

Independent Auditor's Report

To the Shareholders and the Board of Directors of
The Westaim Corporation

Opinion

We have audited the consolidated financial statements of The Westaim Corporation and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of profit and comprehensive income, changes in equity and consolidated cash flow statements for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Matthew Welchinski.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
Toronto, Ontario
March 27, 2019

The Westaim Corporation
Consolidated Statements of Financial Position

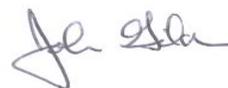
(thousands of United States dollars)	December 31 2018	December 31 2017
ASSETS		
Cash	\$ 7,836	\$ 7,813
Loans receivable (note 4)	14,660	23,925
Other assets (note 5)	3,451	3,114
Investments (note 6)	371,452	351,338
	<u>\$ 397,399</u>	<u>\$ 386,190</u>
LIABILITIES		
Accounts payable and accrued liabilities (note 7)	\$ 9,605	\$ 9,824
Preferred securities (note 8)	36,649	39,876
Derivative warrant liability (note 9)	2,382	6,678
Site restoration provision (note 10)	3,584	3,770
	<u>52,220</u>	<u>60,148</u>
Commitments and contingent liabilities (note 11)		
SHAREHOLDERS' EQUITY		
Share capital (note 12)	382,182	382,182
Contributed surplus (note 13)	16,516	14,172
Accumulated other comprehensive loss (note 2n)	(2,227)	(2,227)
Deficit	(51,292)	(68,085)
	<u>345,179</u>	<u>326,042</u>
	<u>\$ 397,399</u>	<u>\$ 386,190</u>

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

Approved on behalf of the Board



Ian W. Delaney
Director



John W. Gildner
Director

The Westaim Corporation

Consolidated Statements of Profit and Comprehensive Income

(thousands of United States dollars except share and per share data)	Year Ended December 31	
	2018	2017
Revenue		
Investment income (note 14)	\$ 3,060	\$ 2,244
Fee income (note 14)	1,440	1,440
	<u>4,500</u>	<u>3,684</u>
Net results of investments		
Unrealized gain on investments in private entities (note 6)	17,465	22,909
Share of loss of associates (note 6)	(1,101)	(3,379)
Unrealized gain on other investments (note 5)	214	333
	<u>16,578</u>	<u>19,863</u>
Net expenses		
Salaries and benefits	3,746	3,035
General, administrative and other	1,032	1,062
Professional fees	910	695
Site restoration provision (note 10)	99	72
Share-based compensation (note 13)	1,557	3,810
Foreign exchange	(1,149)	1,653
Interest on preferred securities (note 8)	1,902	1,161
Derivative warrants (note 9)	(3,812)	5,979
Preferred securities issuance costs (note 8)	-	505
	<u>4,285</u>	<u>17,972</u>
Profit and comprehensive income	\$ 16,793	\$ 5,575
Earnings per share (note 16)		
Basic	\$ 0.12	\$ 0.04
Diluted	\$ 0.11	\$ 0.04
Common shares outstanding	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

Year ended December 31, 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)	-	2,344	-	-	2,344
Profit	-	-	-	16,793	16,793
Balance at December 31, 2018	\$ 382,182	\$ 16,516	\$ (2,227)	\$ (51,292)	\$ 345,179

Year ended December 31, 2017					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2017	\$ 382,182	\$ 12,210	\$ (2,227)	\$ (73,660)	\$ 318,505
Stock option plan expense (note 13)	-	1,962	-	-	1,962
Profit	-	-	-	5,575	5,575
Balance at December 31, 2017	\$ 382,182	\$ 14,172	\$ (2,227)	\$ (68,085)	\$ 326,042

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

The Westaim Corporation
Consolidated Cash Flow Statements

(thousands of United States dollars)	Year Ended December 31	
	2018	2017
Operating activities		
Profit	\$ 16,793	\$ 5,575
Unrealized gain on investments in private entities (note 6)	(17,465)	(22,909)
Share of loss of associates (note 6)	1,101	3,379
Unrealized gain on other investments (note 5)	(214)	(333)
Share-based compensation expense (note 13)	1,557	3,810
Share-based compensation payments (note 13)	-	(340)
Site restoration provision expense (note 10)	99	72
Lease expense	(12)	(12)
Depreciation and amortization	42	53
Unrealized foreign exchange (gain) loss	(2,060)	2,481
Change in fair value of derivative warrant liability (note 9)	(3,812)	5,979
Net change in other non-cash balances		
Other assets	(262)	1,711
Accounts payable and accrued liabilities	632	614
Cash provided from (used in) operating activities	(3,601)	80
Investing activities		
Purchase of investments in private entities	-	(5)
Loans made to subsidiaries (note 4)	(3,717)	(37,030)
Repayment of loans made to subsidiaries (note 4)	11,109	14,812
Purchase of capital assets	(18)	(12)
Loans made to associates (note 6)	(3,750)	(14,500)
Repayment of loans made to associates (note 6)	-	4,415
Cash provided from (used in) investing activities	3,624	(32,320)
Financing activities		
Issuance of preferred securities (note 8)	-	37,026
Cash from financing activities	-	37,026
Net increase in cash	23	4,786
Cash, beginning of period	7,813	3,027
Cash, end of period	\$ 7,836	\$ 7,813
Cash is composed of:		
Cash	\$ 7,836	\$ 7,813
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,942	\$ 659

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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

1 Nature of Operations

The Westaim Corporation ("Westaim" or the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company's head office is located at Suite 1700, 70 York Street, Toronto, Ontario, Canada. These consolidated financial statements were authorized for issue by the Board of Directors of the Company on March 27, 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 Financial Reporting Standards ("IFRS").

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 International Accounting Standard ("IAS") 28 "Investments in Associates and Joint Ventures" 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), Arena Special Opportunities Fund (Onshore) GP, LLC ("ASOF-ON GP") (through WCA), and Arena Special Opportunities Fund (Offshore) II GP, LP ("ASOF-OFF II GP") (the "Associates"), and are reported under investments in the consolidated statements of financial position, with the Company's share of profit (loss) and comprehensive income (loss) of the Associates reported under "Net results of investments" in the consolidated statements of profit 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.

(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.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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

2 Summary of Significant Accounting Policies (continued)

(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 December 31, 2018, the Company's cash consisted of cash on deposit, including restricted cash on deposit of \$4,375 (2017 – C\$2,500) (see note 8).

(h) Capital assets

The Company's capital assets are included in other assets and are reported at cost less accumulated depreciation. Depreciation is calculated based on the estimated useful life of the particular assets which is 3 to 10 years for furniture and equipment. Leasehold improvements are depreciated using the straight-line method over the lesser of the term of the lease or the estimated useful life of the assets. At the end of each reporting period, management reviews the carrying amounts of capital assets for any indication of impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use.

(i) Investments

The Company's investments in private entities are classified as FVTPL and are carried at fair value. At initial recognition, investments in private entities are measured at cost, which is representative of fair value, and subsequently, at each reporting date, recorded at fair value with gains and losses arising from changes in fair values being recorded in the consolidated statements of profit 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.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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

2 Summary of Significant Accounting Policies (continued)

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

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

Management is responsible for performing fair value measurements included in the Company's consolidated financial statements for each 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.

(j) 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.

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

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

(k) Warrants

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

(l) Site restoration provision

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

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2018 and 2017

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

2 Summary of Significant Accounting Policies (continued)

(m) Contributed surplus

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

(n) Accumulated other comprehensive loss

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

(o) Share-based compensation

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

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

(p) Earnings per share

Basic earnings per share is calculated by dividing profit 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.

3 Accounting Pronouncements

(a) Adopted in the current period

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 "Financial Instruments" ("IFRS 9") as part of its plan to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 requires financial assets to be measured at either fair value or amortized cost. In July 2014, the IASB issued the final version of IFRS 9 incorporating a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets. The Company has determined that the adoption of IFRS 9 did not have a material impact on the Company's consolidated financial statements and all loans receivable and accounts receivable will continue to be measured at amortized cost. IFRS 9 was adopted on January 1, 2018 on a retrospective basis without restatement of comparative periods. Management has reviewed the Company's assets measured at amortized cost and have concluded that the adoption of the new expected credit loss impairment model had a negligible impact on the carrying amount of these assets in the Company's consolidated financial statements as at January 1, 2018 and December 31, 2018.

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

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

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For the years ended December 31, 2018 and 2017

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

3 Accounting Pronouncements (continued)

(b) Issued but not yet adopted

On January 13, 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16") which will replace IAS 17 "Leases". IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for periods beginning on or after January 1, 2019. The Company has identified its leases that are impacted by IFRS 16 and does not expect the adoption of IFRS 16 to have a material impact on its consolidated financial statements. The Company will adopt the modified retrospective approach of adoption whereby comparative periods will not be 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 Company does not expect the impact of IFRIC 23 to have a material impact on its consolidated financial statements. The Company will adopt the modified retrospective basis without restatement of comparative information.

4 Loans Receivable

On June 9, 2017, the Company used the proceeds from the Fairfax Financing (as defined in note 8) to loan Canadian dollars ("C\$") 30,000 to AFHC (as defined in note 6) and C\$20,000 to AOC (as defined in note 6) (collectively, the "Arena Loans") on market terms. The Arena Loans are denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of AFHC and AOC. The Arena Loans carry interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest is due at the end of each calendar quarter. AFHC made a principal repayment to the Company of C\$20,000 on December 21, 2017 and C\$1,000 each on March 7, 2018, May 25, 2018, June 26, 2018, August 22, 2018 and November 16, 2018 and increased the loan by C\$5,000 on December 20, 2018 resulting in an outstanding loan of C\$10,000 to AFHC at December 31, 2018 (C\$10,000 to AFHC at December 31, 2017). AOC made a principal repayment to the Company of C\$5,000 each on December 18, 2018 and December 19, 2018 resulting in an outstanding loan of C\$10,000 to AOC at December 31, 2018 (C\$20,000 to AOC at December 31, 2017).

The Arena Loans are recorded under loans receivable in the consolidated statements of financial position. The Arena Loans are translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. At December 31, 2018 and 2017, the carrying amount of the Arena Loans, which approximated fair value, totaled \$14,660 and \$23,925, respectively. The Company recorded a foreign exchange loss relating to the Arena Loans of \$1,707 (\$166 realized gain and \$1,873 unrealized loss) and a foreign exchange gain of \$2,469 (\$762 realized and \$1,707 unrealized) for the years ended December 31, 2018 and 2017, respectively.

Interest on the Arena Loans earned and received by the Company totaled \$1,385 and \$1,265 for the years ended December 31, 2018 and 2017, 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:

	December 31, 2018	December 31, 2017
Capital assets	\$ 71	\$ 95
Investment in Arena Special Opportunities Fund, LP (a)	2,469	2,255
Receivables from related parties (b)	727	476
Change in fair value of foreign exchange forward contract (note 8)	-	110
Accounts receivable and other	184	178
	<u>\$ 3,451</u>	<u>\$ 3,114</u>

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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 December 31, 2018 and 2017, the fair value of the Company's interest in ASOF LP was determined by Arena Investors (as defined in note 6) to be \$2,469 and \$2,255, respectively. The Company reported unrealized gains of \$214 and \$333 in the years ended December 31, 2018 and 2017, respectively, with respect to the investment in the consolidated statements of profit and comprehensive income.
- (b) Receivables from related parties totaled \$727 at December 31, 2018 and \$476 at December 31, 2017 and included certain expenses paid by the Company on behalf of the Arena Group from time to time which are subject to reimbursement.

6 Investments

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

	December 31, 2018	December 31, 2017
Investments in private entities	\$ 360,843	\$ 343,378
Investment in associates	10,609	7,960
	\$ 371,452	\$ 351,338

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

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2018 and 2017
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim ¹
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim ²
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim ²
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 Bernard Partners, LLC (as hereinafter defined) described below under "Investments in Arena Finance and Arena Origination" were redeemed. The December 31, 2018 financial statements of Arena Finance and Arena Origination contain liabilities for the redemption payment of the M units which amounts are expected to be paid to Bernard Partners, LLC (as hereinafter defined) on or before 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 Bernard Partners, LLC described below under "Investment in Associates".

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

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

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6 Investments (continued)

Houston International Insurance Group, Ltd.

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

Arena Group

The Arena Group consists of the following three businesses:

- Arena Investors – WAHII, ASOF-ON GP and ASOF-OFF II GP (collectively, "Arena Investors") jointly operate as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The Company's investment in Arena Investors is accounted for using the equity method in the Company's consolidated financial statements. See "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 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.

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 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>
As at December 31, 2017	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 157,107	-	-	\$ 157,107
- Arena Finance	151,315	-	-	151,315
- Arena Origination	34,956	-	-	34,956
	<u>\$ 343,378</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343,378</u>

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6 Investments (continued)

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

Year ended December 31, 2018	Opening balance	Unrealized gain (loss)	Ending balance
Investments in private entities:			
- HIIG Partnership	\$ 157,107	\$ 5,011	\$ 162,118
- Arena Finance	151,315	12,573	163,888
- Arena Origination	34,956	(119)	34,837
	<u>\$ 343,378</u>	<u>\$ 17,465</u>	<u>\$ 360,843</u>

Year ended December 31, 2017	Opening balance	Additions - Equity	Repayment of term loan	Unrealized Gain	Ending balance
Investments in private entities:					
- HIIG Partnership	\$ 145,227	\$ -	\$ -	\$ 11,880	\$ 157,107
- Arena Finance	142,800	-	-	8,515	151,315
- Arena Origination	32,437	7,005	(7,000)	2,514	34,956
	<u>\$ 320,464</u>	<u>\$ 7,005</u>	<u>\$ (7,000)</u>	<u>\$ 22,909</u>	<u>\$ 343,378</u>

There were no transfers among Levels 1, 2 and 3 during the years ended December 31, 2018 and 2017.

Investment in Houston International Insurance Group, Ltd.

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

At December 31, 2018, the Company owned, directly and indirectly, approximately 58.5% of the HIIG Partnership, representing an approximate 43.9% indirect ownership interest in HIIG.

Westaim controls the HIIG Partnership through its ownership of approximately 58.5% of the HIIG Partnership and through its control of HIIG GP, the general partner of the HIIG Partnership; and the HIIG Partnership exercises control over HIIG and its insurance subsidiaries through its ownership of approximately 75.1% of the issued and outstanding common shares of HIIG ("HIIG Shares") at December 31, 2018. The amount of dividends paid to HIIG by its subsidiaries which carry on an insurance business may be subject to restrictions imposed by the insurance regulators in the United States, thereby limiting the amount of dividends HIIG can pay to its shareholders, including the HIIG Partnership. Payment of dividends from HIIG to the HIIG Partnership may also be restricted as a result of covenants in credit facilities entered into by HIIG from time to time.

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

FVTPL

The investment in HIIG (through the HIIG Partnership) is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be \$162,118 at December 31, 2018 and \$157,107 at December 31, 2017.

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 \$162,118 at December 31, 2018. The fair value of the HIIG Partnership at December 31, 2018 was derived from a valuation of the HIIG Shares owned by the HIIG Partnership and other net assets of the HIIG Partnership at December 31, 2018. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the HIIG Shares as at December 31, 2018 and 2017, given that this is the valuation technique which a market participant would employ.

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6 Investments (continued)

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

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

The Company recorded unrealized gains on its investment in the HIIG Partnership of \$5,011 and \$11,880 in the years ended December 31, 2018 and 2017, respectively.

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

Investments in Arena Finance and Arena Origination

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

On August 31, 2015, Arena Finance and Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, entered into a limited liability company agreement in respect of AFHC under which BP LLC was issued Class M units of AFHC which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AFHC. The Class M units vest equally over 5 years from August 31, 2015 and carry pre-determined escalating conversion prices which are in excess of the price paid by the Company for its investment in AFHC (through Arena Finance). At December 31, 2018, the fair value of AFHC attributable to the Class M units was \$620 (December 31, 2017 - \$nil). 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 is recorded as a liability on AFHC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$620 is expected to be paid to BP LLC on or before March 31, 2019.

A similar agreement was entered into between Arena Origination and BP LLC with respect to AOC. On June 5, 2017, a cash distribution of \$0.93 per Class A unit, totaling \$3,162, was made by AOC to Arena Origination, and in accordance with the AOC LLC Agreement, the pre-determined escalating conversion prices of the Class M units were correspondingly reduced by \$0.93 per Class M unit. At December 31, 2018, the fair value of AOC attributable to the Class M units was \$104 (December 31, 2017 - \$75). 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 is recorded as a liability on AOC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$104 is expected to be paid to BP LLC on or before March 31, 2019.

In connection with the capitalization of Arena Origination, the Company granted a term loan of \$17,000 to Arena Origination on August 31, 2015. On June 6, 2017, Arena Origination repaid \$7,000 of the term loan to Westaim, with a remaining balance of \$10,000 outstanding at December 31, 2018 and 2017. The loan has a seven year term to August 31, 2022, is unsecured and carries interest at a rate of 7.25% per annum, with interest due on or before January 1 of each year during the term. Related to this loan repayment, on June 6, 2017, the Company made an additional equity investment of \$7,005 in Arena Origination by acquiring additional common shares of Arena Origination.

FVTPL

The investments in Arena Finance and Arena Origination are accounted for at FVTPL and are included in investments in private entities. The fair values of the Company's investments in Arena Finance and Arena Origination were determined to be \$163,888 and \$34,837, respectively, at December 31, 2018 and \$151,315 and \$34,956, respectively, at December 31, 2017.

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6 Investments (continued)

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 December 31, 2018, in the amount of \$163,888 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 December 31, 2018, in the amount of \$24,837 and the fair value of the term loan of \$10,000, totaling \$34,837, 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 December 31, 2018.

At December 31, 2017, management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the shareholder's equity of Arena Finance at December 31, 2017, less the amount attributable to Class M units, in the amount of \$151,315 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 December 31, 2017, less the amount attributable to Class M units, in the amount of \$24,956 and the fair value of the term loan of \$10,000, totaling \$34,956, approximated the fair value of the Company's investment in Arena Origination.

The significant unobservable inputs used in the valuation of Arena Finance and Arena Origination at December 31, 2018 were the shareholder's equity of each of the entities at December 31, 2018 and the multiple applied. Management applied a multiple of 1.0x as the shareholder's equity of Arena Finance and Arena Origination reflected the net assets of the respective entity which were carried at fair value at December 31, 2018, as described below. The shareholder's equity contained certain significant judgments and estimates made by management of Arena Finance and Arena Origination, including the determination of the fair value of their subsidiaries' investments as noted below.

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

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

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6 Investments (continued)

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

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

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

The Company recorded unrealized gains on its investment in Arena Finance of \$12,573 and \$8,515 in the years ended December 31, 2018 and 2017, respectively. The operating results of Arena Finance included interest expense on the demand loan from Westaim to AFHC of \$390 and \$747 in the years ended December 31, 2018 and 2017, respectively.

The Company recorded an unrealized loss on its investment in Arena Origination of \$119 and an unrealized gain of \$2,514 in the years ended December 31, 2018 and 2017, respectively. The operating results of Arena Origination included interest expense on the term loan from Westaim to Arena Origination and the demand loan from Westaim to AOC totaling \$1,720 and \$1,460 in the years ended December 31, 2018 and 2017, respectively.

For purposes of assessing the sensitivity of the shareholder's equity of Arena Finance and Arena Origination on the valuation of the Company's investment in these entities which is wholly-owned by the Company, if the shareholder's equity of either Arena Finance or Arena Origination at December 31, 2018 was higher by \$1,000, the fair value of the Company's investment in the respective entity at December 31, 2018 would have increased by \$1,000 and the unrealized gain on investments in private entities for the year ended December 31, 2018 would have increased by \$1,000. If the shareholder's equity of either Arena Finance or Arena Origination at December 31, 2018 was lower by \$1,000, an opposite effect would have resulted.

INVESTMENT IN ASSOCIATES

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

On August 31, 2015, agreements were entered into between the Company (through WCA) and BP LLC in respect of WAHII and ASOF-ON GP and between Westaim and BP LLC in respect of ASOF-OFF II GP (the "Associate Agreements"). BP LLC's initial profit sharing percentage is 49%, and under the Associate Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the Associates and share up to 75% of the 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.

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6 Investments (continued)

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

	December 31, 2018	December 31, 2017
Financial information of Associates:		
Assets	\$ 20,100	\$ 19,276
Liabilities	(35,334)	(32,350)
Net liabilities	\$ (15,234)	\$ (13,074)
Company's share	\$ (7,641)	\$ (6,540)
Associates Loan	18,250	14,500
Carrying amount of the Company's investment in associates	\$ 10,609	\$ 7,960

	Year ended December 31, 2018	Year ended December 31, 2017
Financial information of Associates:		
Fee and other income	\$ 21,212	\$ 15,135
Operating expenses ¹	(23,372)	(21,760)
Loss and comprehensive loss	\$ (2,160)	\$ (6,625)
Company's share of loss of associates (51%)	\$ (1,101)	\$ (3,379)

¹ Includes interest expense on the loan granted by AFHC to the Associates (see note 14) of \$nil and \$257 in the years ended December 31, 2018 and 2017, respectively and interest expense on the loan granted by the Company (through WCA) to WAHII of \$856 and \$23 in the years ended December 31, 2018 and 2017, respectively.

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

	December 31, 2018	December 31, 2017
Carrying amount of investment in Associates:		
Opening balance	\$ 7,960	\$ 1,254
Company's share of loss of Associates (51%)	(1,101)	(3,379)
Repayment-Advances to Associates	-	(4,415)
Addition - Associates Loan	3,750	14,500
Ending balance	\$ 10,609	\$ 7,960

On December 21, 2017, the Company (through WCA) granted a revolving loan facility up to \$20,000 to the Associates (the "Associates Loan") in order to (i) fund growth initiatives and working capital needs of Arena Investors and (ii) enable WAHII to repay \$4,415 in advances previously owed to the Company and extinguish the loan owed to AHFC (see note 14). The loan facility has a term of 36 months and bears interest at a rate of 5.25% per annum. WAHII had drawn down the loan facility by \$18,250 and \$14,500 at December 31, 2018 and 2017, respectively. The loan facility is secured by the assets of certain of the Associates. The Company earned and received interest on the Associates Loan of \$856 and \$23 for the years ended December 31, 2018 and 2017, respectively.

The total of the Company's 51% share of loss of the Associates was \$1,101 and \$3,379 in the years ended December 31, 2018 and 2017, respectively, and was reported under "Share of 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:

	December 31, 2018	December 31, 2017
RSUs (note 13)	\$ 5,738	\$ 7,154
DSUs (note 13)	981	1,033
Interest on Preferred Securities (note 8)	462	502
Fair value of foreign exchange forward contract (note 8)	630	-
Other accounts payable and accrued liabilities	1,794	1,135
Ending balance	\$ 9,605	\$ 9,824

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8 Preferred Securities

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

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

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

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. The carrying amount of the Preferred Securities, which approximated fair value, was \$36,649 and \$39,876 at December 31, 2018 and 2017, respectively. The Company recorded an unrealized foreign exchange gain relating to the Preferred Securities of \$3,227 and an unrealized foreign exchange loss of \$2,850 in the years ended December 31, 2018 and 2017, respectively.

Interest on the Preferred Securities amounted to \$1,902 and \$1,161 in the years ended December 31, 2018 and 2017, respectively. Accrued interest was \$462 and \$502 at December 31, 2018 and 2017, respectively, and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

Transaction costs incurred for the issuance of the Preferred Securities totaling \$505 were recorded as an expense in the consolidated statements of profit and comprehensive income in the year ended December 31, 2017. There were no transaction costs for the year ended December 31, 2018.

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 part of the foreign 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 part of the foreign currency exposure arising from the Preferred Securities. The contract has a term to maturity of less than one year and may be renewed at market rates. The Company has not designated this foreign exchange forward contract as an accounting hedge. A loss was accrued on the foreign exchange forward contract in the amount of \$630 at December 31, 2018 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. A gain was accrued on the foreign exchange contract in the amount of \$110 at December 31, 2017 and was recorded under other assets in the consolidated statement of financial position. The foreign exchange loss was \$1,706 and the foreign exchange gain was \$110 for years ended December 31, 2018 and 2017, 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 (2017 - \$2,500) as security. The security shall remain in effect for the duration of any outstanding foreign exchange forward contracts.

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.

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9 Derivative Warrant Liability (continued)

Changes to the derivative warrant liability are as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Opening balance	\$ 6,678	\$ -
Fair value upon initial recognition	-	8,992
Change in fair value - (gain) loss	(3,812)	(3,013)
Unrealized foreign exchange (gain) loss	(484)	699
Ending balance	\$ 2,382	\$ 6,678

The Company recorded an expense of \$8,992 upon initial recognition of the vested Warrants on June 2, 2017. The Company recognized unrealized gains resulting from a change in the fair value of the vested Warrants of \$3,812 and \$3,013 in the years ended December 31, 2018 and 2017, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the vested Warrants of \$484 and an unrealized foreign exchange loss of \$699 in the years ended December 31, 2018 and 2017, respectively, under foreign exchange in the consolidated statements of profit and comprehensive income. At December 31, 2018 and 2017, a liability of \$2,382 and \$6,678, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position.

The fair value of the vested Warrants at December 31, 2018 of \$2,382 (December 31, 2017 - \$6,678) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.87% (December 31, 2017 - 1.81%), an expiration date between January 1, 2019 and June 2, 2024 (December 31, 2017: January 1, 2018 and June 2, 2024), a volatility of the underlying common shares of the Company of 23.42% (December 31, 2017 - 25.08%), a closing price of common shares of C\$2.58 (December 31, 2017 - C\$3.11) 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:

	Year ended December 31, 2018	Year ended December 31, 2017
Opening balance	\$ 3,770	\$ 3,439
Changes due to:		
Estimates of future expenditures	102	(6)
Inflation	(36)	-
Passage of time and discount rates	33	78
Unrealized foreign exchange (gain) loss	(285)	259
Ending balance	\$ 3,584	\$ 3,770

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

Cash flows are estimated to take place over the next 100 years, with the majority to take place later than 50 years after December 31, 2018. To calculate the site restoration provision, the estimated cash outflows were adjusted for inflation and discounted to December 31, 2018. For inflation and discounting calculations, all cash flows later than 50 years are treated as if the cash flow would occur at 100 years. Inflation is estimated at 1.70% (December 31, 2017 - 1.76%) per annum over the next 100 years. Discount rates are based on risk free rates which range from 1.87% to 2.18% (December 31, 2017 - 1.52% to 2.27%) over the next 30 years. The 30-year risk free rate is used for discounting cash flows that are estimated to occur later than 30 years after December 31, 2018.

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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 (2017 - \$2,500) as security (see note 8).
- (b) On April 18, 2018, the Company extended its operating lease for office premises in Toronto with lease terms expiring on November 30, 2024. At 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. At December 31, 2017, the Company had operating leases for office premises in Toronto expiring on November 30, 2019 with a total commitment of \$636 for future occupancy cost payments including payments due not later than one year of \$332 and payments due later than one year of \$304.

12 Share Capital

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

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

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

13 Share-based Compensation

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

The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding or 14,318,671 as at December 31, 2018. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

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

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

	Year ended December 31, 2018		Year ended December 31, 2017	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	6,613,337	C\$ 3.10	2,754,940	C\$ 3.29
Granted	3,815,000	C\$ 3.10	3,860,397	C\$ 3.00
Expired	-	-	(2,000)	C\$ 61.50
Ending balance	10,428,337	C\$ 3.10	6,613,337	C\$ 3.10
Options exercisable at end of period	5,680,558	C\$ 3.10	2,204,445	C\$ 3.10

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13 Share-based Compensation (continued)

As at December 31, 2018					
Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of stock options exercisable	Exercisable Weighted Average Exercise Price
C\$ 3.10	3,815,000	6.05	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

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

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

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

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

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

Compensation expense relating to options was \$2,344 and \$1,962 in the years ended December 31, 2018 and 2017, respectively, with a corresponding increase to contributed surplus.

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

Changes to the number of RSUs are as follows:

	Year ended December 31	
	2018	2017
Opening balance	3,034,261	3,082,073
Exercised	-	(47,812)
Ending balance	3,034,261	3,034,261

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. At December 31, 2018, all of these RSUs had vested, of which 265,937 RSUs had been exercised and 2,109,063 RSUs were outstanding.

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13 Share-based Compensation (continued)

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 December 31, 2018, all of these RSUs had vested and none have been exercised.

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

Compensation relating to RSUs was a recovery of \$827 and an expense of \$1,495 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, a liability of \$5,738 (December 31, 2017 - \$7,154) had been accrued with respect to outstanding RSUs in the consolidated statements of financial position.

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

Changes to the number of DSUs are as follows:

	Year ended December 31	
	2018	2017
Opening balance	416,529	398,731
Granted	102,326	110,323
Exercised	-	(92,525)
Ending balance	518,855	416,529

In the year ended December 31, 2018, 102,326 DSUs were issued in lieu of director fees of \$228 and in the year ended December 31, 2017, 110,323 DSUs were issued in lieu of director fees of \$263.

No DSUs were exercised in the year ended December 31, 2018. In the year ended December 31, 2017, 92,525 DSUs were exercised for a cash payment of C\$2.99 per DSU and the DSU liability was correspondingly reduced by \$225.

Compensation expense relating to DSUs was \$40 and \$353 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, a liability of \$981 (December 31, 2017 - \$1,033) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

14 Related Party Transactions

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

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

	Year ended December 31	
	2018	2017
Salaries and benefits	\$ 3,311	\$ 2,621
Share-based compensation	1,550	3,743
	\$ 4,861	\$ 6,364

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 \$138 in each of the years ended December 31, 2018 and 2017. Compensation relating to RSUs issued to the Consultant was a recovery of \$23 and an expense of \$18 for the years ended December 31, 2018 and 2017, respectively, and the amounts were included in the consolidated statements of profit and comprehensive income under share-based compensation expense. At December 31, 2018, a liability of \$112 (December 31, 2017 - \$146) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

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14 Related Party Transactions (continued)

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

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

	Year ended December 31	
	2018	2017
Term loan to Arena Origination (note 6)	\$ 725	\$ 942
Demand loans to AFHC and AOC (note 4 and 6)	1,385	1,265
Associates loan (note 6)	856	23
	\$ 2,966	\$ 2,230
Interest earned and received on bank balances	94	14
	\$ 3,060	\$ 2,244

The Company earned advisory fees of \$1,000 from HIIG and \$440 from the Arena Group in each of the years ended December 31, 2018 and 2017. 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. The financial statements of AFHC and AOC contain a liability for the redemption payment of the M units to BP LLC in the amount of \$620 and \$104, respectively. The redemption payments are expected to be paid to BP LLC on or before March 31, 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:

	Year ended December 31	
	2018	2017
Unrealized gain on investments in private entities	\$ (2,314)	\$ (3,034)
Non-capital loss carry-forwards	2,314	3,034
	\$ -	\$ -

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

	December 31, 2018	December 31, 2017
Non-capital loss carry-forwards	\$ 30,237	\$ 50,221
Capital loss carry-forwards	5,121	5,441
Deductible temporary differences	13,928	18,557
Corporate minimum tax credits	325	354
Investment tax credits	3,330	4,331

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

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2031	\$ 1,974	2019	\$ 704
2033	2,807	2020	603
2034	3,576	2021	471
2035	3,105	2022	237
2036	247	2023	128
2037	10,240	Beyond 2023	1,187
2038	8,288		\$ 3,330
	\$ 30,237		

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15 Income Taxes (continued)

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:

	Year ended December 31	
	2018	2017
Profit before income tax	\$ 16,793	\$ 5,575
Statutory income tax rates	26.5%	26.5%
Income taxes at statutory income tax rates	4,450	1,477
Variations due to:		
Non-taxable portion of unrealized gain on investments in private entities	(2,314)	(3,034)
Tax losses allocated from the HIIG Partnership	(22)	(26)
Non-deductible (non-taxable) items	(517)	2,288
Difference between statutory and foreign tax rates	22	(753)
Unrecognized temporary differences	(1,471)	952
Unrecognized tax losses	(148)	(904)
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 December 31, 2018 and 6,613,337 stock options, 3,034,261 RSUs and 28,571,430 Warrants outstanding at December 31, 2017. The RSUs were included in the calculation of diluted earnings per share for the year ended December 31, 2018 as they were dilutive. The stock options and Warrants for the year ended December 31, 2018 and the stock options, RSUs and Warrants for the year ended December 31, 2017 were excluded in the calculation of diluted earnings per share as they were not dilutive.

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

	Year ended December 31	
	2018	2017
Basic earnings per share:		
Profit	\$ 16,793	\$ 5,575
Weighted average number of common shares outstanding	143,186,718	143,186,718
Basic earnings per share	\$ 0.12	\$ 0.04
Diluted earnings per share:		
Profit	\$ 16,793	\$ 5,575
Dilutive RSU expense (recovery)	(827)	-
Profit on a diluted basis	\$15,966	\$ 5,575
Weighted average number of common shares outstanding	143,186,718	143,186,718
Dilutive impact of RSUs	2,963,557	-
Weighted average number of common shares outstanding on a diluted basis	146,150,275	143,186,718
Diluted earnings per share	\$ 0.11	\$ 0.04

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.

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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 December 31, 2018 consists of short-term financial assets and financial liabilities with maturities of less than one year, loans receivable, investments in private entities and associates, Preferred Securities, derivative warrant liability and the site restoration provision. The most significant identified risks which arise from holding financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and equity risk. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

Credit risk

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

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

Liquidity risk

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

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

At December 31, 2018, the Company's short-term financial liabilities amounted to \$2,886 (December 31, 2017 - \$1,637), and the Company had cash resources to meet these financial obligations.

Currency risk

The Company's C\$ denominated monetary liabilities exceed C\$ denominated monetary assets, including its C\$35 million (2017 - C\$20 million) foreign exchange forward contract. A 10% strengthening of the C\$ against the US\$ would have increased the foreign exchange loss for the year ended December 31, 2018 by approximately \$566. 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.

19 Subsequent Events

On March 6, 2019, the Company (through WCA) amended the revolving loan facility to the Associates (as described in note 6 under investment in associates) from the limit of \$20,000 to \$25,000.