

The Westaim Corporation
Consolidated Statements of Financial Position
(unaudited)

(thousands of United States dollars)	September 30 2018	December 31 2017
ASSETS		
Cash	\$ 5,541	\$ 7,813
Loans receivable (note 4)	20,124	23,925
Other assets (note 5)	3,260	3,114
Investments (note 6)	368,307	351,338
	<u>\$ 397,232</u>	<u>\$ 386,190</u>
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	\$ 10,990	\$ 9,824
Preferred securities (note 8)	38,700	39,876
Derivative warrant liability (note 9)	6,195	6,678
Site restoration provision (note 10)	3,317	3,770
	<u>59,202</u>	<u>60,148</u>
Commitments and contingent liabilities (note 11)		
SHAREHOLDERS' EQUITY		
Share capital (note 12)	382,182	382,182
Contributed surplus (note 13)	15,925	14,172
Accumulated other comprehensive loss (note 2n)	(2,227)	(2,227)
Deficit	(57,850)	(68,085)
	<u>338,030</u>	<u>326,042</u>
	<u>\$ 397,232</u>	<u>\$ 386,190</u>

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

The Westaim Corporation

Consolidated Statements of Profit (Loss) and Comprehensive Income (Loss)

(unaudited)

(thousands of United States dollars except share and per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue				
Investment income (note 14)	\$ 787	\$ 774	\$ 2,297	\$ 1,487
Fee income (note 14)	360	360	1,080	1,080
	<u>1,147</u>	<u>1,134</u>	<u>3,377</u>	<u>2,567</u>
Net results of investments				
Unrealized gain on investments in private entities (note 6)	5,681	4,811	15,646	13,284
Share of loss of associates (note 6)	(340)	(578)	(1,677)	(2,683)
Unrealized gain on other investments (note 5)	68	124	170	207
	<u>5,409</u>	<u>4,357</u>	<u>14,139</u>	<u>10,808</u>
Net expenses				
Salaries and benefits	930	977	2,799	2,805
General, administrative and other	179	235	832	823
Professional fees	184	209	780	578
Site restoration provision (note 10)	(371)	(644)	(343)	(311)
Share-based compensation (note 13)	693	318	2,472	2,666
Foreign exchange	395	806	(372)	1,465
Interest on preferred securities (note 8)	488	506	1,440	659
Derivative warrants (note 9)	(366)	(3,222)	(327)	5,439
Preferred securities issuance costs (note 8)	-	22	-	505
	<u>2,132</u>	<u>(793)</u>	<u>7,281</u>	<u>14,629</u>
Profit (loss) and comprehensive income (loss)	\$ 4,424	\$ 6,284	\$ 10,235	\$ (1,254)
Earnings (loss) per share - basic and diluted (note 16)	\$ 0.03	\$ 0.04	\$ 0.07	\$ (0.01)
Weighted average number of common shares outstanding (in thousands)				
Basic and diluted	143,187	143,187	143,187	143,187

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, 2018					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2018	\$ 382,182	\$ 14,172	\$ (2,227)	\$ (68,085)	\$ 326,042
Stock option plan expense (note 13)	-	1,753	-	-	1,753
Profit	-	-	-	10,235	10,235
Balance at September 30, 2018	\$ 382,182	\$ 15,925	\$ (2,227)	\$ (57,850)	\$ 338,030

Nine Months ended September 30, 2017					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2017	\$ 382,182	\$ 12,210	\$ (2,227)	\$ (73,660)	\$ 318,505
Stock option plan expense (note 13)	-	1,377	-	-	1,377
Loss	-	-	-	(1,254)	(1,254)
Balance at September 30, 2017	\$ 382,182	\$ 13,587	\$ (2,227)	\$ (74,914)	\$ 318,628

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

The Westaim Corporation
Consolidated Cash Flow Statements
(unaudited)

(thousands of United States dollars)	Nine Months Ended September 30	
	2018	2017
Operating activities		
Profit (loss)	\$ 10,235	\$ (1,254)
Unrealized gain on investments in private entities (note 6)	(15,646)	(13,284)
Share of loss of associates (note 6)	1,677	2,683
Unrealized gain on other investments (note 5)	(170)	(207)
Share-based compensation expense (note 13)	2,472	2,666
Share-based compensation payments (note 13)	-	(340)
Site restoration provision expense (note 10)	(343)	(311)
Lease expense	(9)	(9)
Depreciation and amortization	31	43
Unrealized foreign exchange (gain) loss	(352)	1,549
Change in fair value of derivative warrant liability (note 9)	(327)	5,439
Net change in other non-cash balances		
Other assets	(102)	1,876
Accounts payable and accrued liabilities	317	973
Cash used in operating activities	(2,217)	(176)
Investing activities		
Purchase of investments in private entities	-	(5)
Loans made to subsidiaries (note 4)	-	(37,030)
Repayment of loans made to subsidiaries (note 4)	2,962	-
Purchase of capital assets	(17)	(11)
Loans made to associates (note 6)	(3,000)	-
Cash used in investing activities	(55)	(37,046)
Financing activities		
Issuance of preferred securities (note 8)	-	37,026
Cash from financing activities	-	37,026
Net decrease in cash	(2,272)	(196)
Cash, beginning of period	7,813	3,027
Cash, end of period	\$ 5,541	\$ 2,831
Cash is composed of:		
Cash	\$ 5,541	\$ 2,831
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,454	\$ 153

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

The Westaim Corporation
Notes to Consolidated Financial Statements (unaudited)
For the three and nine months ended September 30, 2018 and 2017

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

1 Nature of Operations

The Westaim Corporation ("Westaim" or the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company's head office is located at Suite 1700, 70 York Street, Toronto, Ontario, Canada. These consolidated financial statements were authorized for issue by the Board of Directors of the Company on November 8, 2018.

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the global financial services industry. The Company's principal investments consist of Houston International Insurance Group, Ltd. (through Westaim HIIG Limited Partnership) and the Arena Group (as described in note 6). The Company's common shares are traded on the TSX Venture Exchange (the "TSXV") under the symbol WED.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Westaim Management Limited Partnership ("Management LP"), Westaim Management GP Inc. ("Management GP"), Westaim HIIG GP Inc. ("HIIG GP") and The Westaim Corporation of America ("WCA").

All currency amounts are expressed in thousands of United States dollars ("US\$"), the functional and presentation currency of the Company, except per share data, unless otherwise indicated.

2 Summary of Significant Accounting Policies

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

(a) Basis of preparation

These consolidated financial statements are prepared in compliance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

The Company meets the definition of an investment entity under IFRS 10 "Consolidated Financial Statements" ("IFRS 10") and measures its investments in relevant subsidiaries at fair value through profit or loss ("FVTPL"), instead of consolidating those subsidiaries in its consolidated financial statements. Entities accounted for at FVTPL consist of Westaim HIIG Limited Partnership (the "HIIG Partnership"), Arena Finance Company Inc. ("Arena Finance") and Westaim Origination Holdings, Inc. ("Arena Origination").

The financial statements of entities controlled by the Company which provide investment-related services are consolidated. These entities consist of its wholly-owned subsidiaries, Management LP, Management GP, HIIG GP and WCA. The financial results of these entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. The Company controls an entity when the Company has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Assessment of control is based on the substance of the relationship between the Company and the entity and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable or convertible. Intercompany balances and transactions are eliminated upon consolidation.

Investments in associates are accounted for using the equity method in accordance with IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28") and consist of investments in corporations or limited partnerships where the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. The Company's investments in associates consist of its investments in Westaim Arena Holdings II, LLC ("WAHII") (through WCA), Arena Special Opportunities Fund (Onshore) GP, LLC ("ASOF-ON GP") (through WCA), and Arena Special Opportunities Fund (Offshore) II GP, LP ("ASOF-OFF II GP") (the "Associates"), and are reported under investments in the consolidated statements of financial position, with the Company's share of profit (loss) and comprehensive income (loss) of the Associates reported under "Net results of investments" in the consolidated statements of profit (loss) and comprehensive income (loss).

(b) Functional and presentation currency

The US\$ is the functional and presentation currency of the Company. IAS 21 "The Effects of Changes in Foreign Exchange Rates" describes functional currency as the currency of the primary economic environment in which an entity operates. A significant majority of the Company's revenues and costs are earned and incurred in US\$, respectively.

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2 Summary of Significant Accounting Policies (continued)

(c) Use of estimates

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the reporting period in which they are determined. Key estimates include the fair value of investments in private entities, provision for site restoration, fair value of share-based compensation, fair value of derivative warrant liability, and unrecognized deferred tax assets.

(d) Judgments made by management

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include determining that the Company meets the definition of an investment entity under IFRS 10, valuation techniques for fair value determination of investments in private entities, applying the equity method of accounting for associates and determining that the Company's functional currency is the US\$. For additional information on these judgments, see note 6 for investments in private entities and associates and note 2(b) for functional currency.

(e) Foreign currency translation

Transactions in foreign currencies are translated into US\$ at rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities transacted in foreign currencies are translated into US\$ at rates of exchange at the end of the reporting period. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was measured. Any resulting foreign exchange gain or loss is included in the consolidated statements of profit (loss) and comprehensive income (loss).

From time to time, the Company may enter into foreign exchange forward contracts to manage certain foreign currency exposures arising from foreign currency denominated transactions. The Company has not designated any foreign exchange forward contracts as accounting hedges. Any resulting foreign exchange gain or loss arising from the foreign exchange forward contracts is included in the consolidated statements of profit (loss) and comprehensive income (loss).

(f) Revenue recognition

Investment income includes interest income and dividend income. Interest income is recognized on an accrual basis and dividend income is recognized on the ex-dividend date. Advisory and management fees are recorded as fee income over time as these services are performed.

(g) Cash and cash equivalents

Cash and cash equivalents generally consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less. At September 30, 2018, the Company's cash consisted of cash on deposit, including restricted cash on deposit of \$2,500 (see note 8).

(h) Capital assets

The Company's capital assets are included in other assets and are reported at cost less accumulated depreciation. Depreciation is calculated based on the estimated useful life of the particular assets which is 3 to 10 years for furniture and equipment. Leasehold improvements are depreciated using the straight-line method over the lesser of the term of the lease or the estimated useful life of the assets. At the end of each reporting period, management reviews the carrying amounts of capital assets for any 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.

(i) Investments

The Company's investments in private entities are classified as FVTPL and are carried at fair value. At initial recognition, investments in private entities are measured at cost, which is representative of fair value, and subsequently, at each reporting date, recorded at fair value with gains and losses arising from changes in fair values being recorded in the consolidated statements of profit (loss) and comprehensive income (loss) for the period in which they arise. Transaction costs on the investments are expensed as incurred.

Investments in associates are initially recorded at cost and subsequently adjusted to recognize the Company's share of profit (loss) and other comprehensive income (loss) of the Associates and any dividends received from the Associates. Transaction costs on investments in associates are capitalized.

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2 Summary of Significant Accounting Policies (continued)

Investments in financial assets and instruments that are not traded in an active market, including private entities, are generally valued initially at the cost of acquisition on the basis that such cost is a reasonable estimate of fair value. Such investments are subsequently revalued using accepted industry valuation techniques. The Company considers a variety of methods and makes assumptions that are based on market conditions existing at each period end date. Valuation techniques used may include initial acquisition cost, net asset value, discounted cash flow analysis, comparable recent arm's length transactions, comparable publicly traded company metrics, reference to other instruments that are substantially the same, option pricing models and other valuation techniques commonly used by market participants. Any sale, size or other liquidity restrictions on the investment are also considered by management in its determination of fair value. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had an active market for the investments existed, and the differences could be material.

The Company may use internally developed models, which are usually based on valuation methods and techniques generally recognized as accepted within the industry. Valuation models are used primarily to value unlisted equity and debt securities for which no market quotes exist or where markets were or have been inactive during the financial period. Some of the inputs to these models may not be observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

Management is responsible for performing fair value measurements included in the Company's consolidated financial statements for each quarter. The Company prepares a detailed valuation for each reporting period describing the valuation processes and procedures undertaken by management. The applicable valuation memoranda are provided to members of the Company's audit committee and all Level 3 valuation results are reviewed with the audit committee as part of its review of the Company's consolidated financial statements.

(j) Income taxes

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

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

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

(k) Warrants

Warrants subject to a cashless exercise at the discretion of the holder are classified as a derivative liability and measured at FVTPL. Change in the fair value of the warrants is reported in the consolidated statements of profit (loss) and comprehensive income (loss) for the period in which they arise.

(l) Site restoration provision

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

Future reimbursements of costs resulting from indemnifications provided to the Company by previous owners of the industrial sites have not been recognized in these consolidated financial statements. Reimbursements of site restoration costs are recorded when received.

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2 Summary of Significant Accounting Policies (continued)

(m) Contributed surplus

The cost of stock options are 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 included in contributed surplus.

(n) Accumulated other comprehensive loss

Accumulated other comprehensive loss consists of cumulative exchange differences from currency translation.

(o) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 13. The value attributed to stock options at issuance are recognized in income as an expense over the period from the issue date to the vesting date with a corresponding increase in contributed surplus. Any consideration paid by stock option holders for the purchase of stock is credited to share capital.

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

(p) Earnings per share

Basic earnings per share is calculated by dividing profit or loss by the weighted average number of common shares outstanding during the reporting period.

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

3 Accounting Pronouncements

(a) Adopted in the current period

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 "*Financial Instruments*" ("IFRS 9") as part of its plan to replace IAS 39 "*Financial Instruments: Recognition and Measurement*". IFRS 9 requires financial assets to be measured at either fair value or amortized cost. In July 2014, the IASB issued the final version of IFRS 9 incorporating a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets. The Company has determined that the adoption of IFRS 9 did not have a material impact on the Company's consolidated financial statements and all loans receivable and accounts receivable will continue to be measured at amortized cost. IFRS 9 was adopted on January 1, 2018 on a retrospective basis without restatement of comparative periods. Management has reviewed the Company's assets measured at amortized cost and have concluded that the adoption of the new expected credit loss impairment model had a negligible impact on the carrying amount of these assets in the Company's consolidated financial statements as at January 1, 2018 and September 30, 2018.

On May 28, 2014, the IASB issued a standard on the recognition of revenue from contracts with customers, which replaced all existing revenue standards and interpretations. The core principle of the new standard is for entities to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 "*Revenue from Contracts with Customers*" ("IFRS 15") was adopted on January 1, 2018 and was applied using the modified retrospective approach. The Company completed its assessment of IFRS 15, including an evaluation of the Company's contracts with customers, and has determined that the adoption of IFRS 15 did not have a material impact on the Company's consolidated financial statements.

On June 20, 2016, the IASB issued amendments to IFRS 2 "*Share-based Payment*" ("IFRS 2"), clarifying the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features for withholding tax obligations, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. These amendments were adopted on January 1, 2018. The Company completed its assessment of the amendments to IFRS 2 and management has determined that the adoption of the amendments to IFRS 2 did not have a material impact on the Company's consolidated financial statements.

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3 Accounting Pronouncements (continued)

(b) Issued but not yet adopted

On January 13, 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16") which will replace IAS 17 "Leases". IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Company has identified its leases that are impacted by IFRS 16 and does not expect the adoption of IFRS 16 to have a material impact on its consolidated financial statements. The Company has no plans for early adoption and will adopt the modified retrospective approach.

In June 2017, the IASB published IFRIC 23, "Uncertainty over Income Tax Treatments" ("IFRIC 23") effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The interpretation may be applied on either a fully retrospective basis or a modified retrospective basis without restatement of comparative information. The Company is currently evaluating the impact of IFRIC 23 on its consolidated financial statements.

4 Loans Receivable

On June 9, 2017, the Company used the proceeds from the Fairfax Financing (as defined in note 8) to loan Canadian dollars ("C\$") 30,000 to AFHC (as defined in note 6) and C\$20,000 to AOC (as defined in note 6) (collectively, the "Arena Loans") on market terms. The Arena Loans are denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of AFHC and AOC. The Arena Loans carry interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest is due at the end of each calendar quarter. AFHC made a principal repayment to the Company of C\$20,000 on December 21, 2017 and C\$1,000 each on March 7, 2018, May 25, 2018, June 26, 2018 and August 22, 2018 resulting in an outstanding loan of C\$6,000 to AFHC and C\$20,000 to AOC at September 30, 2018 (C\$10,000 to AFHC and C\$20,000 to AOC at December 31, 2017).

The Arena Loans are recorded under loans receivable in the consolidated statements of financial position. The Arena Loans are translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit (loss) and comprehensive income (loss). At September 30, 2018 and December 31, 2017, the carrying amount of the Arena Loans, which approximated fair value, totaled \$20,124 and \$23,925, respectively. The Company recorded a foreign exchange gain relating to the Arena Loans of \$357 and a foreign exchange loss of \$732 in the three and nine months ended September 30, 2018, respectively and foreign exchange gains of \$1,530 and \$3,068 in the three and nine months ended September 30, 2017, respectively.

Interest on the Arena Loans earned and received by the Company totaled \$354 and \$1,071 for the three and nine months ended September 30, 2018, respectively and \$589 and \$715 for the three and nine months ended September 30, 2017, respectively, and was included in investment income in the consolidated statements of profit (loss) and comprehensive income (loss).

5 Other Assets

Other assets consist of the following:

	September 30, 2018	December 31, 2017
Capital assets	\$ 81	\$ 95
Investment in Arena Special Opportunities Fund, LP (a)	2,425	2,255
Receivables from related parties (b)	670	476
Change in fair value of foreign exchange forward contract (note 8)	-	110
Accounts receivable and other	84	178
	\$ 3,260	\$ 3,114

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5 Other Assets (continued)

- (a) The Company's investment in Arena Special Opportunities Fund, LP ("ASOF LP"), a fund managed by Arena Investors, LP (see note 6), is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At September 30, 2018 and December 31, 2017, the fair value of the Company's interest in ASOF LP was determined by Arena Investors (as defined in note 6) to be \$2,425 and \$2,255, respectively. The Company reported unrealized gains of \$68 and \$170 in the three and nine months ended September 30, 2018, respectively and \$124 and \$207 in the three and nine months ended September 30, 2017, respectively, with respect to the investment in the consolidated statements of profit (loss) and comprehensive income (loss).
- (b) Receivables from related parties totaled \$670 at September 30, 2018 and \$476 at December 31, 2017 and included certain expenses paid by the Company on behalf of the Arena Group from time to time which are subject to reimbursement.

6 Investments

The carrying values of the Company's investments in private entities and associates included under investments in the consolidated statements of financial position are as follows:

	September 30, 2018	December 31, 2017
Investments in private entities	\$ 359,024	\$ 343,378
Investments in associates	9,283	7,960
	\$ 368,307	\$ 351,338

The Company's principal investments consist of its investments in HIIG (through the HIIG Partnership) and the Arena Group. Investments in private entities are measured at FVTPL and investments in associates are accounted for using the equity method.

	Place of establishment	Principal place of business	Ownership interest as at September 30, 2018 and December 31, 2017
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim ¹
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim ²
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim ²
Investments in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ³
- ASOF-ON GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ³
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim ²

¹ On September 30, 2018, Westaim HIIG Holdings Inc. an incorporated wholly-owned subsidiary, transferred all of its ownership interest in the HIIG Partnership to the Company and was dissolved. No book gain or loss was recorded upon the transfer. Following the transfer, the Company owns, directly 58.5% of the HIIG Partnership.

² Ownership subject to vesting and conversion of M units held by Bernard Partners, LLC (as hereinafter defined) described below under "Investments in Arena Finance and Arena Origination".

³ Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to Bernard Partners, LLC described below under "Investments in Associates".

The HIIG Partnership, Arena Finance and Arena Origination are investment entities, as defined in IFRS 10, and account for their investments in subsidiaries at FVTPL instead of consolidating them. The subsidiaries of the HIIG Partnership, Arena Finance and Arena Origination are as follows:

	Place of establishment	Principal place of business	Ownership interest as at September 30, 2018	Ownership interest as at December 31, 2017
HIIG Partnership:				
- Houston International Insurance Group, Ltd. ("HIIG")	Delaware, U.S.	Texas, U.S.	75.1% owned by HIIG Partnership	75.0% owned by HIIG Partnership
Arena Finance:				
- Arena Finance Holdings Co., LLC ("AFHC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Finance	100% owned by Arena Finance
- Arena Finance National, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC	100% owned by AFHC
- Arena Finance Global, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC	100% owned by AFHC
- Arena Finance Markets GP, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC	100% owned by AFHC
- Arena Finance Markets, LP	Delaware, U.S.	New York, U.S.	100% owned by AFHC	100% owned by AFHC
Arena Origination:				
- Arena Origination Co., LLC ("AOC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Origination	100% owned by Arena Origination

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6 Investments (continued)

Houston International Insurance Group, Ltd.

The Company's investment in HIIG (through the HIIG Partnership) is recorded as an investment in private entities and is measured at FVTPL in the Company's financial statements. See "Investments in Private Entities" below for a further description of the Company's investment in the HIIG Partnership.

Arena Group

The Arena Group consists of the following three businesses:

- Arena Investors – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") jointly operate as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The Company's investment in Arena Investors is accounted for using the equity method in the Company's consolidated financial statements. See "Investments in Associates" below.
- Arena Finance – Arena Finance, through AFHC and AFHC's subsidiaries, is a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account. The Company's investment in Arena Finance is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.
- Arena Origination – Arena Origination, through AOC, facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or other third parties. The Company's investment in Arena Origination is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

Arena Investors, Arena Finance and Arena Origination and related entities are collectively referred to as the "Arena Group".

INVESTMENTS IN PRIVATE ENTITIES

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

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

The Company's investments in private entities are as follows:

As at September 30, 2018	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 162,766	-	-	\$ 162,766
- Arena Finance	160,956	-	-	160,956
- Arena Origination	35,302	-	-	35,302
	<u>\$ 359,024</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 359,024</u>
As at December 31, 2017	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 157,107	-	-	\$ 157,107
- Arena Finance	151,315	-	-	151,315
- Arena Origination	34,956	-	-	34,956
	<u>\$ 343,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343,378</u>

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6 Investments (continued)

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

	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	Opening balance	Unrealized gain/(loss)	Ending balance	Opening balance	Unrealized gain	Ending balance
Investments in private entities:						
- HIIG Partnership	\$ 160,848	\$ 1,918	\$ 162,766	\$ 157,107	\$ 5,659	\$ 162,766
- Arena Finance	156,568	4,388	160,956	151,315	9,641	160,956
- Arena Origination	35,927	(625)	35,302	34,956	346	35,302
	<u>\$ 353,343</u>	<u>\$ 5,681</u>	<u>\$ 359,024</u>	<u>\$ 343,378</u>	<u>\$ 15,646</u>	<u>\$ 359,024</u>

	Three months ended September 30, 2017		
	Opening balance	Unrealized gain	Ending balance
Investments in private entities:			
- HIIG Partnership	\$ 148,721	\$ 629	\$ 149,350
- Arena Finance	147,520	2,972	150,492
- Arena Origination	32,701	1,210	33,911
	<u>\$ 328,942</u>	<u>\$ 4,811</u>	<u>\$ 333,753</u>

	Nine months ended September 30, 2017				
	Opening balance	Additions - Equity	Repayment of term loan	Unrealized gain	Ending balance
Investments in private entities:					
- HIIG Partnership	\$ 145,227	\$ -	\$ -	\$ 4,123	\$ 149,350
- Arena Finance	142,800	-	-	7,692	150,492
- Arena Origination	32,437	7,005	(7,000)	1,469	33,911
	<u>\$ 320,464</u>	<u>\$ 7,005</u>	<u>\$ (7,000)</u>	<u>\$ 13,284</u>	<u>\$ 333,753</u>

There were no transfers among Levels 1, 2 and 3 during the nine months ended September 30, 2018 and 2017.

Investment in Houston International Insurance Group, Ltd.

The Company indirectly owns a significant interest in HIIG, through the HIIG Partnership, an Ontario limited partnership managed by HIIG GP, a wholly-owned subsidiary of Westaim. HIIG is a U.S. based diversified specialty insurance company providing coverage primarily in the United States but also globally for certain risks.

At September 30, 2018, the Company owned, directly and indirectly, approximately 58.5% of the HIIG Partnership, representing an approximate 43.9% indirect ownership interest in HIIG.

Westaim controls the HIIG Partnership through its ownership of approximately 58.5% of the HIIG Partnership and through its control of HIIG GP, the general partner of the HIIG Partnership; and the HIIG Partnership exercises control over HIIG and its insurance subsidiaries through its ownership of approximately 75.1% of the issued and outstanding common shares of HIIG ("HIIG Shares") at September 30, 2018. The amount of dividends paid to HIIG by its subsidiaries which carry on an insurance business may be subject to restrictions imposed by the insurance regulators in the United States, thereby limiting the amount of dividends HIIG can pay to its shareholders, including the HIIG Partnership. Payment of dividends from HIIG to the HIIG Partnership may also be restricted as a result of covenants in credit facilities entered into by HIIG from time to time.

The Company, through HIIG GP, entered into a management services agreement (the "HIIG MSA") with HIIG commencing on July 31, 2014, whereby HIIG GP was entitled to receive from HIIG an advisory fee of \$1,000 annually for the first three years of the agreement and \$500 annually for two years thereafter relating to advisory services provided under the HIIG MSA. The HIIG MSA was amended as of July 1, 2017 such that HIIG GP is entitled to receive from HIIG an advisory fee of \$1,000 annually for the final two years of the agreement.

FVTPL

The investment in HIIG (through the HIIG Partnership) is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be \$162,766 at September 30, 2018 and \$157,107 at December 31, 2017.

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6 Investments (continued)

Management used net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership of \$162,766 at September 30, 2018. The fair value of the HIIG Partnership at September 30, 2018 was derived from a valuation of the HIIG Shares owned by the HIIG Partnership and other net assets of the HIIG Partnership at September 30, 2018. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the HIIG Shares as at September 30, 2018 and December 31, 2017, given that this is the valuation technique which a market participant would employ.

The significant unobservable inputs used in the valuation were the multiple applied and the adjusted book value of HIIG as at September 30, 2018. Management applied a multiple of 1.1x to the adjusted book value of HIIG at September 30, 2018 (December 31, 2017 - 1.1x). The adjusted book value of HIIG as at September 30, 2018 reflected 100% of HIIG stockholders' equity obtained from the unaudited financial statements of HIIG as at and for the nine months ended September 30, 2018 prepared in accordance with United States generally accepted accounting principles ("US GAAP"), adjusted for a reclassification of a stock notes receivable from employees relating to their purchase of HIIG Shares. The adjusted book value contained certain significant judgments and estimates made by management of HIIG including the provision for loss and loss adjustment expenses, the valuation of goodwill and intangible assets, and the valuation allowance recorded against deferred income tax assets.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the discounted cash flow method, the review of comparable arm's length transactions involving other specialty insurance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair value of the Company's investment in the HIIG Partnership at the end of each reporting period.

The Company recorded unrealized gains on its investment in the HIIG Partnership of \$1,918 and \$5,659 in the three and nine months ended September 30, 2018, respectively, and \$629 and \$4,123 in the three and nine months ended September 30, 2017, respectively.

For purposes of assessing the sensitivity of HIIG stockholders' equity on the valuation of the Company's investment in the HIIG Partnership, if HIIG stockholders' equity at September 30, 2018 was higher by \$1,000, the fair value of the Company's investment in the HIIG Partnership at September 30, 2018 would have increased by approximately \$483 (December 31, 2017 - \$483) and the unrealized gain on investments in private entities for the three and nine months ended September 30, 2018 would have increased by approximately \$483 (for the three and nine months ended September 30, 2017 - \$439). If HIIG stockholders' equity at September 30, 2018 was lower by \$1,000, an opposite effect would have resulted.

Investments in Arena Finance and Arena Origination

The Company owns a 100% interest in Arena Finance, a specialty finance company, and Arena Origination, a specialty finance origination company, which form part of the Arena Group. Through its ownership of all of the common shares of Arena Finance and Arena Origination, Westaim exercises control over each of these businesses.

On August 31, 2015, Arena Finance and Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, entered into a limited liability company agreement in respect of AFHC under which BP LLC was issued Class M units of AFHC which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AFHC. The Class M units vest equally over 5 years from August 31, 2015 and carry pre-determined escalating conversion prices which are in excess of the price paid by the Company for its investment in AFHC (through Arena Finance). At September 30, 2018, the fair value of AFHC attributable to the Class M units was \$472 (December 31, 2017 - \$nil). No AFHC Class M units were converted into Class A units in the nine months ended September 30, 2018 and 2017.

A similar agreement was entered into between Arena Origination and BP LLC with respect to AOC. On June 5, 2017, a cash distribution of \$0.93 per Class A unit, totaling \$3,162, was made by AOC to Arena Origination, and in accordance with the AOC LLC Agreement, the pre-determined escalating conversion prices of the Class M units were correspondingly reduced by \$0.93 per Class M unit. At September 30, 2018, the fair value of AOC attributable to the Class M units was \$113 (December 31, 2017 - \$75). No AOC Class M units were converted into Class A units in the nine months ended September 30, 2018 and 2017.

In connection with the capitalization of Arena Origination, the Company granted a term loan of \$17,000 to Arena Origination on August 31, 2015. On June 6, 2017, Arena Origination repaid \$7,000 of the term loan to Westaim, with a remaining balance of \$10,000 outstanding at September 30, 2018 and December 31, 2017. The loan has a seven year term to August 31, 2022, is unsecured and carries interest at a rate of 7.25% per annum, with interest due on or before January 1 of each year during the term.

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6 Investments (continued)

On June 6, 2017, the Company made an additional equity investment of \$7,005 in Arena Origination by acquiring additional common shares of Arena Origination.

FVTPL

The investments in Arena Finance and Arena Origination are accounted for at FVTPL and are included in investments in private entities. The fair values of the Company's investments in Arena Finance and Arena Origination were determined to be \$160,956 and \$35,302, respectively, at September 30, 2018 and \$151,315 and \$34,956, respectively, at December 31, 2017.

Management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the shareholder's equity of Arena Finance at September 30, 2018, less the amount attributable to Class M units, in the amount of \$160,956 approximated the fair value of the Company's investment in Arena Finance. The same primary valuation technique was applied to Arena Origination where 100% (or 1.0x) of the shareholder's equity at September 30, 2018, less the amount attributable to Class M units, in the amount of \$25,302 and the fair value of the term loan of \$10,000, totaling \$35,302, approximated the fair value of the Company's investment in Arena Origination. Management determined that the net asset value valuation technique produced the best indicator of the fair value of Arena Finance and Arena Origination at September 30, 2018. This same valuation technique was used to determine the fair value of the Company's investments in Arena Finance and Arena Origination of \$151,315 and \$34,956, respectively, at December 31, 2017.

The significant unobservable inputs used in the valuation of Arena Finance and Arena Origination at September 30, 2018 were the shareholder's equity of each of the entities at September 30, 2018 and the multiple applied. Management applied a multiple of 1.0x as the shareholder's equity of Arena Finance and Arena Origination reflected the net assets of the respective entity which were carried at fair value at September 30, 2018, as described below. The shareholder's equity contained certain significant judgments and estimates made by management of Arena Finance and Arena Origination, including the determination of the fair value of their subsidiaries' investments as noted below.

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities of Arena Finance and Arena Origination and their subsidiaries approximate their fair values due to the short maturity of these financial instruments. The subsidiaries of Arena Finance and Arena Origination also make investments in equity securities, corporate bonds, private loans and other private investments, warrants and derivative instruments. When an investment is acquired or originated, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the subsidiaries of Arena Finance and Arena Origination determine the fair value of the investments using the following valuation techniques and inputs:

- Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange. Equity securities traded on inactive markets and certain foreign equity securities are valued using significant other observable inputs, if available, and include broker quotes or evaluated price quotes received from pricing services. If the inputs are not observable or available on a timely basis, the values of these securities are determined using valuation methodologies for Level 3 investments described below.
- Corporate bonds are valued using various inputs and techniques, which include third-party pricing services, dealer quotations, and recently executed transactions in securities of the issuer or comparable issuers. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. Values for high-yield bonds are based primarily on pricing services and dealer quotations from relevant market makers. The dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds, and sector-specific trends. If these inputs are not observable or timely, the values of corporate bonds and convertible bonds are determined using valuation methodologies for Level 3 investments described below.
- Private loans and other private investments are valued using valuation methodologies for Level 3 investments. When valuing private loans, factors evaluated include the impact of changes in market yields, credit quality of the borrowers and estimated collateral values. If there is sufficient credit coverage, a yield analysis is performed by projecting cash flows for the instrument and discounting the cash flows to present value using a market-based, risk adjusted rate. On each valuation date, an analysis of market yields is also performed to determine if any adjustments to the fair values are necessary. Techniques used to value collateral, real estate, and other hard assets include discounted cash flows, with the discount rate being the primary unobservable input, recent transaction pricing and third party appraisals. Private investments held through joint ventures are valued net of each respective joint venture waterfall and other joint venture assets and liabilities.
- Warrants that are actively traded on a securities exchange are valued based on quoted prices. Warrants that are traded over-the-counter or are privately issued are valued based on observable market inputs, if available. If these inputs are not observable or timely, the values of warrants are determined using valuation methodologies for Level 3 investments described below.

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6 Investments (continued)

- Listed derivative instruments, such as listed options, that are actively traded on a national securities exchange are valued based on quoted prices from the applicable exchange. Derivative instruments that are not listed on an exchange are valued using pricing inputs observed from actively quoted markets. If the pricing inputs used are not observable and/or the market for the applicable derivative instruments is inactive, the values of the derivative instruments are determined using valuation methodologies for Level 3 investments described below.

Where pricing inputs are unobservable and there is little, if any, market activity for Level 3 investments, fair values are determined by management of the subsidiaries of Arena Finance and Arena Origination using valuation methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value may require significant judgment by management of the subsidiaries of Arena Finance and Arena Origination. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the review of comparable arm's length transactions involving other specialty finance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair values of the Company's investments in Arena Finance and Arena Origination at the end of each reporting period.

The Company recorded unrealized gains on its investment in Arena Finance of \$4,388 and \$9,641 in the three and nine months ended September 30, 2018, respectively, and \$2,972 and \$7,692 in the three and nine months ended September 30, 2017, respectively. The operating results of Arena Finance included interest expense on the demand loan from Westaim to AFHC of \$88 and \$312 in the three and nine months ended September 30, 2018, respectively, and \$354 and \$429 in the three and nine months ended September 30, 2017, respectively.

The Company recorded an unrealized loss on its investment in Arena Origination of \$625 and an unrealized gain of \$346 in the three and nine months ended September 30, 2018, respectively, and \$1,210 and \$1,469 in the three and nine months ended September 30, 2017, respectively. The operating results of Arena Origination included interest expense on the term loan from Westaim to Arena Origination and the demand loan from Westaim to AOC totaling \$448 and \$1,301 in the three and nine months ended September 30, 2018, respectively, and \$418 and \$1,045 in the three and nine months ended September 30, 2017, respectively.

For purposes of assessing the sensitivity of the shareholder's equity of Arena Finance and Arena Origination on the valuation of the Company's investment in these entities which is wholly-owned by the Company, if the shareholder's equity of either Arena Finance or Arena Origination at September 30, 2018 was higher by \$1,000, the fair value of the Company's investment in the respective entity at September 30, 2018 would have increased by \$1,000 and the unrealized gain on investments in private entities for the three and nine months ended September 30, 2018 would have increased by \$1,000. If the shareholder's equity of either Arena Finance or Arena Origination at September 30, 2018 was lower by \$1,000, an opposite effect would have resulted.

INVESTMENTS IN ASSOCIATES

The Company's investments in associates consist of its investment in Arena Investors, including the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. WAHII is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to carry on the third-party investment management business of the Arena Group.

On August 31, 2015, agreements were entered into between the Company (through WCA) and BP LLC in respect of WAHII and ASOF-ON GP and between Westaim and BP LLC in respect of ASOF-OFF II GP (the "Associate Agreements"). BP LLC's initial profit sharing percentage is 49%, and under the Associate Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the Associates and share up to 75% of the profits of the Associates based on achieving certain assets under management ("AUM") and cash flow (measured by the margin of trailing twelve months earnings before interest, income taxes, depreciation and amortization to trailing twelve month revenues) thresholds in accordance with the Associate Agreements.

The Company concluded that based on the contractual rights and obligations under the Associate Agreements, the Company does not exercise control but exercises significant influence over the Associates. The Company's investments in Associates are therefore accounted for using the equity method in accordance with IAS 28.

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6 Investments (continued)

The following summarized financial information represents amounts within the financial statements of the Associates:

	September 30, 2018	December 31, 2017
Financial information of Associates:		
Assets	\$ 16,534	\$ 19,276
Liabilities	(32,897)	(32,350)
Net liabilities	\$ (16,363)	\$ (13,074)
Company's share	\$ (8,217)	\$ (6,540)
Associates Loan	17,500	14,500
Carrying amount of the Company's investments in Associates	\$ 9,283	\$ 7,960

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Financial information of Associates:				
Fee and other income	\$ 5,781	\$ 3,665	\$ 15,063	\$ 9,750
Operating expenses ¹	(6,448)	(4,798)	(18,352)	(15,011)
Loss and comprehensive loss	\$ (667)	\$ (1,133)	\$ (3,289)	\$ (5,261)
Company's share of loss of Associates (51%)	\$ (340)	\$ (578)	\$ (1,677)	\$ (2,683)

¹ Includes interest expense on the loan granted by AFHC to the Associates (see note 14) of \$nil in each of the three and nine months ended September 30, 2018 (\$79 and \$176 in the three and nine months ended September 30, 2017, respectively) and interest expense on the loan granted by the Company (through WCA) to WAHII of \$226 and \$620 in the three and nine months ended September 30, 2018, respectively (\$nil in each of the three and nine months ended September 30, 2017).

The following table shows the continuity of the carrying amount of the Company's investments in Associates:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Carrying amount of investments in Associates:				
Opening balance	\$ 8,873	\$ (851)	\$ 7,960	\$ 1,254
Company's share of loss of Associates (51%)	(340)	(578)	(1,677)	(2,683)
Addition - Associates Loan	750	-	3,000	-
Ending balance	\$ 9,283	\$ (1,429)	\$ 9,283	\$ (1,429)

On December 21, 2017, the Company (through WCA) granted a \$20,000 revolving loan facility to the Associates (the "Associates Loan") in order to (i) fund growth initiatives and working capital needs of Arena Investors and (ii) enable WAHII to repay \$4,415 in advances previously owed to the Company and extinguish the loan owed to AHFC (see note 14). The loan facility has a term of 36 months and bears interest at a rate of 5.25% per annum. WAHII had drawn down the loan facility by \$17,500 and \$14,500 at September 30, 2018 and December 31, 2017, respectively. The loan facility is secured by the assets of certain of the Associates. The Company earned and received interest on the Associates Loan of \$226 and \$620 for the three and nine months ended September 30, 2018, respectively, and \$nil in each of the three and nine months ended September 30, 2017.

The total of the Company's 51% share of losses of the Associates was \$340 and \$1,677 in the three and nine months ended September 30, 2018, respectively, and \$578 and \$2,683 in the three and nine months ended September 30, 2017, respectively, and was reported under "Share of loss of associates" in the consolidated statements of profit (loss) and comprehensive income (loss).

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7 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	September 30, 2018	December 31, 2017
RSUs (note 13)	\$ 7,469	\$ 7,154
DSUs (note 13)	1,217	1,033
Interest on Preferred Securities (note 8)	488	502
Change in fair value of foreign exchange forward contract (note 8)	360	-
Other accounts payable and accrued liabilities	1,456	1,135
Ending balance	\$ 10,990	\$ 9,824

8 Preferred Securities

On April 3, 2017, the Company announced that it had entered into an agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, "Fairfax"), had agreed to make an investment of up to C\$100,000 in Westaim in exchange for the issuance by Westaim of 5% interest bearing notes (the "Preferred Securities") and common share purchase warrants (the "Warrants") (see note 9) (collectively, the "Private Placement").

The Preferred Securities are denominated in C\$, each issuable for a principal amount of C\$10 and carry interest at a rate of 5% per annum. The Preferred Securities are subordinate secured securities that will mature on May 26, 2116 but may be repaid, in whole or in part, by the Company at any time after June 2, 2022 and at any time after June 2, 2020 if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the date on which the applicable redemption notice is given is at least C\$5.60.

On June 2, 2017, the Company closed the subscription by Fairfax of C\$50,000 of Preferred Securities (the "Fairfax Financing"). The proceeds raised from the Fairfax Financing were used by Westaim to make interest bearing loans to the Arena Group (see note 4). The Company had discretion until January 1, 2018 to require Fairfax to purchase all or part of 5,000,000 additional Preferred Securities, and exercised its discretion not to do so. There were 5,000,000 Preferred Securities outstanding at September 30, 2018 and December 31, 2017.

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit (loss) and comprehensive income (loss). The carrying amount of the Preferred Securities, which approximated fair value, was \$38,700 and \$39,876 at September 30, 2018 and December 31, 2017, respectively. The Company recorded an unrealized foreign exchange loss relating to the Preferred Securities of \$676 and an unrealized foreign exchange gain of \$1,176 in the three and nine months ended September 30, 2018, respectively and unrealized foreign exchange losses of \$1,530 and \$3,072 in the three and nine months ended September 30, 2017, respectively.

Interest on the Preferred Securities amounted to \$488 and \$1,440 in the three and nine months ended September 30, 2018, respectively, and \$506 and \$659 in the three and nine months ended September 30, 2017, respectively. Accrued interest was \$488 and \$502 at September 30, 2018 and December 31, 2017, respectively, and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

Transaction costs incurred for the issuance of the Preferred Securities totaling \$22 and \$505 were recorded as an expense in the consolidated statements of profit (loss) and comprehensive income (loss) in the three and nine months ended September 30, 2017, respectively. There were no transaction costs for the three and nine months ended September 30, 2018.

On December 21, 2017, the Company entered into a foreign exchange forward contract to sell US\$ and buy C\$20 million to manage part of the foreign currency exposure arising from the Preferred Securities. The contract has a term to maturity of less than one year and may be renewed at market rates. The Company has not designated this foreign exchange forward contract as an accounting hedge. A loss was accrued on the foreign exchange forward contract in the amount of \$360 at September 30, 2018 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. A gain was accrued on the foreign exchange contract in the amount of \$110 at December 31, 2017 and was recorded under other assets in the consolidated statement of financial position. The foreign exchange gain was \$271 and the foreign exchange loss was \$470 for the three and nine months ended September 30, 2018, respectively, and \$nil in each of the three and nine months ended September 30, 2017, and was reported under foreign exchange in the consolidated statements of profit (loss) and comprehensive income (loss). In connection with foreign exchange forward contracts which the Company may enter into from time to time, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$2,500 as security. The security shall remain in effect for the duration of any outstanding foreign exchange forward contracts.

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9 Derivative Warrant Liability

In connection with the Private Placement (see note 8), Westaim issued to Fairfax 28,571,430 Warrants, each exercisable for one Westaim common share at an exercise price of C\$3.50. The Warrants vest proportionately based upon the aggregate percentage of Preferred Securities purchased by Fairfax, with 14,285,715 having vested on June 2, 2017. The remaining 14,285,715 unvested Warrants were cancelled on January 31, 2018. Each vested Warrant is exercisable on or prior to June 2, 2022, but the expiry date will be extended to June 2, 2024 if the volume-weighted average trading price of Westaim's common shares for the 10 day period ending on June 2, 2022 is less than C\$5.60. After June 2, 2020, the Company can also elect to require early exercise of the Warrants if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the election is at least C\$5.60.

The Warrants are subject to a cashless exercise at the discretion of Fairfax and are classified as a derivative liability in accordance with IFRS and measured at FVTPL. The fair value of the vested Warrants at initial recognition was recorded as an expense in the consolidated statements of profit (loss) and comprehensive income (loss). Subsequent changes in fair value of the vested Warrants are reported in the consolidated statements of profit (loss) and comprehensive income (loss) for the period in which they arise.

Changes to the derivative warrant liability are as follows:

	Nine months ended September 30, 2018	Year ended December 31, 2017
Opening balance	\$ 6,678	\$ -
Fair value upon initial recognition	-	8,992
Change in fair value - (gain) loss	(327)	(3,013)
Unrealized foreign exchange (gain) loss	(156)	699
Ending balance	\$ 6,195	\$ 6,678

The Company recorded an expense of \$8,992 upon initial recognition of the vested Warrants on June 2, 2017. The Company recognized unrealized gains resulting from a change in the fair value of the vested Warrants of \$366 and \$327 in the three and nine months ended September 30, 2018, respectively and unrealized gains of \$3,222 and \$3,553 in the three and nine months ended September 30, 2017, respectively. The Company also recorded an unrealized foreign exchange loss with respect to the vested Warrants of \$115 and an unrealized foreign exchange gain of \$156 in the three and nine months ended September 30, 2018, respectively and unrealized foreign exchange losses of \$358 and \$733 in the three and nine months ended September 30, 2017, respectively, under foreign exchange in the consolidated statements of profit (loss) and comprehensive income (loss). At September 30, 2018 and December 31, 2017, a liability of \$6,195 and \$6,678, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position.

The fair value of the vested Warrants at September 30, 2018 of \$6,195 (December 31, 2017 - \$6,678) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 2.27% (December 31, 2017 - 1.81%), an expiration date between October 1, 2018 and June 2, 2024 (December 31, 2017: January 1, 2018 and June 2, 2024), a volatility of the underlying common shares of the Company of 23.96% (December 31, 2017 - 25.08%), a closing price of common shares of C\$3.21 and a strike price of C\$3.50. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

A sensitivity analysis is performed within the Monte Carlo pricing model, which produces a probability distribution of possible outcomes by identifying which inputs impact the outcome the most.

10 Site Restoration Provision

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

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10 Site Restoration Provision (continued)

Changes to the site restoration provision are as follows:

	Nine months ended September 30, 2018	Year ended December 31, 2017
Opening balance	\$ 3,770	\$ 3,439
Changes due to:		
Estimates of future expenditures	101	(6)
Inflation	(219)	-
Passage of time and discount rates	(225)	78
Unrealized foreign exchange (gain) loss	(110)	259
Ending balance	\$ 3,317	\$ 3,770

Estimates of future expenditures could change as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements.

Cash flows are estimated to take place over the next 100 years, with the majority to take place later than 50 years after September 30, 2018. To calculate the site restoration provision, the estimated cash outflows were adjusted for inflation and discounted to September 30, 2018. For inflation and discounting calculations, all cash flows later than 50 years are treated as if the cash flow would occur at 100 years. Inflation is estimated at 1.65% (December 31, 2017 - 1.76%) per annum over the next 100 years. Discount rates are based on risk free rates which range from 2.03% to 2.42% (December 31, 2017 - 1.52% to 2.27%) over the next 30 years. The 30-year risk free rate is used for discounting cash flows that are estimated to occur later than 30 years after September 30, 2018.

11 Commitments and Contingent Liabilities

- (a) In connection with foreign exchange forward contract which the Company entered into on December 21, 2017, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$2,500 as security (see note 8).
- (b) On April 18, 2018, the Company extended its operating lease for office premises in Toronto with lease terms expiring on November 30, 2024. At September 30, 2018, the Company had a total commitment of \$1,751 for future occupancy cost payments including payments due not later than one year of \$323 and payments due later than one year of \$1,428. At December 31, 2017, the Company had operating leases for office premises in Toronto expiring on November 30, 2019 with a total commitment of \$636 for future occupancy cost payments including payments due not later than one year of \$332 and payments due later than one year of \$304.

12 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.

At September 30, 2018 and December 31, 2017, the Company had a total of 143,186,718 common shares issued and outstanding, with a stated capital of \$382,182. There were no changes in share capital in the nine months ended September 30, 2018 and year ended December 31, 2017.

No shares of the Company are held by the Company, and there were no Class A preferred shares or Class B preferred shares outstanding at September 30, 2018 and December 31, 2017.

13 Share-based Compensation

The Company's long-term equity incentive plan (the "Incentive Plan") provides for grants of RSUs, DSUs, stock appreciation rights and other share-based awards. The Company also has a stand-alone incentive stock option plan (the "Option Plan").

The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding or 14,318,671 as at September 30, 2018. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

In certain circumstances such as a change of control of the Company or the sale of substantially all of the assets of the Company, all outstanding options and RSUs will vest immediately.

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13 Share-based Compensation (continued)

Stock Options - Changes to the number of stock options are as follows:

	Nine months ended September 30, 2018		Nine months ended September 30, 2017	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	6,613,337	C\$ 3.10	2,754,940	C\$ 3.29
Granted	3,815,000	C\$ 3.10	3,860,397	C\$ 3.00
Expired	-	-	(2,000)	C\$ 61.50
Ending balance	10,428,337	C\$ 3.10	6,613,337	C\$ 3.10
Options exercisable at end of period	3,122,092	C\$ 3.15	917,646	C\$ 3.25

As at September 30, 2018					
Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of stock options exercisable	Exercisable Weighted Average Exercise Price
C\$ 3.10	3,815,000	6.30	C\$ 3.10	-	C\$ 3.10
C\$ 3.00	3,860,397	5.51	C\$ 3.00	1,286,799	C\$ 3.00
C\$ 3.25	2,752,940	4.50	C\$ 3.25	1,835,293	C\$ 3.25
	10,428,337	5.53	C\$ 3.10	3,122,092	C\$ 3.10

As at December 31, 2017					
Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of stock options exercisable	Exercisable Weighted Average Exercise Price
C\$ 3.00	3,860,397	6.25	C\$ 3.00	1,286,799	C\$ 3.00
C\$ 3.25	2,752,940	5.25	C\$ 3.25	917,646	C\$ 3.25
	6,613,337	5.84	C\$ 3.10	2,204,445	C\$ 3.10

On April 1, 2016, 2,752,940 options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and have an exercise price of C\$3.25. The fair value of the options granted on April 1, 2016 was C\$0.7332 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 0.61%, an average life of 4.0 years, a volatility of 46.49%, and a grant date share price of C\$2.54 converted to US\$ at an exchange rate of \$1.3047.

On April 3, 2017, 3,860,397 additional options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on December 31, 2017, December 31, 2018 and December 31, 2019, and have an exercise price of C\$3.00. The fair value of the options granted on April 3, 2017 was C\$0.8616 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.00%, an average life of 4.0 years, a volatility of 35.45%, and a grant date share price of C\$2.98 converted to US\$ at an exchange rate of \$1.3386.

On January 18, 2018, 3,815,000 additional options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on December 31, 2018, December 31, 2019 and December 31, 2020, and have an exercise price of C\$3.10. The fair value of the options granted on January 18, 2018 was C\$0.7185 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.92%, an average life of 4.0 years, a volatility of 25.35%, and a grant date share price of C\$3.10 converted to US\$ at an exchange rate of \$1.2429.

The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of options by the holders.

Compensation expense relating to options was \$591 and \$1,753 in the three and nine months ended September 30, 2018, respectively, and \$586 and \$1,377 in the three and nine months ended September 30, 2017, respectively, with a corresponding increase to contributed surplus.

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

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13 Share-based Compensation (continued)

Changes to the number of RSUs are as follows:

	Nine months ended September 30	
	2018	2017
Opening balance	3,034,261	3,082,073
Exercised	-	(47,812)
Ending balance	3,034,261	3,034,261

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. At September 30, 2018, all of these RSUs had vested, of which 265,937 RSUs had been exercised and 2,109,063 RSUs were outstanding.

On April 1, 2016, an additional 925,198 RSUs were granted to certain officers and employees of the Company. These RSUs vest in three equal instalments on April 1, 2017, April 1, 2018 and December 31, 2018. At September 30, 2018, 616,799 of these RSUs had vested and none have been exercised.

There were 3,034,261 RSUs outstanding at September 30, 2018 and December 31, 2017. No RSUs were granted or exercised in the nine months ended September 30, 2018. In the nine months ended September 30, 2017, 47,812 RSUs were exercised for a cash payment of C\$3.18 per RSU and the RSU liability was correspondingly reduced by \$115.

Compensation expense relating to RSUs was \$47 and \$508 for the three and nine months ended September 30, 2018, respectively, and compensation relating to RSUs was a recovery of \$259 and an expense of \$1,036 for the three and nine months ended September 30, 2017, respectively. At September 30, 2018, a liability of \$7,469 (December 31, 2017 - \$7,154) had been accrued with respect to outstanding RSUs in the consolidated statements of financial position.

Deferred Share Units - DSUs are issued to certain directors of the Company in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant and are paid out in cash no later than the end of the calendar year following the year the participant ceases to be a director.

Changes to the number of DSUs are as follows:

	Nine months ended September 30	
	2018	2017
Opening balance	416,529	398,731
Granted	73,255	86,206
Exercised	-	(92,525)
Ending balance	489,784	392,412

In the nine months ended September 30, 2018, 73,255 DSUs were issued in lieu of director fees of \$173 and in the nine months ended September 30, 2017, 86,206 DSUs were issued in lieu of director fees of \$203.

No DSUs were exercised in the three and nine months ended September 30, 2018. In the three and nine months ended September 30, 2017, 92,525 DSUs were exercised for a cash payment of C\$2.99 per DSU and the DSU liability was correspondingly reduced by \$225.

Compensation expense relating to DSUs was \$55 and \$211 for the three and nine months ended September 30, 2018, respectively, and compensation relating to DSUs was a recovery of \$9 and an expense of \$253 for the three and nine months ended September 30, 2017, respectively. At September 30, 2018, a liability of \$1,217 (December 31, 2017 - \$1,033) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

14 Related Party Transactions

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

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14 Related Party Transactions (continued)

Compensation expenses related to the Company's key management personnel are as follows:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Salaries and benefits	\$ 813	\$ 860	\$ 2,448	\$ 2,464
Share-based compensation	685	318	2,441	2,614
	\$ 1,498	\$ 1,178	\$ 4,889	\$ 5,078

Fees paid to Hartford Consulting, Inc. (the "Consultant"), a company owned by William R. Andrus, a director of HIIG, for insurance industry related consulting services were \$35 and \$105 for the three and nine months ended September 30, 2018, respectively, and \$36 and \$103 for the three and nine months ended September 30, 2017, respectively. Compensation expense relating to RSUs issued to the Consultant was \$nil and \$5 for the three and nine months ended September 30, 2018, respectively, and compensation relating to RSUs issued to the Consultant was a recovery of \$9 and an expense of \$12 for the three and nine months ended September 30, 2017, respectively, and the amounts were included in the consolidated statements of profit (loss) and comprehensive income (loss) under share-based compensation expense. At September 30, 2018, a liability of \$147 (December 31, 2017 - \$146) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

On September 28, 2016, AFHC granted a revolving loan facility to the Associates to fund the working capital needs of Arena Investors. The loan facility has a term of 36 months and bears interest at a rate of 5.25% per annum. The Associates repaid the balance owing under the loan facility of \$7,773, including interest, to AFHC on December 21, 2017 and the loan facility was terminated.

The Company earned and received interest on loans to related parties as follows:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Term loan to Arena Origination (note 6)	\$ 182	\$ 183	\$ 542	\$ 759
Demand loans to AFHC and AOC (note 4 and 6)	354	589	1,071	715
Associates loan (note 6)	226	-	620	-
	\$ 762	\$ 772	\$ 2,233	\$ 1,474
Interest earned and received on bank balances	25	2	64	13
	\$ 787	\$ 774	\$ 2,297	\$ 1,487

The Company earned advisory fees of \$250 from HIIG and \$110 from the Arena Group in each of the three months ended September 30, 2018 and 2017. The Company earned advisory fees of \$750 from HIIG and \$330 from the Arena Group in each of the nine months ended September 30, 2018 and 2017. Advisory fees are included in fee income in the consolidated statements of profit (loss) and comprehensive income (loss).

15 Income Taxes

Income taxes are recognized for deferred income taxes attributed to estimated differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Deferred tax assets / (liabilities) recognized in profit or loss are as follows:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Unrealized gain on investments in private entities	\$ (753)	\$ (637)	\$ (2,073)	\$ (1,759)
Non-capital loss carry-forwards	753	637	2,073	1,759
	\$ -	\$ -	\$ -	\$ -

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

	September 30, 2018	December 31, 2017
Non-capital loss carry-forwards	\$ 41,764	\$ 50,221
Capital loss carry-forwards	5,408	5,441
Deductible temporary differences	16,337	18,557
Corporate minimum tax credits	344	354
Investment tax credits	4,203	4,331

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15 Income Taxes (continued)

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2038, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2031	\$ 13,575	2018	\$ 687
2033	2,964	2019	744
2034	3,777	2020	637
2035	3,279	2021	498
2036	261	2022	251
2037	10,192	Beyond 2022	1,386
2038	7,716		\$ 4,203
	<u>\$ 41,764</u>		

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

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Profit (loss) before income tax	\$ 4,424	\$ 6,284	\$ 10,235	\$ (1,254)
Statutory income tax rate	26.5%	26.5%	26.5%	26.5%
Income taxes at statutory income tax rate	1,172	1,665	2,712	(332)
Variations due to:				
Non-taxable portion of unrealized gain on investments in private entities	(753)	(637)	(2,073)	(1,759)
Tax losses allocated from the HIIG Partnership	(4)	(5)	(10)	(19)
Non-deductible (non-taxable) items	86	(605)	328	1,997
Difference between statutory and foreign tax rates	(3)	(129)	(13)	(616)
Unrecognized temporary differences	(322)	(716)	(1,013)	1,133
Unrecognized tax losses	(176)	427	69	(404)
Income tax expense	\$ -	\$ -	\$ -	\$ -

16 Earnings per Share

The Company had 10,428,337 stock options, 3,034,261 RSUs and 14,285,715 Warrants outstanding at September 30, 2018 and 6,613,337 stock options, 3,034,261 RSUs and 28,571,430 Warrants outstanding at December 31, 2017. The stock options, RSUs and Warrants were excluded in the calculation of diluted earnings per share for the three and nine months ended September 30, 2018 and 2017 as they were not dilutive.

17 Capital Management

The Company's capital currently consists of the Preferred Securities and common shareholders' equity.

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

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

18 Financial Risk Management

The Company is exposed to a number of risks due to its business operations. The Company's consolidated statement of financial position at September 30, 2018 consists of short-term financial assets and financial liabilities with maturities of less than one year, loans receivable, investments in private entities and associates, Preferred Securities, derivative warrant liability and the site restoration provision. The most significant identified risks which arise from holding financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and equity risk. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

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18 Financial Risk Management (continued)

Credit risk

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

Loans receivable by the Company were made to subsidiaries which the Company controls and the loans are secured by underlying assets of the subsidiaries. Therefore, credit risk related to these loans is nominal.

Liquidity risk

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

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

At September 30, 2018, the Company's short-term financial liabilities amounted to \$2,304 (December 31, 2017 - \$1,637), and the Company had cash resources to meet these financial obligations.

Currency risk

The Company's C\$ denominated monetary liabilities exceed C\$ denominated monetary assets, including its C\$20 million foreign exchange forward contract. A 10% strengthening of the C\$ against the US\$ would have increased the foreign exchange loss for the three and nine months ended September 30, 2018 by approximately \$1,531. A similar weakening of the C\$ would have resulted in an opposite effect.

From time to time, the Company may enter into foreign exchange forward contracts to manage certain foreign currency exposures arising from foreign currency denominated transactions. The Company has not designated any foreign exchange forward contracts as accounting hedges.

Interest rate risk

The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to interest rates on its cash and cash equivalents, loans receivable, or the Preferred Securities. The Company is subject to interest rate risks indirectly as a result of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination as certain underlying investments made by these entities are sensitive to interest rate movements.

Equity risk

There is no active market for the Company's investments in HIIG (through the HIIG Partnership) and the Arena Group. The Company holds these investments for strategic and not trading purposes. The fair values of these investments recorded in the Company's consolidated financial statements have been arrived at using industry accepted valuation techniques. Due to the inherent uncertainty of valuation, these fair values may not be indicative of the actual values which can be realized upon a liquidity event for these investments.