives of 3 to 5 years. At the end of each reporting period, management reviews the carrying amounts of intangible assets for indication of impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use.

(n) Unearned premiums

Unearned premiums reported in the statement of financial position represent the portion of premiums written related to the unexpired risk portion of the policy at the end of the reporting period.

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

(o) Unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses includes an estimate of the cost of projected final settlements of insurance claims incurred on or before the statement of financial position date, including claims incurred but not reported ("IBNR") by policyholders and an estimate of the full amount of all expected expenses. 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 recoveries on unpaid claims and adjustment expenses are recognized as amounts recoverable from other insurers or reinsurers at the same time using principles consistent with the Company's method for establishing the related liability.

These estimates of future claims payments and adjustment expenses 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 net claims and adjustment expenses in the reporting period in which they are determined.

As the carrying value of the unpaid claims and adjustment expenses is based on the present value of future cash flows with provisions for adverse deviation, it is considered to be an indicator of fair value as there is no ready market for trading insurance policy liabilities.

2 Summary of Significant Accounting Policies (continued)

(p) Leasehold inducements

Leasehold inducements are liabilities associated with the initial benefits received by the Company related to the rental of office premises. Leasehold inducements are amortized over the term of the lease on a straight-line basis.

(q) Site restoration provision

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

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

(r) Contributed surplus

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

(s) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 11. Any consideration paid by stock option holders for the purchase of stock is credited to share capital. The cost of stock options is recognized over the period from the issue date to the vesting date and recorded as a component of equity in contributed surplus.

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

(t) *Discontinued operations*

Results of discontinued operations are presented in the statement of comprehensive income as income from discontinued operations and comprise the revenues and expenses of Jevco and the gain on sale of Jevco, net of related income tax expense. In accordance with IAS 27 *"Consolidated and Separate Financial Statements"*, gains and losses on available-for-sale investments are included in revenue from discontinued operations as these are considered realized due to the sale of Jevco. Income tax on unrealized gains and losses has been reclassified as income taxes on profit of discontinued operations. In accordance with IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations",* the statements of comprehensive income for the periods ended September 30, 2011 present the discontinued operations of Jevco reclassified for consistent presentation with the periods ended September 30, 2012.

(u) Earnings per share

Basic earnings per share is calculated by dividing net income by the total of the weighted average number of common shares outstanding during the reporting period plus the weighted average number of preferred shares outstanding during the reporting period. Net income and comprehensive income are equal for the nine months ended September 30, 2012 and the nine months ended September 30, 2011. The preferred shares are considered in-substance common shares.

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

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

3 Accounting Standards Issued But Not Yet Applied

IFRS 9 "*Financial instruments*" ("IFRS 9") was issued in November 2009 and will replace IAS 39 "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). IFRS 9 prescribes a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules permissible under IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 also requires a single impairment method to be used, replacing the multiple impairment methods permissible under IAS 39. The Company has not yet determined the impact of IFRS 9 on its financial statements. IFRS 9 is effective for years beginning on or after January 1, 2015.

IFRS 10 *"Consolidated Financial Statements"* ("IFRS 10"), issued in May 2011, replaces IAS 27 *"Consolidated and Separate Financial Statements"* and SIC-12 *"Consolidation - Special Purpose Entities"*. The Company does not currently apply SIC-12 as it does not have special purpose entities. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. IFRS 10 also sets out the accounting requirements for the preparation of consolidated financial statements. The three elements of control identified in IFRS 10 are power over the investee, exposure or rights to variable returns from involvement with the investee and investor ability to use power over the investee to affect the amount of the investor's returns. The Company expects that the adoption of IFRS 10 will not have a material impact on its financial statements.

IFRS 12 *"Disclosure of Interests in Other Entities"* ("IFRS 12") requires a company to disclose information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. IFRS 12 is required to be applied by an entity that has an interest in subsidiaries. The Company expects that the adoption of IFRS 12 will not have a material impact on its financial statements.

IFRS 13 *"Fair Value Measurement"* ("IFRS 13"), issued in May 2011, establishes a single source of guidance for fair value measurement under IFRS. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. IFRS 13 does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another IFRS or IAS requires it. IFRS 13 should be applied prospectively from the beginning of the year in which it is adopted. The Company expects that the adoption of IFRS 13 will not have a material impact on its financial statements.

IFRS 10, IFRS 12 and IFRS 13 are effective for years beginning on or after January 1, 2013.

4 Investments

The table below provides details of the investments classified by measurement category:

Category of investments:	September 30, 2012	December 31, 2011
Available-for-sale - carried at fair value	$ -	$ 920,591
Held-to-maturity - carried at amortized cost	-	97,468
	$ -	$ 1,018,059

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

				December 31, 2011
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Short-term investments	$ 84,780	$ 6	$ -	$ 84,786
Canadian bonds - Government	187,681	1,463	273	188,871
Canadian bonds - Corporate	371,600	8,854	378	380,076
Canadian bonds - Mortgage backed	40,526	937	7	41,456
Canadian bonds - Other asset backed	79,615	933	41	80,507
United States bonds - Corporate	28,142	282	104	28,320
	792,344	12,475	803	804,016
Common shares - Canadian	100,605	4,918	2,090	103,433
Preferred shares - Canadian	12,072	1,116	46	13,142
	$ 905,021	$ 18,509	$ 2,939	$ 920,591

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

4 Investments (continued)

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

	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Canadian bonds - Government	$ 73,006	$ 7,634	$ -	$ 80,640
Canadian bonds - Corporate	24,462	1,679	-	26,141
	$ 97,468	$ 9,313	$ -	$ 106,781

The annual coupon rates for the fixed term investments range from 1.0% to 12.2% at December 31, 2011. The average effective book yield using amortized cost and the contractual interest rates, adjusted for amortization of premiums and discounts at December 31, 2011, was 2.8%.

Fair value determination

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.

The Company uses a 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 December 31, 2011 is as follows:

December 31, 2011	Fair value	Level 1	Level 2	Level 3
Available-for-sale investments:				
Short-term investments	$ 84,786	$ -	$ 84,786	$ -
Canadian bonds - Government	188,871	-	188,871	-
Canadian bonds - Corporate	380,076	-	379,176	900
Canadian bonds - Mortgage backed	41,456	-	41,456	-
Canadian bonds - Other asset backed	80,507	-	80,507	-
United States bonds - Corporate	28,320	-	28,320	-
Common shares - Canadian	103,433	103,433	-	-
Preferred shares - Canadian	13,142	13,142	-	-
	$ 920,591	$ 116,575	$ 803,116	$ 900
Held-to-maturity investments:				
Canadian bonds - Government	$ 80,640	$ -	$ 80,640	$ -
Canadian bonds - Corporate	26,141	-	26,141	-
	$ 106,781	$ -	$ 106,781	$ -

Impairment Analysis

Management performs a quarterly analysis of investment holdings to determine whether there is objective evidence that the estimated cash flows of the investments have been affected. The analysis includes the following procedures as deemed appropriate by management:

- assessing whether 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 year;
- assessing whether declines in market value for debt investment holdings represent objective evidence of impairment based on their investment grade credit ratings from third party security rating agencies;
- assessing whether declines in market value for any debt investment holdings with non-investment grade credit rating represent objective evidence of impairment based on the history of its debt service record; and

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

4 Investments (continued)

- determining necessary provisions for declines in market values for which there is objective evidence of impairment based on analyses performed.

The risks and uncertainties inherent in the assessment methodology utilized to determine whether declines in market value represent objective evidence of impairment 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;
- 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; and
- the debt service pattern of non-investment grade investments may not reflect future debt service capabilities and may not reflect unknown underlying financial problems.

As a result of the impairment analysis performed by management, investment write-downs on common shares of $nil and $1,778 were recorded in the three and nine months ended September 30, 2012. No write-downs were recognized in the three and nine months ended September 30, 2011.

5 Property and Equipment

Details of cost and accumulated depreciation of property and equipment at December 31, 2011 are as follows:

	Land	Building	Leasehold improvements	Furniture and equipment	Computers	Automobiles	Total
Cost	$ 1,283	$ 16,584	$ 3,268	$ 2,784	$ 1,663	$ 286	$ 25,868
Accumulated depreciation	-	(963)	(227)	(847)	(912)	(101)	(3,050)
	$ 1,283	$ 15,621	$ 3,041	$ 1,937	$ 751	$ 185	$ 22,818

6 Intangible Assets

Details of cost and accumulated amortization of intangible assets at December 31, 2011 are as follows:

Cost	$ 6,049
Accumulated amortization	(2,205)
	$ 3,844

7 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 the Company's own experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims and adjustment expenses, product mix and 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 the Company'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-tailed 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.

7 Unpaid Claims and Adjustment Expenses (continued)

Variables affecting the determination of the provision are the receipt of additional claims 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. The provision for claims and adjustment expenses is reviewed separately by, and must be acceptable to, management of the Company, the Appointed Actuary and an external valuation actuary during the Company's triennial actuarial examination.

(b) Methodologies and assumptions

The best estimates of future claims and adjustment expenses have been determined from the projected ultimate claims and adjustment expenses based on the reported / paid claims development method, the Bornhuetter-Ferguson method, the Berquist-Sherman method and the expected claims method. Considerations in the choice of methods to estimate ultimate claims included, among other factors, the line of business, the number of years' experience and the age of the accident years being developed. A description of each of these methods is as follows:

(i) Reported / paid claims development method

The distinguishing characteristics of the development method are that ultimate claims for each accident year are produced from recorded values assuming the future claim development is similar to the prior years' development. The underlying assumption is that claims recorded to date will continue to develop in a similar manner in the future.

(ii) Bornhuetter-Ferguson method

The key assumption of the Bornhuetter-Ferguson method is that unreported claims will develop based on expected claims. In other words, the claims reported to date contain no informational value as to the amount of claims yet to be reported. It is most frequently used for lines of business with long settlement patterns, and lines of business subject to the occurrence of large claims.

(iii) Berquist-Sherman method

The adjusted reported development method, also known as the Berquist-Sherman method, is analogous to the reported / paid claims development method except that the reported claims used in the calculation of development factors are first adjusted to a common case reserve adequacy basis. A case reserve is a provision for unpaid claims and adjustment expenses for known claims. Compared to the reported / paid claims method, which relies on consistency in reserving philosophies and procedures to produce reliable results, the Berquist-Sherman method modifies the raw data to restate historical case reserves to the level that the current case reserves would imply, after the consideration of trend.

(iv) Expected claims method

Using the expected claims method, ultimate claims projections are based upon prior measures of the anticipated claims. An expected claims ratio is applied to the measure of exposure to determine estimated ultimate claims for each year. This method is more commonly used in lines of business with longer emergence and settlement patterns.

For each line of business, a roll-forward of the liabilities to September 4, 2012, the date of sale of Jevco, was performed based on the December 31, 2011 analysis. The September 4, 2012 liabilities were based on actuarial assumptions as established in the September 30, 2011 analysis and the December 31, 2011 IBNR reserves and adjusted, as appropriate, based on the actual claims experience. This approach is based on the assumption that the change in reported / paid development factors for the eight months would not be significantly affected by the development of reported claims during the eight months ended September 4, 2012. In addition, this approach is based on the Bornhuetter-Ferguson method principles, where the September 4, 2012 IBNR reserves are calculated based on the September 30, 2011 IBNR reserves projected to December 31, 2011 based on the selected reported / paid development factors, adjusted if necessary, and then added to the actual reported claims valued as of September 4, 2012 to determine the ultimate claims as of December 31, 2011. The same approach was followed in 2011 to determine the actual reported claims and IBNR at December 31, 2011.

Claims paid and reported, direct and net of reinsurance recoveries and net of salvage and subrogation, were tracked by lines of business, accident years and development periods. Selected claims development factors were calculated based on the historical development pattern of the reported claims. Judgment was used whenever there was a wide variability in the past development factors due to a small claims sample or due to a new class of business; development factors which seemed abnormal were disregarded in selecting the claims development factors. The Berquist-Sherman method was used to adjust the historical claims information for these variations.

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

7 Unpaid Claims and Adjustment Expenses (continued)

Claims data includes external claims adjustment expenses and internal claims adjustment expenses ("IAE"). For the portion of the portfolio which includes IAE, a provision for IAE was determined based on the ratio of paid IAE to paid claims. This method assumes that half of the IAE is required when the claim is first recorded. The remaining half of the IAE is required to maintain the claim. This IAE percentage is applied to the pure IBNR and to half of the case reserves plus IBNR for known claims.

The provision for unpaid claims and adjustment expenses is discounted using an interest rate based on the Company's projected investment income from the assets supporting the unpaid claims and adjustment expense liabilities, and reflecting the estimated timing of payments and recoveries. The discount rate used as at September 4, 2012, the date of sale of Jevco, was 2.89% (December 31, 2011 - 3.1%). Reinsurance recoverable estimates and claims recoverable from other insurers are discounted in a manner consistent with the method used to establish the related liability.

8 Site Restoration Provision

The site restoration provision is based on periodic independent estimates of costs associated with soil and groundwater reclamation and remediation of industrial sites formerly owned by the Company. The change in site restoration provision is as follows:

	Nine months ended September 30, 2012	Year ended December 31, 2011
Balance at January 1	$ 2,401	$ 2,495
Expenditures	-	(158)
Changes due to passage of time and discount rates	36	64
Balance at end of period	$ 2,437	$ 2,401

Change in estimates of future expenditures are as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements. The Company does not expect to settle any portion of the site restoration provision within twelve months after September 30, 2012.

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

9 Commitments and Contingent Liabilities

(a) In connection with its operations, the Company is from time to time named as defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal expenses in excess of amounts provided for. The Company does not believe that it will incur any significant additional expenses in connection with such actions.

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

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

(d) The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on properties previously owned by the Company. These estimated costs have been included in the site restoration provision (note 8).

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

10 Share Capital, Warrants and Contributed Surplus

Share Capital

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

The Company's share capital at September 30, 2012 and December 31, 2011 is as follows:

	September 30, 2012		December 31, 2011	
(thousands)	Number	Stated Capital	Number	Stated Capital
Common shares issued and fully paid	695,210	$ 203,640	580,344	$ 656,618
Series 1 Class A preferred shares issued and fully paid	-	-	63,853	30,784
	695,210	$ 203,640	644,197	$ 687,402

	Nine months ended September 30, 2012		Year ended December 31, 2011	
Common shares (thousands)	Number	Stated Capital	Number	Stated Capital
As at January 1	580,344	$ 656,618	580,565	$ 660,651
Issued	41,013	30,745	6,234	3,270
Conversion of Series 1 Class A preferred shares	73,853	37,684	-	-
Return of capital	-	(521,407)	-	-
Purchased and cancelled	-	-	(6,455)	(7,303)
	695,210	$ 203,640	580,344	$ 656,618

	Nine months ended September 30, 2012		Year ended December 31, 2011	
Series 1 Class A preferred shares (thousands)	Number	Stated Capital	Number	Stated Capital
As at January 1	63,853	$ 30,784	63,853	$ 30,784
Exercise of warrants	10,000	6,900	-	-
Conversion to common shares	(73,853)	(37,684)	-	-
	-	$ -	63,853	$ 30,784

There were no Class B preferred shares outstanding during the nine months ended September 30, 2012 or the year ended December 31, 2011. No shares of the Company are held by the Company or by its subsidiaries.

At a special meeting of the Company's shareholders on June 28, 2012, the shareholders voted in favour of a special resolution to reduce the stated capital of the common shares of the Company through a return of capital in the form of a cash distribution. The amount of the cash distribution was determined by the Board of Directors of the Company and the distribution was made on September 28, 2012 at $0.75 per common share for a total of $521,407. The return of capital was recorded as a reduction in the stated capital of the common shares.

The Series 1 Class A preferred shares rank equally with the common shares with respect to liquidation proceeds and are entitled to dividends as the directors may declare, provided that an equal dividend is declared on the common shares. All the issued Series 1 Class A preferred shares previously outstanding were held by one shareholder (the "Holder"). Series 1 Class A preferred shares are non-voting and convertible into common shares, on a one to one basis. The Series 1 Class A preferred shares initially prohibited conversion of such shares where the conversion would result in the Holder exercising control or direction over greater than 40% of the common shares. At the special meeting of the Company's shareholders on June 28, 2012, an amendment to the Company's articles was approved by a special resolution which, upon completion of the sale of Jevco, permitted Series 1 Class A preferred shares to be converted to common shares while permitting the Holder to exceed an ownership of 40% of the common shares. In anticipation of this special resolution, the Company and the Holder entered into a voting agreement ("Voting Agreement") on May 25, 2012 to provide comparable protection to the common shareholders as was provided by the conversion restrictions which were in place prior to the special resolution. Pursuant to the Voting Agreement, the Holder agreed to vote the shares over which it exercises control or discretion and which represent in excess of 40% of the issued and outstanding common shares, in such manner as the Company's Board of Directors specifies or directs. All Series 1 Class A preferred shares were converted to common shares prior to the cash distribution.

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

10 Share Capital, Warrants and Contributed Surplus (continued)

Warrants

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 were exercised on September 11, 2012 for cash consideration of $5,000. The fair value of the warrants at the time of issuance on February 9, 2010 was $1,900, which was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.59% and a volatility of 30.0%. This amount was reclassified to share capital upon the exercise of the warrants.

Contributed Surplus

In August 2011, the Company filed a normal course issuer bid which entitled the Company to acquire up to 30,173,238 common shares between August 30, 2011 and August 29, 2012. In 2012, no shares were purchased under the normal course issuer bid. In 2011, the Company repurchased 6,455,000 common shares on the open market through the normal course issuer bid at an average price per share of $0.4875, for an aggregate consideration of $3,147. The amount by which the average carrying value exceeded the cost of reacquiring the shares of $4,156 was credited to contributed surplus.

11 Share-based Compensation

Under the Company's comprehensive long-term equity incentive plan, as approved by the Board of Directors and ratified by the shareholders, the Company may grant share-based awards for an initial number of 63,858,049 common shares of the Company.

Stock Options - Changes to the number of stock options for the nine months ended September 30, 2012 and 2011 are as follows:

	Nine months ended September 30, 2012		Nine months ended September 30, 2011	
Common share stock options	Number (thousands)	Weighted Average Exercise Price in dollars	Number (thousands)	Weighted Average Exercise Price in dollars
Outstanding at January 1	475	$ 3.30	1,072	$ 4.03
Exercised	(27)	$ 0.22	(70)	$ 0.22
Expired and forfeited	(75)	$ 5.60	(527)	$ 5.19
Outstanding at September 30	373	$ 3.07	475	$ 3.30

All stock options outstanding are exercisable at prices ranging from $1.23 to $6.18 and have an average remaining contractual life of 2.6 years.

Deferred Share Units - DSUs are granted to non-executive directors of the Company and, prior to the sale of Jevco, also to non-executive directors, 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. Vested DSUs are paid out in cash when the participant ceases to be a director, officer or employee. All DSUs vested and were paid out upon the sale of Jevco (note 18).

Changes to the number of DSUs for the nine months ended September 30, 2012 and 2011 are as follows:

	Nine months ended September 30	
DSUs (thousands)	2012	2011
Outstanding at January 1	5,538	4,609
Granted	612	833
Exercised	(6,111)	-
Cancelled	(39)	(77)
Outstanding at September 30	-	5,365

For the three and nine months ended September 30, 2012, compensation expense relating to DSUs was $nil and $1,131 (2011 - $83 and $107). At September 30, 2012, a liability of $nil (December 31, 2011 - $2,723) has been accrued with respect to issued DSUs.

Restricted Share Units - RSUs vest over three years, one third on each of the one year, two year and three year anniversary of the grant date, and are payable in cash when vested. The holder may elect to apply all or part of such cash payment to a subscription for common shares of the Company. Upon a change of control of the Company or the sale of substantially all of the assets of the Company, RSUs vest immediately.

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

11 Share-based Compensation (continued)

Compensation expense with respect to RSUs for the three and nine months ended September 30, 2012 was $1,554 and $10,050 (2011 - $1,224 and $4,621). At September 30, 2012, accounts payable and accrued liabilities included an accrued liability related to RSUs of $nil (December 31, 2011 - $8,216). Upon the acquisition of Goodwood Management Inc. ("GMI") by the Company, an expense of $9,121 was recognized to reflect the value of the RSUs which were extinguished as a result of the subsequent windup of GMI (note 12).

Changes to the number of RSUs for the nine months ended September 30, 2012 and 2011 are as follows:

	Nine months ended September 30	
RSUs (thousands)	2012	2011
Outstanding at January 1	26,849	25,775
Granted	9,666	9,666
Extinguished on windup of GMI (note 12)	(36,515)	-
Exercised	-	(8,592)
Outstanding at September 30	-	26,849

12 Related Party Transactions

Management services agreement

Prior to September 4, 2012, the Company had a management services agreement ("MSA") with GMI to manage the day-to-day affairs of the Company and to present strategic investment opportunities for the Board of Directors to consider. GMI was required to provide certain services to the Company including the services of two directors, one of whom was also President and Chief Executive Officer, and a Chief Financial Officer. The MSA provided that GMI was paid an annual service fee designed to compensate GMI 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 made available by GMI to the Company. The amount of the services fee was based on a report prepared by an independent compensation consultant. GMI was also entitled to participate in an annual incentive bonus plan for the purpose of recognizing the contribution of GMI to the Company's business.

Prior to the purchase of GMI by the Company on September 4, 2012, GMI was controlled by corporations controlled by two directors of the Company.

For the three and nine months ended September 30, 2012, GMI fee expense, inclusive of harmonized sales tax, was $431 and $3,473 (2011 - $597 and $2,677). At September 30, 2012, fees of $nil (December 31, 2011 - $226) were included in accounts payable and accrued liabilities. Upon the extinguishment of the MSA, an expense of $4,966 was recognized in the statement of comprehensive income.

All RSUs previously outstanding were held by GMI (note 11).

Acquisition of GMI

On September 4, 2012, the Company purchased all the issued and outstanding shares of GMI for $4,190 in cash and 36,514,902 common shares of the Company. The consideration paid reflected the fair value of the assets and liabilities of GMI, including the RSUs held by GMI and the management contract with the Company. As the fair value of the consideration paid was determined to be equal to the fair value of the assets and liabilities of GMI, no goodwill was recorded. Immediately following the acquisition, GMI was wound up into the Company.

Former employees of GMI who are now employees of the Company will be considered key management personnel for related party disclosure purposes beginning on September 4, 2012.

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

12 Related Party Transactions (continued)

Transactions with key management personnel

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

Compensation expenses related to key management personnel for the three and nine months ended September 30, 2012 and 2011 are as follows:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Salaries and other short-term employee benefits	$ 265	$ 27	$ 383	$ 71
Share-based compensation	-	(105)	1,131	(70)
	$ 265	$ (78)	$ 1,514	$ 1

13 Income Taxes

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

The deferred income tax asset consists of deferred taxes related to the following:

	September 30, 2012	December 31, 2011
Non-capital loss carry-forwards	$ -	$ 2,862
Unpaid claims and adjustment expenses	-	7,653
Intangible assets, property and equipment	-	(1,231)
Other	-	824
Deferred income tax asset	$ -	$ 10,108

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

	September 30, 2012	December 31, 2011
Non-capital loss carry-forwards	$ 45,951	$ 44,054
Capital loss carry-forwards	-	96,194
Deductible temporary differences	6,071	28,333
Corporate minimum tax credits	1,530	-
Investment tax credits	8,672	8,672

Previously unrecognized capital loss carry-forwards were utilized as a result of the disposition of Jevco. Deductible temporary differences decreased due to the payment and extinguishment of share-based compensation and the reversal of other differences deductible for tax.

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2031, as follows:

Non-capital losses by year of expiry:	
2013	$ 1,105
2014	452
2026	7,883
2027	6,151
2028	9,048
2029	103
2030	610
2031	20,599
	$ 45,951

Investment tax credits by year of expiry:	
2017	$ 3,241
2018	888
2019	961
2020	823
2021	643
2022	324
2023	175
Beyond 2023	1,617
	$ 8,672

13 Income Taxes (continued)

Temporary differences associated with investments in subsidiaries for which deferred tax liabilities had not been recognized were $99,131 at December 31, 2011. The Company was able to control the timing of the reversal of these temporary differences which were reversed in the three months ended September 30, 2012.

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Loss from continuing operations	$ (16,440)	$ (2,087)	$ (32,360)	$ (5,280)
Gain on sale of discontinued operations	109,626	-	108,213	-
Income before income taxes on continuing operations and gain on sale of discontinued operations	93,186	(2,087)	75,853	(5,280)
Statutory income tax rate	26.5%	28.0%	26.5%	28.0%
Income taxes at statutory income tax rate	24,694	(584)	20,101	(1,478)
Variations due to:				
Non-deductible and non-taxable items	(10,588)	114	(9,709)	(94)
Unrecognized temporary differences	1,922	470	1,840	1,572
Utilization of previously unrecognized tax losses	(16,028)	-	(12,232)	-
Corporate minimum tax	1,530	-	1,530	-
Income tax expense on continuing operations and gain on sale of discontinued operations	$ 1,530	$ -	$ 1,530	$ -

Income tax expense is recognized in the statements of comprehensive income as follows:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Income tax expense on:				
Continuing operations	$ -	$ -	$ -	$ -
Gain on sale of discontinued operations	1,530	-	1,530	-
Income tax expense on continuing operations and gain on sale of discontinued operations	1,530	-	1,530	-
Income tax expense on profit of discontinued operations	1,034	5,798	9,170	12,532
Total income tax expense on continuing and discontinued operations	$ 2,564	$ 5,798	$ 10,700	$ 12,532

14 Earnings per Share

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

The reconciliation from the basic number of shares to the diluted number of shares used in the denominators to calculate basic and diluted earnings per share, as presented in the statements of comprehensive income, is as follows:

Number of common shares and	Three months ended September 30		Nine months ended September 30	
Series 1 Class A preferred shares (in thousands)	2012	2011	2012	2011
Number of shares for basic earnings per share	658,016	650,412	648,804	647,610
Effect of dilutive securities:				
- restricted share units	18,958	11,155	20,163	10,056
- warrants	2,686	96	2,641	635
- stock options	4	16	14	17
Number of shares for diluted earnings per share	679,664	661,679	671,622	658,318

The Series 1 Class A preferred shares are considered in-substance common shares and are included in the calculation of earnings per share.

14 Earnings per Share (continued)

Stock options to purchase 372,800 common shares were outstanding at September 30, 2012 (September 30, 2011 - 475,000). These stock options were excluded in the calculation of diluted earnings per share because the exercise price of the stock options was greater than the weighted average market value of the common shares in the quarter.

15 Capital Management

The Company's capital consists of its shareholders' equity. The Company's objectives when managing capital are to maintain a strong balance sheet and maximize shareholder value. In order to achieve the Company's capital management objectives, it employs a strong and efficient capital base and manages capital in accordance with policies established by the Board of Directors. These policies relate to capital strength, capital mix, dividends and return on capital. The Company has a capital management process in place to measure, deploy and monitor its available capital to assess its adequacy on a continuous basis.

Management develops the capital strategy and oversees the capital management processes. Capital is managed using internal metrics.

Prior to the sale of Jevco on September 4, 2012, the funds of the Company were mainly invested in the equity of Jevco. 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.

At the special meeting of the Company's shareholders on June 28, 2012, the shareholders voted in favour of a special resolution to reduce the stated capital of the common shares of the Company through a return of capital in the form of a cash distribution. The amount of the cash distribution was determined by the Board of Directors of the Company and the distribution was made on September 28, 2012 at $0.75 per common share for a total of $521,407.

16 Risk Management

By virtue of the nature of the insurance company business, financial instruments comprised the majority of the Company's statement of financial position as at December 31, 2011. The most significant identified risks which arise from holding financial instruments include credit risk, market risk, liquidity risk and insurance underwriting risk. Market risk exposure is related to changes in interest rates and adverse movement in equity prices. The insurance underwriting risk of the Company was primarily related to pricing risk, concentration of risk and reserving risk. The Investment Committee of the Board of Jevco and senior management monitored the Company's risk exposures and activities giving rise to these exposures. The Appointed Actuary performed quarterly and annual analyses of the effect of various projected adverse scenarios on the financial condition of the Company which were compared to a base scenario using the Company's business plan. Management considered the results of these analyses in its risk management procedures. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

The sale of Jevco has significantly reduced the Company's exposure to credit risk, market risk and insurance underwriting risk. The most significant identified risk to the Company at September 30, 2012 is liquidity risk.

<u>Liquidity risk</u>

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 general business activities and in the course of managing assets and liabilities. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. To meet these cash requirements, the Company monitors the cash position to ensure that all obligations are fulfilled. The Company's statement of financial position at September 30, 2012 consists of short-term financial assets and financial liabilities with maturities of less than one year, other than the site restoration provision discussed in note 8.

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

17 Operating Segment

Prior to the sale of Jevco, the Company had one reportable segment which comprised the Company's property and casualty insurance business carried on through Jevco. All other includes corporate activities including the gain on sale of Jevco. The accounting policies of the reportable segment are the same as the Company's accounting policies described in note 2. Segment comprehensive income represents segment comprehensive income without allocation of certain administration costs.

	Three months ended September 30, 2012			Three months ended September 30, 2011		
	Insurance segment	All other	Total	Insurance segment	All other	Total
Revenue of continuing operations	$ -	$ 474	$ 474	$ -	$ 23	$ 23
Net loss from continuing operations	-	(16,440)	(16,440)	-	(2,087)	(2,087)
Income from discontinued operations	3,704	108,096	111,800	15,631	-	15,631
Comprehensive income (loss)	3,704	91,656	95,360	15,631	(2,087)	13,544

	Nine months ended September 30, 2012			Nine months ended September 30, 2011		
	Insurance segment	All other	Total	Insurance segment	All other	Total
Revenue of continuing operations	$ -	$ 633	$ 633	$ -	$ 2,846	$ 2,846
Net loss from continuing operations	-	(32,360)	(32,360)	-	(5,280)	(5,280)
Income from discontinued operations	29,667	106,683	136,350	33,541	-	33,541
Comprehensive income (loss)	29,667	74,323	103,990	33,541	(5,280)	28,261

	September 30, 2012			December 31, 2011		
	Insurance segment	All other	Total	Insurance segment	All other	Total
Assets						
Cash and cash equivalents	$ -	$ 42,371	$ 42,371	$ 9,685	$ 14,662	$ 24,347
Investment income due and accrued	-	-	-	5,567	-	5,567
Investments	-	-	-	1,018,059	-	1,018,059
Instalment premiums	-	-	-	62,781	-	62,781
Income taxes recoverable	-	-	-	115	-	115
Accounts receivable and other assets	-	367	367	26,008	1,946	27,954
Recoverable from reinsurers	-	-	-	33,970	-	33,970
Claims recoverable from other insurers	-	-	-	50,969	-	50,969
Deferred policy acquisition expenses	-	-	-	35,601	-	35,601
Deferred income taxes	-	-	-	10,108	-	10,108
Property and equipment	-	-	-	22,818	-	22,818
Intangible assets	-	-	-	3,844	-	3,844
Total assets	$ -	$ 42,738	$ 42,738	$1,279,525	$ 16,608	$1,296,133
Liabilities						
Accounts payable and accrued liabilities	$ -	$ 3,180	$ 3,180	$ 20,957	$ 12,566	$ 33,523
Income taxes due and accrued	-	1,530	1,530	821	-	821
Unearned premiums	-	-	-	164,437	-	164,437
Unpaid claims and adjustment expenses	-	-	-	675,094	-	675,094
Leasehold inducements	-	-	-	2,594	-	2,594
Site restoration provision	-	2,437	2,437	-	2,401	2,401
Total liabilities	$ -	$ 7,147	$ 7,147	$ 863,903	$ 14,967	$ 878,870

18 Sale of Subsidiary

On May 2, 2012, the Company announced it had entered into an agreement with an unrelated party (the "Purchaser") to sell all the issued and outstanding shares in the capital of Jevco to the Purchaser for $530,000 in cash. On June 28, 2012, at the special meeting of the Company's shareholders, a special resolution in favour of the agreement was approved by shareholder vote. The sale of Jevco was concluded on September 4, 2012 after all regulatory approvals were received.

The insurance segment presented in note 17 *Operating Segment* consists solely of Jevco, and includes Jevco's total assets and total liabilities as at December 31, 2011.

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