

The Westaim Corporation
Consolidated Statements of Financial Position
(unaudited)

(thousands of United States dollars)	September 30 2019	December 31 2018
ASSETS		
Cash	\$ 19,017	\$ 7,836
Loans receivable (note 4)	-	14,660
Other assets (note 5)	4,850	3,451
Investments (note 6)	397,607	371,452
	\$ 421,474	\$ 397,399
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	\$ 9,286	\$ 9,605
Preferred securities (note 8)	37,774	36,649
Derivative warrant liability (note 9)	1,460	2,382
Site restoration provision (note 10)	5,416	3,584
	53,936	52,220
Commitments and contingent liabilities (note 11)		
SHAREHOLDERS' EQUITY		
Share capital (note 12)	382,182	382,182
Contributed surplus (note 13)	17,252	16,516
Accumulated other comprehensive loss (note 2o)	(2,227)	(2,227)
Deficit	(29,669)	(51,292)
	367,538	345,179
	\$ 421,474	\$ 397,399

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

The Westaim Corporation

Consolidated Statements of Profit and Comprehensive Income

(unaudited)

(thousands of United States dollars except share and per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Revenue				
Interest income (note 14)	\$ 469	\$ 787	\$ 1,720	\$ 2,297
Dividend income from investments in private entities (note 14)	882	-	882	-
Fee income (note 14)	729	360	2,104	1,080
	<u>2,080</u>	<u>1,147</u>	<u>4,706</u>	<u>3,377</u>
Net results of investments				
Unrealized gain on investments in private entities (note 6)	3,258	5,681	24,277	15,646
Share of profit (loss) of associates (note 6)	(546)	(340)	128	(1,677)
Unrealized gain on other investments (note 5)	41	68	174	170
	<u>2,753</u>	<u>5,409</u>	<u>24,579</u>	<u>14,139</u>
Net expenses				
Salaries and benefits	875	930	2,729	2,799
General, administrative and other	186	179	786	832
Professional fees	412	184	768	780
Site restoration provision (note 10)	315	(371)	1,723	(343)
Share-based compensation (note 13)	(115)	693	693	2,472
Foreign exchange	(19)	395	540	(372)
Interest on preferred securities (note 8)	476	488	1,414	1,440
Derivative warrants (note 9)	(1,048)	(366)	(991)	(327)
	<u>1,082</u>	<u>2,132</u>	<u>7,662</u>	<u>7,281</u>
Profit and comprehensive income	\$ 3,751	\$ 4,424	\$ 21,623	\$ 10,235
Earnings per share - basic and diluted (note 16)	\$ 0.03	\$ 0.03	\$ 0.15	\$ 0.07
Common shares outstanding	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, 2019					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2019	\$ 382,182	\$ 16,516	\$ (2,227)	\$ (51,292)	\$ 345,179
Stock option plan expense (note 13)	-	736	-	-	736
Profit and comprehensive income	-	-	-	21,623	21,623
Balance at September 30, 2019	\$ 382,182	\$ 17,252	\$ (2,227)	\$ (29,669)	\$ 367,538

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 and comprehensive income	-	-	-	10,235	10,235
Balance at September 30, 2018	\$ 382,182	\$ 15,925	\$ (2,227)	\$ (57,850)	\$ 338,030

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	
	2019	2018
Operating activities		
Profit	\$ 21,623	\$ 10,235
Unrealized gain on investments in private entities (note 6)	(24,277)	(15,646)
Share of (profit) loss of associates (note 6)	(128)	1,677
Unrealized gain on other investments (note 5)	(174)	(170)
Share-based compensation (note 13)	693	2,472
Site restoration provision (note 10)	1,723	(343)
Lease expense	(9)	(9)
Depreciation and amortization	32	31
Unrealized foreign exchange (gain) loss	564	(352)
Change in fair value of derivative warrant liability (note 9)	(991)	(327)
Net change in other non-cash balances		
Other assets	(1,093)	(102)
Accounts payable and accrued liabilities	159	317
Cash used in operating activities	(1,878)	(2,217)
Investing activities		
Loans made to subsidiaries (note 4)	(3,789)	-
Repayment of loans made to subsidiaries (note 4)	18,601	2,962
Purchase of capital assets	(3)	(17)
Loans made to associates (note 6)	(1,750)	(3,000)
Cash provided by (used in) investing activities	13,059	(55)
Net increase (decrease) in cash	11,181	(2,272)
Cash, beginning of period	7,836	7,813
Cash, end of period	\$ 19,017	\$ 5,541
Cash is composed of:		
Cash	\$ 19,017	\$ 5,541
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,400	\$ 1,454

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2019 and 2018

(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 13, 2019.

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.

Investment in associates is accounted for using the equity method in accordance with IAS 28 "*Investments in Associates and Joint Ventures*" ("IAS 28") and consists 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 investment in associates consist of its investments in Westaim Arena Holdings II, LLC ("WAHII") (through WCA), and is 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 and comprehensive income.

(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 and comprehensive income.

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 and comprehensive income.

(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, 2019, the Company's cash consisted of cash on deposit, including restricted cash on deposit of \$4,375 (December 31, 2018 - \$4,375) (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) Leases

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys a right to control the use of an identified asset, the Company assesses whether, i) the contract involves an identified asset, which is physically distinct and cannot be substituted by the supplier and ii) the Company has the right to obtain substantially all of the economic benefits from the use of the asset during the period of use, the Company has the right to operate the lease and the Company designed the asset in a way that predetermines how and for what purpose the asset will be used.

This policy is applied to contracts entered into or modified on or after January 1, 2019.

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2 Summary of Significant Accounting Policies (continued)

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any costs incurred to dismantle and remove the underlying asset or restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is measured using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term.

The lease liability is initially measured at the present value of the future lease payments not paid at the commencement date and the lease payments are discounted using the interest rate implicit in the lease if the rate can be readily determined, or the lessee's incremental borrowing rate if the rate cannot be determined.

In accordance with IFRS 16 (as defined in note 3), the Company has elected not to recognize right of use assets and lease liabilities for short term leases of less than a term of 12 months and leases of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight line basis over the term of the lease.

(j) 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 and comprehensive income 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 and/or distributions received from the Associates. Transaction costs on investments in associates are capitalized.

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 reporting period. 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.

(k) Income taxes

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

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

2 Summary of Significant Accounting Policies (continued)

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.

(l) 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 and comprehensive income for the period in which they arise.

(m) 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.

(n) 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.

(o) Accumulated other comprehensive loss

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

(p) 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.

(q) Earnings per share

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

Diluted earnings per share is calculated by dividing profit 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.

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3 Accounting Pronouncements

(a) *Adopted in the current period*

On January 13, 2016, the IASB issued IFRS 16 “Leases” (“IFRS 16”) which replaced IAS 17 “Leases”. As required, the Company adopted IFRS 16, effective January 1, 2019. IFRS 16 eliminates the distinction between operating and finance leases for lessees, requiring instead that the Company recognize a right-of-use asset and a lease liability at lease commencement for all leases, with certain exceptions permitted through elections and practical expedients on the transition date. The adoption of IFRS 16 did not have a material impact on the Company’s consolidated financial statements. The Company adopted the modified retrospective approach of adoption whereby comparative periods were not restated.

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 adoption of IFRIC 23 did not have a material impact on the Company’s 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 were 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 carried 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 was due at the end of each calendar quarter.

At December 31, 2018, C\$20,000 in principal repayments had been made by AFHC and on February 22, 2019, AFHC increased the loan by C\$5,000 and on September 4, 2019 decreased the loan by C\$15,000 resulting in an outstanding loan of C\$nil to AFHC at September 30, 2019 (C\$10,000 to AFHC at December 31, 2018).

At December 31, 2018, C\$10,000 in principal repayments had been made by AOC and on February 22, 2019, May 9, 2019 and September 4, 2019, AOC made principal repayments of C\$5,000, C\$2,350 and C\$2,650, respectively, resulting in an outstanding loan of C\$nil to AOC at September 30, 2019 (C\$10,000 to AOC at December 31, 2018).

The Arena Loans were recorded under loans receivable in the consolidated statements of financial position. The Arena Loans were translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss was included in the consolidated statements of profit and comprehensive income. At September 30, 2019 and December 31, 2018, the carrying amount of the Arena Loans, which were recorded at fair value, totaled \$nil and \$14,660, respectively. The Company recorded a foreign exchange loss relating to the Arena Loans of \$262 and a foreign exchange gain of \$313 for the three and nine months ended September 30, 2019, respectively and a foreign exchange gain of \$357 and a foreign exchange loss of \$732 for the three and nine months ended September 30, 2018, respectively.

Interest on the Arena Loans earned and received by the Company totaled \$160 and \$680 for the three and nine months ended September 30, 2019, respectively, and \$354 and \$1,071 for the three and nine months ended September 30, 2018, respectively, and was included in investment income in the consolidated statements of profit and comprehensive income.

5 Other Assets

Other assets consist of the following:

	September 30, 2019	December 31, 2018
Capital assets	\$ 42	\$ 71
Investment in Arena Special Opportunities Fund, LP (a)	2,643	2,469
Receivables from related parties (b)	1,614	727
Fair value of foreign exchange forward contract (note 8)	158	-
Accounts receivable and other	393	184
	\$ 4,850	\$ 3,451

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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, 2019 and December 31, 2018, the fair value of the Company's interest in ASOF LP was determined by Arena Investors (as defined in note 6) to be \$2,643 and \$2,469, respectively. The Company reported unrealized gains of \$41 and \$174 in the three and nine months ended September 30, 2019, respectively, and \$68 and \$170 in the three and nine months ended September 30, 2018, respectively, with respect to the investment in the consolidated statements of profit and comprehensive income.
- (b) Receivables from related parties totaled \$1,614 at September 30, 2019 and \$727 at December 31, 2018 and included certain expenses paid by the Company on behalf of the Arena Group and HIIG 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, 2019	December 31, 2018
Investments in private entities	\$ 385,120	\$ 360,843
Investment in associates	12,487	10,609
	\$ 397,607	\$ 371,452

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 investment in associates is accounted for using the equity method.

	Place of establishment	Principal place of business	Ownership interest as at September 30, 2019
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	62.0% owned by Westaim ¹
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim, indirectly through WCA ²
Investment in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ^{3,4}

¹ On July 1, 2019, units held by certain unitholders were redeemed in accordance with the terms of the HIIG Partnership and exchanged for shares of HIIG resulting in an increase in the Company's ownership interest in the HIIG Partnership from 58.5% to 62.0% and a decrease in the HIIG Partnership's ownership of HIIG shares from 75.1% to 71.0%. The Company's indirect ownership of HIIG (through the HIIG Partnership) remains unchanged at approximately 44.0%.

² On September 30, 2019, Westaim transferred all of its ownership interest in Arena Origination to WCA, a wholly-owned subsidiary of Westaim. No book gain or loss was recorded upon the transfer. Following the transfer, the Company owns, indirectly 100% of 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 ("BP LLC") described below under "Investment in Associates".

⁴ Effective January 1, 2019, Westaim's 51% interest and BP LLC's 49% interest in each of ASOF-ON GP and ASOF-OFF II GP were transferred to WAHII. As a result, ASOF-ON GP and ASOF-OFF II GP are now subsidiaries of WAHII.

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2018
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
Investment 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 ³

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 On December 31, 2018, all outstanding Class M units held by BP LLC described below under "Investments in Arena Finance and Arena Origination" were redeemed. The redemption payments in respect of the M units were paid to BP LLC during the quarter ending March 31, 2019.

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 BP LLC described below under "Investment in Associates".

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6 Investments (continued)

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, 2019	Ownership interest as at December 31, 2018
HIIG Partnership:				
- Houston International Insurance Group, Ltd. ("HIIG")	Delaware, U.S.	Texas, U.S.	71.0% owned by HIIG Partnership ¹	75.1% 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

¹ On July 1, 2019, units held by certain unitholders were redeemed in accordance with the terms of the HIIG Partnership and exchanged for shares of HIIG resulting in an increase in the Company's ownership interest in the HIIG Partnership from 58.5% to 62.0% and a decrease in the HIIG Partnership's ownership of HIIG shares from 75.1% to 71.0%. The Company's indirect ownership of HIIG (through the HIIG Partnership) remains unchanged at approximately 44.0%.

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, through its subsidiaries, operates 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 "Investment 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 (through WCA) 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 and comprehensive income.

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6 Investments (continued)

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, 2019	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 178,102	-	-	\$ 178,102
- Arena Finance	170,551	-	-	170,551
- Arena Origination	36,467	-	-	36,467
	<u>\$ 385,120</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 385,120</u>
As at December 31, 2018	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 162,118	-	-	\$ 162,118
- Arena Finance	163,888	-	-	163,888
- Arena Origination	34,837	-	-	34,837
	<u>\$ 360,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,843</u>

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

	Opening balance	Three months ended September 30, 2019				Ending balance
		Additions - Equity	Repayment of term loan	Unrealized gain before dividends	Dividends paid	
Investments in private entities:						
- HIIG Partnership	\$ 175,370	\$ -	\$ -	\$ 2,732	\$ -	\$ 178,102
- Arena Finance	170,115	-	-	1,318	(882)	170,551
- Arena Origination	36,377	-	-	90	-	36,467
	<u>\$ 381,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,140</u>	<u>\$ (882)</u>	<u>\$ 385,120</u>

	Opening Balance	Nine months ended September 30, 2019				Ending Balance
		Additions - Equity	Repayment of term loan	Unrealized gain before dividends	Dividends paid	
Investments in private entities:						
- HIIG Partnership	\$ 162,118	\$ -	\$ -	\$ 15,984	\$ -	\$ 178,102
- Arena Finance	163,888	-	-	7,545	(882)	170,551
- Arena Origination	34,837	10,000	(10,000)	1,630	-	36,467
	<u>\$ 360,843</u>	<u>\$ 10,000</u>	<u>\$ (10,000)</u>	<u>\$ 25,159</u>	<u>\$ (882)</u>	<u>\$ 385,120</u>

	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>

There were no transfers among Levels 1, 2 and 3 during the nine months ended September 30, 2019 and 2018.

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6 Investments (continued)

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 holding company that underwrites select property, casualty, surety, and accident and health insurance coverages through its insurance subsidiaries.

At September 30, 2019, the Company owned approximately 62.0% of the HIIG Partnership, representing an approximate 44.0% indirect ownership interest in HIIG.

Westaim controls the HIIG Partnership through its ownership of approximately 62.0% 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 71.0% of the issued and outstanding common shares of HIIG ("HIIG Shares") at September 30, 2019. 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 to July 31, 2019. The HIIG MSA was further amended such that HIIG GP is entitled to receive from HIIG an advisory fee of \$500 annually effective August 1, 2019.

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 \$178,102 at September 30, 2019 and \$162,118 at December 31, 2018.

Management used a multiple of net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership of \$178,102 at September 30, 2019. The fair value of the HIIG Partnership at September 30, 2019 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, 2019. 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, 2019 and December 31, 2018, 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, 2019. Management applied a multiple of 1.1x to the adjusted book value of HIIG at September 30, 2019 (December 31, 2018 - 1.1x). The adjusted book value of HIIG as at September 30, 2019 reflected 100% of HIIG stockholders' equity obtained from the unaudited financial statements of HIIG for the nine months ended September 30, 2019 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 \$2,732 and \$15,984 in the three and nine months ended September 30, 2019, respectively, and unrealized gains of \$1,918 and \$5,659 in the three and nine months ended September 30, 2018, respectively.

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6 Investments (continued)

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, 2019 was higher by \$1,000, the fair value of the Company's investment in the HIIG Partnership at September 30, 2019 would have increased by approximately \$484 (December 31, 2018 - \$483) and the unrealized gain on investments in private entities for the three and nine months ended September 30, 2019 would have increased by approximately \$484 (for the three and nine months ended September 30, 2018 - \$483). If HIIG stockholders' equity at September 30, 2019 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 a 100% interest in Arena Origination (indirectly through WCA), 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 (through WCA), 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 were 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. On December 31, 2018, the Company through AFHC redeemed all Class M units outstanding for the "in the money" amount of \$620 and this amount was recorded as a liability on AFHC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$620 was paid to BP LLC on March 27, 2019.

A similar agreement was entered into between Arena Origination and BP LLC with respect to AOC. On December 31, 2018, the Company through AOC redeemed all Class M units outstanding for the "in the money" amount of \$104 and this amount was recorded as a liability on AOC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$104 was paid to BP LLC on March 27, 2019.

In connection with the capitalization of Arena Origination, the Company granted a term loan with a balance of \$10,000 outstanding at December 31, 2018. The loan had a seven year term to August 31, 2022, was unsecured and carried interest at a rate of 7.25% per annum, with interest due on or before January 1 of each year during the term. On April 1, 2019, the Company converted the term loan of \$10,000 into additional common shares of Arena Origination and as a result the balance of the 7.25% term loan was \$nil at September 30, 2019 (December 31, 2018 - \$10,000).

On September 30, 2019, Arena Finance paid a cash dividend to Westaim in the amount of \$882 resulting in a decrease in Westaim's carrying value of Arena Finance.

FVTPL

The investments in Arena Finance and Arena Origination (through WCA) 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 \$170,551 and \$36,467, respectively, at September 30, 2019 and \$163,888 and \$34,837, respectively, at December 31, 2018.

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, 2019 in the amount of \$170,551 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, 2019, in the amount of \$36,467 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, 2019. This same valuation technique was used to determine the fair value of the Company's investment in Arena Finance and Arena Origination of \$163,888 and \$34,837, respectively, at December 31, 2018.

The significant unobservable inputs used in the valuation of Arena Finance and Arena Origination at September 30, 2019 were the shareholder's equity of each of the entities at September 30, 2019 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, 2019, 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.

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6 Investments (continued)

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 includes 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.
- 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.

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6 Investments (continued)

The Company recorded unrealized gains on its investment in Arena Finance of \$436 and \$6,663 in the three and nine months ended September 30, 2019, respectively, net of dividends paid to the Company of \$882 in each of the three and nine months ended September 30, 2019. The Company recorded unrealized gains of \$4,388 and \$9,641 in the three and nine months ended September 30, 2018, respectively and no dividends were paid in 2018. The operating results of Arena Finance included interest expense on the demand loan from Westaim to AFHC of \$136 and \$501 in the three and nine months ended September 30, 2019, respectively, and \$88 and \$312 in the three and nine months ended September 30, 2018, respectively.

The Company recorded unrealized gains on its investment in Arena Origination of \$90 and \$1,630 in the three and nine months ended September 30, 2019, respectively, and an unrealized loss of \$625 and an unrealized gain of \$346 in the three and nine months ended September 30, 2018, 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 \$24 and \$358 in the three and nine months ended September 30, 2019, respectively, and \$448 and \$1,301 in the three and nine months ended September 30, 2018, 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, 2019 was higher by \$1,000, the fair value of the Company's investment in the respective entity at September 30, 2019 would have increased by \$1,000 (December 31, 2018 - \$1,000) and the unrealized gain on investments in private entities for the three and nine months ended September 30, 2019 would have increased by \$1,000 (for the three and nine months ended September 30, 2018 - \$1,000). If the shareholder's equity of either Arena Finance or Arena Origination at September 30, 2019 was lower by \$1,000, an opposite effect would have resulted.

INVESTMENT IN ASSOCIATES

Arena Investors includes the Company's indirect investment in WAHII and its subsidiaries (through WCA). In 2018, Arena Investors included the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. Effective January 1, 2019, Westaim and BP LLC, transferred their interests in ASOF-ON GP and ASOF-OFF II GP, respectively to WAHII. 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.

Agreements were entered into between the Company (through WCA) and BP LLC in respect of WAHII (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 profit 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 investment in Associates is therefore accounted for using the equity method in accordance with IAS 28.

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

	September 30, 2019	December 31, 2018
Financial information of Associates:		
Assets	\$ 24,971	\$ 20,100
Liabilities	(39,952)	(35,334)
Net liabilities	\$ (14,981)	\$ (15,234)
Company's share	\$ (7,513)	\$ (7,641)
Revolving Loan Facility with Westaim	20,000	18,250
Carrying amount of the Company's investment in associates	\$ 12,487	\$ 10,609

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6 Investments (continued)

	Three months ended September 30		Nine months ended September 30	
	2019	2018 ¹	2019	2018 ¹
Financial information of Associates:				
Revenue	\$ 6,289	\$ 5,631	\$ 21,202	\$ 15,388
Operating expenses ²	(7,359)	(6,298)	(20,949)	(18,677)
Profit (loss) and comprehensive income (loss)	\$ (1,070)	\$ (667)	\$ 253	\$ (3,289)
Company's share of profit (loss) of associates (51%)	\$ (546)	\$ (340)	\$ 128	\$ (1,677)

¹ Adjusted to conform to the presentation of the current year.

² Includes interest expense on the loan granted by the Company (through WCA) to WAHII of \$265 and \$753 in the three and nine months ended September 30, 2019, respectively, and \$226 and \$620 in the three and nine months ended September 30, 2018, respectively.

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Carrying amount of investment in Associates:				
Opening balance	\$ 13,033	\$ 8,873	\$ 10,609	\$ 7,960
Company's share of profit (loss) of associates (51%)	(546)	(340)	128	(1,677)
Addition - Revolving Loan Facility with Westaim	-	750	1,750	3,000
Ending balance	\$ 12,487	\$ 9,283	\$ 12,487	\$ 9,283

On March 6, 2019, the Company (through WCA) amended a revolving loan facility to the Associates (the "Revolving Loan Facility") from the limit of \$20,000 to \$25,000 in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility has a term of 36 months to December 21, 2020 and bears interest at a rate of 5.25% per annum. WAHII had drawn down the loan facility by \$20,000 and \$18,250 at September 30, 2019 and December 31, 2018, respectively. The loan facility is secured by all the assets of WAHII. The Company earned and received interest on the Revolving Loan Facility of \$265 and \$753 for the three and nine months ended September 30, 2019, respectively, and \$226 and \$620 for the three and nine months ended September 30, 2018, respectively.

The total of the Company's 51% share of loss of the Associates was \$546 and share of profit was \$128 in the three and nine months ended September 30, 2019, respectively, and share of losses was \$340 and \$1,677 in the three and nine months ended September 30, 2018, respectively, and was reported under "Share of profit (loss) of associates" in the consolidated statements of profit and comprehensive income.

7 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	September 30, 2019	December 31, 2018
RSUs (note 13)	\$ 5,731	\$ 5,738
DSUs (note 13)	1,149	981
Interest on Preferred Securities (note 8)	476	462
Fair value of foreign exchange forward contract (note 8)	-	630
Other accounts payable and accrued liabilities	1,930	1,794
Ending balance	\$ 9,286	\$ 9,605

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.

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8 Preferred Securities (continued)

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, 2019 and December 31, 2018.

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 and comprehensive income. The carrying amount of the Preferred Securities, which approximated fair value, was \$37,774 and \$36,649 at September 30, 2019 and December 31, 2018, respectively. The Company recorded an unrealized foreign exchange gain relating to the Preferred Securities of \$441 and an unrealized foreign exchange loss of \$1,125 in the three and nine months ended September 30, 2019, respectively, and an unrealized foreign exchange loss of \$676 and an unrealized foreign exchange gain of \$1,176 in the three and nine months ended September 30, 2018, respectively.

Interest on the Preferred Securities amounted to \$476 and \$1,414 in the three and nine months ended September 30, 2019, respectively, and \$488 and \$1,440 in the three and nine months ended September 30, 2018, respectively. Accrued interest was \$476 at September 30, 2019 and \$462 at December 31, 2018 and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

On December 21, 2017, the Company entered into a foreign exchange forward contract to sell US\$15.8 million and buy C\$20 million to manage the foreign currency exposures including the currency exposure arising from the Preferred Securities. The contract matured on December 21, 2018 and resulted in a realized foreign exchange loss of \$966. On December 20, 2018, the Company entered into a new foreign exchange forward contract to sell US\$26.3 million and buy C\$35 million to manage the Canadian dollar currency exposures including the 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 these foreign exchange forward contracts as accounting hedges. A gain was accrued on the foreign exchange forward contract in the amount of \$158 at September 30, 2019 and was recorded under other assets in the consolidated statements of financial position. A loss was accrued on the foreign exchange forward contract in the amount of \$630 at December 31, 2018 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. The foreign exchange loss was \$308 and the foreign exchange gain was \$788 for the three and nine months ended September 30, 2019, respectively, and 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 was reported under foreign exchange in the consolidated statements of profit and comprehensive income. 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 \$4,375 (December 31, 2018 - \$4,375) as security. The security shall remain in effect for the duration of the outstanding foreign exchange forward contract.

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 and comprehensive income. Subsequent changes in fair value of the vested Warrants are reported in the consolidated statements of profit and comprehensive income for the period in which they arise.

Changes to the derivative warrant liability are as follows:

	Nine months ended September 30, 2019	Year ended December 31, 2018
Opening balance	\$ 2,382	\$ 6,678
Change in fair value – (gain)	(991)	(3,812)
Unrealized foreign exchange - loss (gain)	69	(484)
Ending balance	\$ 1,460	\$ 2,382

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9 Derivative Warrant Liability (continued)

The Company recognized unrealized gains resulting from a change in the fair value of the vested Warrants of \$1,048 and \$991 in the three and nine months ended September 30, 2019, respectively, and unrealized gains of \$366 and \$327 in the three and nine months ended September 30, 2018, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the vested Warrants of \$29 and an unrealized loss of \$69 in the three and nine months ended September 30, 2019, respectively, and an unrealized foreign exchange loss of \$115 and an unrealized foreign exchange gain of \$156 in the three and nine months ended September 30, 2018, respectively, under foreign exchange in the consolidated statements of profit and comprehensive income. At September 30, 2019 and December 31, 2018, a liability of \$1,460 and \$2,382, 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, 2019 of \$1,460 (December 31, 2018 - \$2,382) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.52% (December 31, 2018 - 1.87%), an expiration date between October 1, 2019 and June 2, 2024 (December 31, 2018: January 1, 2019 and June 2, 2024), a volatility of the underlying common shares of the Company of 23.14% (December 31, 2018 - 23.42%), a closing price of common shares of C\$2.50 (December 31, 2018 - C\$2.58) 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.

Changes to the site restoration provision are as follows:

	Nine months ended September 30, 2019	Year ended December 31, 2018
Opening balance	\$ 3,584	\$ 3,770
Changes due to:		
Estimates of future expenditures	129	102
Inflation	-	(36)
Passage of time and discount rates	1,594	33
Unrealized foreign exchange loss (gain)	109	(285)
Ending balance	\$ 5,416	\$ 3,584

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, 2019. To calculate the site restoration provision, the estimated cash outflows were adjusted for inflation and discounted to September 30, 2019. 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 1.70% (December 31, 2018 - 1.70%) per annum over the next 100 years. Discount rates are based on risk free rates which range from 1.36% to 1.71% (December 31, 2018 - 1.87% to 2.18%) 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, 2019.

11 Commitments and Contingent Liabilities

- (a) In connection with foreign exchange forward contract which the Company entered into on December 20, 2018, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$4,375 (December 31, 2018 - \$4,375) as security (see note 8).

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11 Commitments and Contingent Liabilities (continued)

- (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, 2019, the Company had a total commitment of \$1,373 for future occupancy cost payments including payments due not later than one year of \$248 and payments due later than one year of \$1,125. At December 31, 2018, the Company had a total commitment of \$1,567 for future occupancy cost payments including payments due not later than one year of \$293 and payments due later than one year of \$1,274.

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, 2019 and December 31, 2018, 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, 2019 and year ended December 31, 2018.

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, 2019 and December 31, 2018.

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, 2019. 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. As the DSUs are settled solely in cash, they are not included in the 10% limitation referred to above.

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.

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

	Nine months ended September 30, 2019		Nine months ended September 30, 2018	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	10,428,337	C\$ 3.10	6,613,337	C\$ 3.10
Granted	-	C\$ -	3,815,000	C\$ 3.10
Ending balance	10,428,337	C\$ 3.10	10,428,337	C\$ 3.10
Options exercisable at end of period	6,598,205	C\$ 3.12	3,122,092	C\$ 3.15

As at September 30, 2019					
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	5.30	C\$ 3.10	1,271,667	C\$ 3.10
C\$ 3.00	3,860,397	4.51	C\$ 3.00	2,573,598	C\$ 3.00
C\$ 3.25	2,752,940	3.50	C\$ 3.25	2,752,940	C\$ 3.25
	10,428,337	4.53	C\$ 3.10	6,598,205	C\$ 3.12

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13 Share-based Compensation (continued)

As at December 31, 2018		Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average		Number of stock options exercisable	Exercisable	
Exercise prices				Exercise Price			Weighted Average Exercise Price	
C\$	3.10	3,815,000	6.05	C\$	3.10	1,271,667	C\$	3.10
C\$	3.00	3,860,397	5.26	C\$	3.00	2,573,598	C\$	3.00
C\$	3.25	2,752,940	4.25	C\$	3.25	1,835,293	C\$	3.25
		10,428,337	5.28	C\$	3.10	5,680,558	C\$	3.10

On April 1, 2016, 2,752,940 options were granted to certain officers and employees of the Company. These 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. These 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. These 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.

No options were granted or issued in the nine months ended September 30, 2019.

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 \$234 and \$736 in the three and nine months ended September 30, 2019, respectively, and \$591 and \$1,753 in the three and nine months ended September 30, 2018, 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.

Changes to the number of RSUs are as follows:

	Nine months ended September 30	
	2019	2018
Opening balance	3,034,261	3,034,261
Exercised	-	-
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, 2019, 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, 2019, all of these RSUs had vested and none have been exercised.

There were 3,034,261 RSUs outstanding at September 30, 2019 and December 31, 2018. No RSUs were granted or exercised in the nine months ended September 30, 2019 and 2018.

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13 Share-based Compensation (continued)

Compensation relating to RSUs was a recovery of \$344 and \$181 for the three and nine months ended September 30, 2019, respectively, and \$47 and \$508 for the three and nine months ended September 30, 2018, respectively. At September 30, 2019, a liability of \$5,731 (December 31, 2018 - \$5,738) 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 solely 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	
	2019	2018
Opening balance	518,855	416,529
Granted	89,488	73,255
Ending balance	608,343	489,784

In the nine months ended September 30, 2019, 89,488 DSUs were issued in lieu of director fees of \$174 and in the nine months ended September 30, 2018, 73,255 DSUs were issued in lieu of director fees of \$173. No DSUs were exercised in the nine months ended September 30, 2019 and 2018.

Compensation relating to DSUs, including the impact of the change in the market value of the Company's common share was a recovery of \$5 and an expense of \$138 in the three and nine months ended September 30, 2019, respectively, and \$55 and \$211 for the three and nine months ended September 30, 2018, respectively. At September 30, 2019, a liability of \$1,149 (December 31, 2018 - \$981) 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.

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Salaries and benefits	\$ 751	\$ 813	\$ 2,356	\$ 2,448
Share-based compensation	(110)	685	688	2,441
	\$ 641	\$ 1,498	\$ 3,044	\$ 4,889

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 \$34 and \$102 in the three and nine months ended September 30, 2019, respectively, and \$35 and \$105 in the three and nine months ended September 30, 2018, respectively. Compensation relating to RSUs issued to the Consultant was a recovery of \$7 and \$4 for the three and nine months ended September 30, 2019, respectively, and \$nil and \$5 for the three and nine months ended September 30, 2018, respectively, and the amounts were included in the consolidated statements of profit and comprehensive income under share-based compensation expense. At September 30, 2019, a liability of \$112 (December 31, 2018 - \$112) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

The Company received a cash dividend from Arena Finance in the amount of \$882 in each of the three and nine months ended September 30, 2019.

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14 Related Party Transactions (continued)

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

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Term loan to Arena Origination (note 6)	\$ -	\$ 182	\$ 179	\$ 542
Demand loans to AFHC and AOC (note 4 and 6)	160	354	680	1,071
Revolving Loan Facility (note 6)	265	226	753	620
	\$ 425	\$ 762	\$ 1,612	\$ 2,233
Interest earned on bank balances	44	25	108	64
	\$ 469	\$ 787	\$ 1,720	\$ 2,297

The Company earned advisory fees of \$167 from HIIG and \$562 from the Arena Group in the three months ended September 30, 2019 and \$667 from HIIG and \$1,437 from the Arena Group for the nine months ended September 30, 2019. The Company earned advisory fees of \$250 from HIIG and \$110 from the Arena Group in the three months ended September 30, 2018 and \$750 from HIIG and \$330 from the Arena Group for the nine months ended September 30, 2018. Advisory fees are included in fee income in the consolidated statements of profit and comprehensive income.

On December 31, 2018, all outstanding M units of AFHC and AOC held by BP LLC were redeemed. Redemption payments in respect of the redemption of the M units of AFHC and AOC in the amount of \$620 and \$104, respectively, were made to BP LLC on March 27, 2019.

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	
	2019	2018	2019	2018
Unrealized gain on investments in private entities	\$ (432)	\$ (753)	\$ (3,217)	\$ (2,073)
Non-capital loss carry-forwards	432	753	3,217	2,073
	\$ -	\$ -	\$ -	\$ -

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

	September 30, 2019	December 31, 2018
Non-capital loss carry-forwards	\$ 25,661	\$ 30,237
Capital loss carry-forwards	5,279	5,121
Deductible temporary differences	14,499	13,928
Corporate minimum tax credits	335	325
Investment tax credits	3,432	3,330

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2039, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2034	\$ 3,226	2019	\$ 726
2035	1,951	2020	622
2036	68	2021	486
2037	10,127	2022	245
2038	5,712	2023	132
2039	4,577	Beyond 2023	1,221
	\$ 25,661		\$ 3,432

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15 Income Taxes

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 and comprehensive income:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Profit before income tax	\$ 3,751	\$ 4,424	\$ 21,623	\$ 10,235
Statutory income tax rates	26.5%	26.5%	26.5%	26.5%
Income taxes at statutory income tax rates	994	1,172	5,730	2,712
Variations due to:				
Non-taxable portion of unrealized gain on investments in private entities	(432)	(753)	(3,217)	(2,073)
Tax losses allocated from the HIIG Partnership	7	(4)	(35)	(10)
(Non-taxable) non-deductible items	(223)	86	(49)	328
Difference between statutory and foreign tax rates	13	(3)	12	(13)
Unrecognized temporary differences	(275)	(322)	(108)	(1,013)
Unrecognized tax losses	(84)	(176)	(2,333)	69
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, 2019 and 2018. The stock options, RSUs and Warrants for the three and nine months ended September 30, 2019 and 2018 were excluded in the calculation of diluted earnings per share as they were not dilutive.

Earnings per share, basic and diluted, are as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Earnings per share, basic and diluted:				
Profit	\$ 3,751	\$ 4,424	\$ 21,623	\$ 10,235
Weighted average number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Earnings per share, basic and diluted	\$ 0.03	\$ 0.03	\$ 0.15	\$ 0.07

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, 2019 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 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, 2019, the Company's short-term financial liabilities amounted to \$2,406 (December 31, 2018 - \$2,886), and the Company has access to cash and other resources to meet these financial obligations.

Currency risk

The Company's C\$ denominated monetary liabilities exceed C\$ denominated monetary assets, including its C\$35 million (December 2018 – C\$35 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, 2019 by approximately \$1,758. 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.