

The Westaim Corporation
Consolidated Statements of Financial Position
(unaudited)

(thousands of United States dollars)	September 30 2020	December 31 2019
ASSETS		
Cash	\$ 8,291	\$ 22,240
Income tax receivable (note 15)	474	427
Other assets (note 4)	1,525	2,298
Investments (note 5)	377,330	385,784
	\$ 387,620	\$ 410,749
LIABILITIES		
Accounts payable and accrued liabilities (note 6)	\$ 9,499	\$ 10,770
Income tax payable (note 15)	310	387
Preferred securities (note 7)	37,559	38,502
Derivative warrant liability (note 9)	789	1,921
Site restoration provision (note 10)	4,055	4,097
Deferred tax liability (note 15)	395	399
	52,607	56,076
Commitments and contingent liabilities (note 11)		
SHAREHOLDERS' EQUITY		
Share capital (note 12)	382,182	382,182
Contributed surplus (note 13)	17,673	17,486
Accumulated other comprehensive loss (note 2o)	(2,227)	(2,227)
Deficit	(62,615)	(42,768)
	335,013	354,673
	\$ 387,620	\$ 410,749

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

The Westaim Corporation

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

(unaudited)

(thousands of United States dollars except share and per share data)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Revenue				
Interest income (note 14)	\$ 266	\$ 469	\$ 892	\$ 1,720
Dividend income from investments in private entities (note 14)	-	882	22,733	882
Fee income (note 14)	238	729	713	2,104
	504	2,080	24,338	4,706
Net results of investments				
Increase (decrease) in unrealized value of investments in private entities, less dividends (note 5)	3,791	3,258	(38,942)	24,277
Share of (loss) profit from investment in associates (note 5)	(330)	(546)	(1,507)	128
Increase in unrealized value of other investments (note 5)	86	41	108	174
	3,547	2,753	(40,341)	24,579
Net expenses				
Salaries and benefits	956	875	2,739	2,729
General, administrative and other	173	186	608	786
Professional fees	256	412	951	768
Site restoration (recovery) expense (note 10)	(12)	315	54	1,723
Share-based compensation expense (recovery) (note 13)	756	(115)	(441)	693
Foreign exchange loss (gain)	443	(19)	(544)	540
Interest on preferred securities (note 7)	472	476	1,371	1,414
Derivative warrant loss (gain) (note 9)	334	(1,048)	(997)	(991)
	3,378	1,082	3,741	7,662
Income (loss) before income tax	673	3,751	(19,744)	21,623
Income tax expense (note 15)	18	-	103	-
Profit (loss) and comprehensive income (loss)	\$ 655	\$ 3,751	\$ (19,847)	\$ 21,623
Earnings (loss) earnings per share (note 16)				
Basic	\$ 0.00	\$ 0.03	\$ (0.14)	\$ 0.15
Diluted	\$ 0.00	\$ 0.03	\$ (0.14)	\$ 0.15
Common shares outstanding	143,187	143,187	143,187	143,187

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

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

Nine months ended September 30, 2020					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2020	\$ 382,182	\$ 17,486	\$ (2,227)	\$ (42,768)	354,673
Stock option plan expense (note 13)	-	187	-	-	187
Loss and comprehensive loss	-	-	-	(19,847)	(19,847)
Balance at September 30, 2020	\$ 382,182	\$ 17,673	\$ (2,227)	\$ (62,615)	335,013

Nine months ended September 30, 2019					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2019	\$ 382,182	\$ 16,516	\$ (2,227)	\$ (51,292)	345,179
Stock option plan expense (note 13)	-	736	-	-	736
Profit and comprehensive income	-	-	-	21,623	21,623
Balance at September 30, 2019	\$ 382,182	\$ 17,252	\$ (2,227)	\$ (29,669)	367,538

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

The Westaim Corporation
Consolidated Cash Flow Statements
(unaudited)

(thousands of United States dollars)	Nine Months Ended September 30	
	2020	2019
Operating activities		
(Loss) profit	\$ (19,847)	\$ 21,623
Decrease (increase) in unrealized value of investments in private entities, less dividends (note 5)	38,942	(24,277)
Share of loss (profit) from investment in associates (note 5)	1,507	(128)
Increase in unrealized value of other investments (note 5)	(108)	(174)
Share-based compensation (recovery) expense (note 13)	(441)	693
Site restoration provision (note 10)	54	1,723
Depreciation and amortization	115	32
Unrealized foreign exchange (gain) loss	(1,044)	564
Derivative warrant (gain) loss (note 9)	(997)	(991)
Change in net income tax receivable and deferred tax liability (note 15)	(128)	-
Net change in other non-cash balances		
Other assets	446	(1,093)
Accounts payable and accrued liabilities	(527)	150
Cash provided from (used in) operating activities	17,972	(1,878)
Investing activities		
Purchase of investments in private entities (note 5)	(44,004)	-
Loans made to subsidiaries (note 3)	-	(3,789)
Repayment of loans made to subsidiaries (note 3)	-	18,601
Purchase of capital assets	(34)	(3)
Loans made to associates (note 6)	-	(1,750)
Return of capital from investments in private entities (note 5)	12,117	-
Cash (used in) provided from investing activities	(31,921)	13,059
Net (decrease) increase in cash	(13,949)	11,181
Cash, beginning of period	22,240	7,836
Cash, end of period	\$ 8,291	\$ 19,017
Cash is composed of:		
Cash	\$ 8,291	\$ 19,017
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,384	\$ 1,400

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

1 Nature of Operations

The Westaim Corporation ("Westaim") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). Westaim'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 Westaim on November 12, 2020.

These consolidated financial statements include the accounts of Westaim and its wholly-owned subsidiaries, Westaim HIIG GP Inc. ("HIIG GP"), Arena Finance Company II Inc. ("AFCII") and The Westaim Corporation of America ("WCA") and are collectively referred to as the "Company".

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. ("HIIG") and the Arena Group (as defined in note 5). Westaim's common shares are traded on the TSX Venture Exchange (the "TSXV") under the symbol WED.

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

2 Summary of Significant Accounting Policies

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

(a) Basis of preparation

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

The Company meets the definition of an investment entity under IFRS 10 "Consolidated Financial Statements" ("IFRS 10") and measures its investments in relevant subsidiaries at fair value through profit or loss ("FVTPL"), instead of consolidating those subsidiaries in its consolidated financial statements. Entities accounted for at FVTPL consist of HIIG (including Westaim HIIG Limited Partnership (the "HIIG Partnership")), and the Arena FINCOs (as defined in note 5).

The financial statements of entities controlled by Westaim which provide investment-related services are consolidated. These entities consist of its wholly-owned subsidiaries, HIIG GP, AFCII 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 "Investments in Associates and Joint Ventures" ("IAS 28") and consists of investments in corporations or limited partnerships where the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. The Company's investment in associates consist of its investment in Arena Investors (as defined in note 5), and is reported under investments in the consolidated statements of financial position, with the Company's share of (loss) profit and comprehensive (loss) income of the associates reported under "Net results of investments" in the consolidated statements of profit (loss) and comprehensive income (loss).

(b) Functional and presentation currency

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

(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 three and nine months ended September 30, 2020 and 2019

(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 5 for investments in private entities and associates and note 2(b) for functional currency.

(e) Foreign currency translation

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

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

(f) Revenue recognition

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

(g) Cash and cash equivalents

Cash and cash equivalents generally consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less. At September 30, 2020, the Company's cash consisted of cash on deposit, including restricted cash on deposit of \$3,000 (December 31, 2019 - \$3,000) (see note 8).

(h) Capital assets

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

(i) Leases

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

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

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

2 Summary of Significant Accounting Policies (continued)

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

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

(j) Investments

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

Investments in associates are initially recorded at cost and subsequently adjusted to recognize the Company's share of (loss) profit and other comprehensive (loss) income of the associates and any dividends and/or distributions received from the associates.

Investment in Arena Special Opportunities Fund, LP ("ASOF LP") (as defined in Note 5), is classified as FVTPL and is carried at fair value.

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

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

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

(k) Income taxes

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

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

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

2 Summary of Significant Accounting Policies (continued)

(l) Warrants

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

(m) Site restoration provision

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

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

(n) Contributed surplus

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

(o) Accumulated other comprehensive loss

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

(p) Share-based compensation

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

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

(q) Earnings (loss) per share

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

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

3 Loans Receivable

On June 9, 2017, the Company used the proceeds from the Fairfax Financing (as defined in note 7) to loan Canadian dollars ("C\$") 50,000 to the Arena FINCOs (as defined in note 5) (the "Arena FINCOs Demand Loan") on market terms. The Arena FINCOs Demand Loan was denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of the Arena FINCOs. The Arena FINCOs Demand Loan carried interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest was due at the end of each calendar quarter.

At September 30, 2020 and December 31, 2019, the carrying amount of the Arena FINCOs Demand Loan, which was recorded under loans receivable in the consolidated statements of financial position at fair value, totaled \$nil.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

3 Loans Receivable (continued)

The Arena FINCOs Demand Loan was translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss was included in the consolidated statements of profit (loss) and comprehensive income (loss). The Company recorded a foreign exchange gain relating to the Arena FINCOs Demand Loan of \$nil in each of the three and nine months ended September 30, 2020 and a foreign exchange loss of \$262 and a foreign exchange gain of \$313 for the three and nine months ended September 30, 2019, respectively.

Interest on the Arena FINCOs Demand Loan earned and received by the Company totaled \$nil in each of the three and nine months ended September 30, 2020 and \$160 and \$680 for the three and nine months ended September 30, 2019, respectively, and was included in interest income in the consolidated statements of profit (loss) and comprehensive income (loss).

4 Other Assets

Other assets consist of the following:

	September 30, 2020	December 31, 2019
Capital assets	\$ 49	\$ 36
Right of use asset (a)	526	620
Receivables from related parties (b)	830	1,119
Canadian dollar currency forward contract receivable (note 8)	-	244
Accounts receivable and other	120	279
	\$ 1,525	\$ 2,298

- (a) Effective, December 1, 2019, Westaim entered into a new operating lease for its office premises in Toronto expiring on November 30, 2024. At the commencement date of the lease, a right of use asset was recorded at cost under other assets and a lease liability was recorded at amortized cost under accounts payable and accrued liabilities in the consolidated statements of financial position. Subsequent to initial recognition, the right of use asset is depreciated using the straight-line method over the term of the lease with depreciation recorded in the consolidated statements of profit (loss) and comprehensive income (loss). Each lease payment reduces the lease liability and the accretion of the lease liability is recorded as interest expense in the consolidated statements of profit (loss) and comprehensive income (loss).

The right of use asset recorded for the office premises was \$526 and \$620 at September 30, 2020 and December 31, 2019, respectively. The depreciation on the right of use asset was \$31 and \$94 for the three and nine months ended September 30, 2020, respectively, and \$nil in each of the three and nine months ended September 30, 2019.

The lease liability recorded for the office premises was \$548 and \$645 at September 30, 2020 and December 31, 2019, respectively. The lease payments were \$33 and \$88 for the three and nine months ended September 30, 2020, respectively, and the interest expense on the lease liability was \$2 and \$7 for the three and nine months ended September 30, 2020, respectively. The lease payments and the interest expense on the lease liability were \$nil in each of the three and nine months ended September 30, 2019. The Company recorded a foreign exchange loss relating to the lease liability of \$11 and a foreign exchange gain of \$16 in the three and nine months ended September 30, 2020, respectively, and \$nil in each of the three and nine months ended September 30, 2019.

- (b) Receivables from related parties totaled \$830 at September 30, 2020 and \$1,119 at December 31, 2019 and included certain expenses paid by the Company on behalf of the Arena Group and HIIG from time to time which are subject to reimbursement.

5 Investments

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

	September 30, 2020	December 31, 2019
Investments in private entities	\$ 363,748	\$ 370,803
Investment in associates	10,766	12,273
Investment in ASOF LP	2,816	2,708
	\$ 377,330	\$ 385,784

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

5 Investments (continued)

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

	Place of establishment	Principal place of business	Ownership interest as at September 30, 2020	Ownership interest as at December 31, 2019
Investments in private entities:				
- HIIG	Delaware, U.S.	Texas, U.S.	44.5% owned by the Company ¹	44.0% owned by the Company ¹
- Arena FINCOs (as hereinafter defined)	Delaware, U.S.	New York, U.S.	100% owned by the Company	100% owned by the Company
Investment in associates:				
- Arena Investors (as hereinafter defined)	Delaware, U.S.	New York, U.S.	51% beneficially owned by the Company ²	51% beneficially owned by the Company ²

¹ As at September 30, 2020, the Company owned 44.5% of HIIG's preferred shares which are convertible into HIIG common shares representing 23.0% of the fully diluted HIIG common shares. The Company also owned 21.5% of the HIIG fully diluted common shares through the HIIG Partnership which is established and operates in Ontario, Canada. Accordingly, the Company's total look-through ownership interest in HIIG is 44.5%. At December 31, 2019, the Company owned 44.0% in look through interest in HIIG common shares through the HIIG Partnership. Based on the Company's control of the HIIG Partnership, and its ownership of preferred shares, the Company holds a 57.6% voting interest in HIIG.

² Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to Bernard Partners, LLC ("BP LLC") described below under "Investment in Associates".

HIIG

The Company's investment in HIIG 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 businesses:

- **Arena Investors** – Westaim Arena Holdings II, LLC ("WAHII"), through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. 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. 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 FINCOs** – The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. The Company's investments in the Arena FINCOs is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

Arena Investors and the Arena FINCOs are collectively referred to as the "Arena Group".

INVESTMENTS IN PRIVATE ENTITIES

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

The table below summarizes the fair value hierarchy under which the Company's investments in private entities are valued. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Inputs are considered 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 Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

5 Investments (continued)

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

As at September 30, 2020	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG	\$ 194,318	-	-	\$ 194,318
- Arena FINCOs	169,430	-	-	169,430
	<u>\$ 363,748</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 363,748</u>

As at December 31, 2019	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG	\$ 164,953	-	-	\$ 164,953
- Arena FINCOs	205,850	-	-	205,850
	<u>\$ 370,803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 370,803</u>

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

	Three months ended September 30, 2020					
	Opening balance	Additions – Equity	Return of capital	Increase in unrealized value before dividends	Dividends paid	Ending balance
Investments in private entities:						
- HIIG	\$ 190,912	\$ -	\$ -	\$ 3,406	\$ -	\$ 194,318
- Arena FINCOs	169,045	-	-	385	-	169,430
	<u>\$ 359,957</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,791</u>	<u>\$ -</u>	<u>\$ 363,748</u>

	Three months ended September 30, 2019					
	Opening balance	Additions - Equity	Repayment of term loan	Increase in unrealized value before dividends	Dividends Paid	Ending Balance
Investments in private entities:						
- HIIG	\$ 175,370	\$ -	\$ -	\$ 2,732	\$ -	\$ 178,102
- Arena FINCOs	206,492	-	-	1,408	(882)	207,018
	<u>\$ 381,862</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,140</u>	<u>\$ (882)</u>	<u>\$ 385,120</u>

	Nine months ended September 30, 2020					
	Opening balance	Additions - Equity	Return of capital	Decrease in unrealized value before dividends	Dividends paid	Ending balance
Investments in private entities:						
- HIIG	\$ 164,953	\$ 44,004	\$ -	\$ (14,639)	\$ -	\$ 194,318
- Arena FINCOs	205,850	-	(12,117)	(1,570)	(22,733)	169,430
	<u>\$ 370,803</u>	<u>\$ 44,004</u>	<u>\$ (12,117)</u>	<u>\$ (16,209)</u>	<u>\$ (22,733)</u>	<u>\$ 363,748</u>

	Nine months ended September 30, 2019					
	Opening balance	Additions - Equity	Repayment of term loan	Increase in unrealized value before dividends	Dividends Paid	Ending balance
Investments in private entities:						
- HIIG	\$ 162,118	\$ -	\$ -	\$ 15,984	\$ -	\$ 178,102
- Arena FINCOs	198,725	10,000	(10,000)	9,175	(882)	207,018
	<u>\$ 360,843</u>	<u>\$ 10,000</u>	<u>\$ (10,000)</u>	<u>\$ 25,159</u>	<u>\$ (882)</u>	<u>\$ 385,120</u>

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

5 Investments (continued)

There were no transfers among Levels 1, 2 and 3 during the nine months ended September 30, 2020 and 2019.

Investment in HIIG

The Company's \$194,318 valuation of its investment in HIIG consists of the aggregate fair value of: (i) its share of the HIIG common shares held by the HIIG Partnership of \$93,574, (ii) its share of the other net assets of the HIIG Partnership of \$537; and (iii) HIIG convertible preferred shares held directly by the Company of \$100,207.

At September 30 2020, the Company owned approximately 62.0% of the HIIG Partnership and the HIIG Partnership held HIIG common shares representing approximately 34.6% of the total fully diluted HIIG common shares outstanding. Therefore Westaim's look-through interest in common shares through the HIIG Partnership was 21.5%.

The convertible preferred shares of HIIG were acquired by Westaim on April 20, 2020 as HIIG completed a rights offering that resulted in total gross proceeds of \$100,000 to HIIG. As part of the rights offering, Westaim purchased \$44,004 of the HIIG convertible preferred shares offered. The convertible preferred shares were initially convertible into HIIG common shares based on a conversion price equal to \$1.74. The conversion price is subject to adjustment from time to time based on the occurrence of certain events. At September 30, 2020, the adjustments, if effective, would result in a conversion price of \$1.41. The fair value of Westaim's ownership of the HIIG convertible preferred shares was \$100,207.

The Company's interest in the HIIG Partnership, combined with its direct ownership of the HIIG preferred shares, which were convertible in to HIIG common shares representing 23.0% of the fully diluted HIIG common shares outstanding, resulted in a 44.5% look-through interest in HIIG as at September 30, 2020 (December 31, 2019 – 44.0%).

The Company, through HIIG GP, entered into a management services agreement with HIIG on July 31, 2014, as amended on July 1, 2017, (the "HIIG MSA"), whereby HIIG GP was entitled to receive from HIIG an advisory fee of \$1,000 annually to July 31, 2019. The HIIG MSA was further amended effective August 1, 2019 such that HIIG GP is entitled to receive from HIIG an advisory fee of \$500 annually.

FVTPL

The investment in HIIG is accounted for at FVTPL. The fair value of the Company's investment in HIIG was determined to be \$194,318 at September 30, 2020 and \$164,953 at December 31, 2019.

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 HIIG at September 30, 2020. The fair value of the investment in HIIG at September 30, 2020 was derived from a valuation of the HIIG common shares and other net assets held by the HIIG Partnership, and the HIIG convertible preferred shares held by Westaim at September 30, 2020. 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 fully diluted common shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the HIIG fully diluted common shares as at September 30, 2020 and December 31, 2019, given that this is the valuation technique which a market participant would employ. The HIIG convertible preferred shares were valued at their common share equivalent on an as converted basis.

In valuing HIIG's fully diluted common shares, using a multiple of net asset value as the primary valuation technique, fair value was determined to be 1.0x to the adjusted stockholders' equity of HIIG at September 30, 2020 (December 31, 2019 - 1.1x). The adjusted stockholders' equity of HIIG as at September 30, 2020 reflects the HIIG stockholders' equity obtained from the unaudited financial statements of HIIG as at and for the nine months ended September 30, 2020 prepared in accordance with US GAAP, adjusted for a reclassification of a stock notes receivable from employees relating to their purchase of HIIG common and convertible preferred shares. The adjusted stockholders' equity contained certain significant judgments and estimates made by management of HIIG including the provision for loss and loss adjustment expenses (LAE), the valuation of goodwill and intangible assets, and the valuation allowance recorded against deferred income tax assets.

As at December 31, 2019 and the two prior years, the Company had concluded that an appropriate valuation for HIIG was 1.1x HIIG's adjusted stockholders' equity. During the nine month period through to September 30, 2020, declines in multiples of book value have been observed for P&C insurance companies as evidenced in the financial markets. As a result, the Company felt it appropriate to reduce the fair value of HIIG to 1.0x adjusted stockholders' equity at March 31, 2020 and continuing to September 30, 2020 (1.1x at December 31, 2019) which resulted in an unrealized loss of \$nil and \$14,936 for the three and nine months ended September 30, 2020, respectively, to the Company solely due to this reduction in the valuation multiple.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

5 Investments (continued)

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 HIIG at the end of each reporting period.

The Company recorded an increase in the unrealized value on its investment in HIIG of \$3,406 and a decrease in the unrealized value on its investment in HIIG of \$14,639 in the three and nine months ended September 30, 2020, respectively, and an increase in the unrealized value of \$2,732 and \$15,984 in the three and nine months ended September 30, 2019, respectively.

In 2020, HIIG closed a Loss Portfolio Transfer ("LPT"), which provides reinsurance protection of approximately \$127,400 above the net ceded claim reserves, primarily related to 2017 and prior policy years and is subject to co-participation payments required from HIIG above specific amounts. As at September 30, 2020, the LPT cost impact after tax was \$43,691, which includes the initial cost of \$43,476 plus the adverse development on prior years' claims reserves subject to the LPT of \$40,013, less recoveries from the LPT reinsurer of \$28,205 and less an income tax recovery, at a 21% tax rate, of \$11,610. The Company recognized its' share of the impact of the initial cost of the LPT before tax charge of \$43,476 (after tax - \$34,346) in its valuation of HIIG at December 31, 2019.

For purposes of assessing the sensitivity of HIIG stockholders' equity on the valuation of the Company's investment in HIIG, if HIIG stockholders' equity at September 30, 2020 was higher by \$1,000, the fair value of the Company's investment in HIIG at September 30, 2020 would have increased by approximately \$445 (December 31, 2019 - \$484) and the change in the unrealized value of investments in private entities for the three and nine months ended September 30, 2020 would have increased by approximately \$445 (for the three and nine months ended September 30, 2019 - \$484). If HIIG stockholders' equity at September 30, 2020 was lower by \$1,000, an opposite effect would have resulted.

Investment in the Arena FINCOs

The Company owns a 100% interest in the Arena FINCOs and exercises control over the businesses of the Arena FINCOs.

In connection with the capitalization of the Arena FINCOs, the Company granted a term loan (the "Arena FINCOs Term Loan") with a balance of \$10,000 outstanding at December 31, 2018. The Arena FINCOs Term Loan had a seven year term to August 31, 2022, was unsecured and carried interest at a rate of 7.25% per annum, with interest due on or before January 1 of each year during the term. On April 1, 2019, the Company converted the Arena FINCOs Term Loan of \$10,000 into additional common shares of Westaim Origination Holdings Inc. ("WOH") and as a result the balance of the 7.25% term loan was \$nil at September 30, 2020 (December 31, 2019 - \$nil).

On January 31, 2020 and March 6, 2020, the Arena FINCOs paid a cash dividend to the Company in the amount of \$6,950 and \$15,783, respectively, and on March 6, 2020, the Arena FINCOs returned capital to the Company in the amount of \$12,117, resulting in a decrease of \$34,850 in the Company's carrying value of the Arena FINCOs at September 30, 2020. In the third and fourth quarters of 2019, the Arena FINCOs paid cash dividends in the amount of \$882 and \$3,699, respectively, to the Company and in the fourth quarter of 2019 issued a dividend in kind to the Company in the amount of \$117, resulting in a decrease of \$4,698 in the Company's carrying value of the Arena FINCOs at December 31, 2019.

FVTPL

The Company's investment in the Arena FINCOs is accounted for at FVTPL and are included in investments in private entities. The fair value of the Company's investment in the Arena FINCOs was determined to be \$169,430 at September 30, 2020 and \$205,850 at December 31, 2019.

Management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the equity of the Arena FINCOs at September 30, 2020 in the amount of \$169,430 approximated the fair value of the Company's investment in the Arena FINCOs. Management determined that the net asset value valuation technique produced the best indicator of the fair value of the Arena FINCOs at September 30, 2020. This same valuation technique was used to determine the fair value of the Company's investment in the Arena FINCOs of \$205,850 at December 31, 2019.

The significant unobservable inputs used in the valuation of the Arena FINCOs at September 30, 2020 were the aggregate equity of the Arena FINCOs at September 30, 2020 and the multiple applied. Management applied a multiple of 1.0x as the equity of each of the entities reflected the net assets of the respective entity which were carried at fair value at September 30, 2020, as described below (December 31, 2019 - 1.0x). The equity contained certain significant judgments and estimates made by management of the Arena FINCOs, including the determination of the fair value of their subsidiaries' investments as noted below.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

5 Investments (continued)

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities of the Arena FINCOs approximate their fair values due to the short maturity of these financial instruments. The Arena FINCOs 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 Arena FINCOs 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, which 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.
- 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 Arena FINCOs 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 Arena FINCOs. 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 investment in the Arena FINCOs at the end of each reporting period.

The Company recorded an increase in the unrealized value of its investment in the Arena FINCOs of \$385 in the three months ended September 30, 2020 and a decrease in the unrealized value of its investment in the Arena FINCOs of \$1,570 before dividends paid to the Company of \$22,733, in the nine months ended September 30, 2020, in the consolidated statements of profit (loss) and comprehensive income (loss). In addition, Arena FINCOs returned capital in the amount of \$12,117 in the nine months ended September 30, 2020. The Company recorded an increase in the unrealized value of its investment in the Arena FINCOs of \$1,408 before dividends paid to the Company of \$882 and \$9,175 before dividends paid to the Company of \$882 in the three and nine months ended September 30, 2019, respectively. There were no dividends paid or capital returned in the three months ended September 30, 2020, and no capital returned in each of the three and nine months ended September 30, 2019.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

5 Investments (continued)

The operating results of the Arena FINCOs includes interest expense on the Arena FINCOs Term Loan and the Arena FINCOs Demand Loan from the Company to the Arena FINCOs of \$nil in each of the three and nine months ended September 30, 2020 and \$160 and \$859 in the three and nine months ended September 30, 2019, respectively.

For purposes of assessing the sensitivity of the equity of the Arena FINCOs on the valuation of the Company's investment in the Arena FINCOs, if the equity of the Arena FINCOs at September 30, 2020 was higher by \$1,000, the fair value of the Company's investment in the Arena FINCOs at September 30, 2020 would have increased by \$1,000 (December 31, 2019 - \$1,000) and the change in the unrealized value of the investments in private entities for the three and nine months ended September 30, 2020 would have increased by \$1,000 (for the three and nine months ended September 30, 2019 - \$1,000). If the equity of the Arena FINCOs at September 30, 2020 was lower by \$1,000, an opposite effect would have resulted.

INVESTMENT IN ASSOCIATES

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

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

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

	September 30, 2020	December 31, 2019
Financial information of associates:		
Assets	\$ 21,043	\$ 27,363
Liabilities	(39,399)	(42,765)
Net liabilities	\$ (18,356)	\$ (15,402)
Company's share	\$ (9,234)	\$ (7,727)
Arena Investors' Revolving Loan with the Company	20,000	20,000
Carrying amount of the Company's investment in associates	\$ 10,766	\$ 12,273

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Financial information of associates:				
Revenue	\$ 7,869	\$ 5,963	\$ 18,676	\$ 21,214
Operating expenses ¹	(8,514)	(7,033)	(21,630)	(20,961)
(Loss) profit and comprehensive (loss) income	\$ (645)	\$ (1,070)	\$ (2,954)	\$ 253
Company's share of (loss) profit of associates (51%)	\$ (330)	\$ (546)	\$ (1,507)	\$ 128

¹ Includes interest expense on the Arena Investors' Revolving Loan granted by the Company of \$264 and \$786 in the three and nine months ended September 30, 2020, respectively, and \$265 and \$753 in the three and nine months ended September 30, 2019, respectively.

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Carrying amount of investment in associates:				
Opening balance	\$ 11,096	\$ 13,033	\$ 12,273	\$ 10,609
Company's share of (loss) profit of associates (51%)	(330)	(546)	(1,507)	128
Addition-Arena Investors' Revolving Loan with the Company	-	-	-	1,750
Ending balance	\$ 10,766	\$ 12,487	\$ 10,766	\$ 12,487

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

5 Investments (continued)

On March 6, 2019, the Company amended the Arena Investors' Revolving Loan from the limit of \$20,000 to \$25,000 in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility had a term of 36 months to December 21, 2020, which has been extended to March 31, 2023 and bears interest at a rate of 5.25% per annum. Arena Investors had drawn down the loan facility by \$20,000 at September 30, 2020 and December 31, 2019. The loan facility is secured by all the assets of Arena Investors. The Company earned and received interest on the Arena Investors' Revolving Loan of \$264 and \$786 for the three and nine months ended September 30, 2020, respectively, and \$265 and \$753 for the three and nine months ended September 30, 2019, respectively, which, was reported under "Interest income" in the consolidated statements of profit (loss) and comprehensive income (loss).

The total of the Company's 51% share of loss of the associates was \$330 and \$1,507 in the three and nine months ended September 30, 2020, respectively, and the total of the Company's 51% share of loss was \$546 and share of profit was \$128 in the three and nine months ended September 30, 2019, respectively, which, was reported under "Share of loss (profit) from investment in associates" in the consolidated statements of profit (loss) and comprehensive income (loss).

INVESTMENTS IN ASOF-LP

The Company's investments in ASOF LP, a fund managed by Arena Investors, LP, is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At September 30, 2020 and December 31, 2019, the fair value of the Company's interest in ASOF LP was determined by Arena Investors to be \$2,816 and \$2,708, respectively. The Company reported an increase in the unrealized value of its investment in ASOF LP of \$86 and \$108 in the three and nine months ended September 30, 2020, respectively, and an increase in the unrealized value of \$41 and \$174 in the three and nine months ended September 30, 2019, respectively, with respect to the investment in the consolidated statements of profit (loss) and comprehensive income (loss).

6 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	September 30, 2020	December 31, 2019
RSUs (note 13)	\$ 5,197	\$ 6,192
DSUs (note 13)	1,380	1,312
Lease liability (note 4)	548	645
Interest on Preferred Securities (note 7)	472	485
Canadian dollar currency forward contract payable (note 8)	199	-
Other accounts payable and accrued liabilities	1,703	2,136
Ending balance	\$ 9,499	\$ 10,770

7 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).

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 Company had discretion until January 1, 2018 to require Fairfax to purchase all or part of 5,000,000 additional Preferred Securities, and exercised its discretion not to do so. There were 5,000,000 Preferred Securities outstanding at September 30, 2020 and December 31, 2019.

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit (loss) and comprehensive income (loss). The carrying amount of the Preferred Securities, which approximated fair value, was \$37,559 and \$38,502 at September 30, 2020 and December 31, 2019, respectively. The Company recorded an unrealized foreign exchange loss relating to the Preferred Securities of \$758 and unrealized foreign exchange gain of \$943 in the three and nine months ended September 30, 2020, respectively, and an unrealized foreign exchange gain of \$441 and an unrealized foreign exchange loss of \$1,125 in the three and nine months ended September 30, 2019, respectively.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

7 Preferred Securities (continued)

Interest expense on the Preferred Securities amounted to \$472 and \$1,371 in the three and nine months ended September 30, 2020, respectively, and \$476 and \$1,414 in the three and nine months ended September 30, 2019, respectively. Accrued interest expense was \$472 and \$485 at September 30, 2020 and December 31, 2019, respectively, and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

8 Canadian Dollar Currency Forward Contracts

On December 20, 2018, the Company entered into a one year Canadian dollar currency forward contract to purchase C\$35,000 and during 2020, the Company entered into three 90 day Canadian dollar currency forward contracts to purchase C\$40,000 each. The impact was to primarily offset Canadian dollar currency gains or losses on the Company's underlying Canadian dollar currency liabilities, including the currency exposure arising from the Preferred Securities.

The Company has not designated these Canadian dollar currency forward contracts as accounting hedges.

Changes to the Canadian dollar currency forward contract receivable (payable) was as follows:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Canadian dollar currency forward contract receivable (payable), opening balance	\$ 244	\$ (630)
Change in unrealized Canadian dollar currency on hedge – (loss) gain	(920)	1,273
Realized Canadian dollar currency – loss (gain)	477	(399)
Canadian dollar currency forward contract (payable) receivable, closing balance	\$ (199)	\$ 244

A Canadian dollar currency forward contract payable was accrued in the amount of \$199 at September 30, 2020 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position and a Canadian dollar currency forward contract receivable was accrued in the amount of \$244 at December 31, 2019, and was recorded under other assets in the consolidated statements of financial position. The net Canadian dollar currency relating to the forward contracts was a gain of \$554 and a loss of \$920 for the three and nine months ended September 30, 2020, respectively, and the net Canadian dollar currency relating to the forward contracts was a loss of \$308 and a gain of \$788 for the three and nine months ended September 30, 2019, respectively, and was reported under foreign exchange in the consolidated statements of profit (loss) and comprehensive income (loss).

In connection with Canadian dollar currency 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 \$3,000 (December 31, 2019 - \$3,000) as security. The security shall remain in effect for the duration of the outstanding Canadian dollar currency forward contract.

9 Derivative Warrant Liability

In connection with the Preferred Securities (see note 7), Westaim issued to Fairfax 14,285,715 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. Each vested Warrant is exercisable on or prior to June 2, 2022, but the expiry date will be extended to June 2, 2024 if the volume-weighted average trading price of Westaim's common shares for the 10 day period ending on June 2, 2022 is less than C\$5.60. After June 2, 2020, the Company can also elect to require early exercise of the Warrants if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the election is at least C\$5.60.

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

Changes to the derivative warrant liability are as follows:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Opening balance	\$ 1,921	\$ 2,382
Change in fair value – gain	(997)	(557)
Unrealized foreign exchange - (gain) loss	(135)	96
Ending balance	\$ 789	\$ 1,921

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

9 Derivative Warrant Liability (continued)

The Company recognized an unrealized loss resulting from a change in the fair value of the vested Warrants of \$334 and an unrealized gain of \$997 in the three and nine months ended September 30, 2020, respectively, and unrealized gains of \$1,048 and \$991 in the three and nine months ended September 30, 2019, respectively. The Company also recorded an unrealized foreign exchange loss with respect to the vested Warrants of \$9 and an unrealized gain of \$135 in the three and nine months ended September 30, 2020, respectively, and unrealized foreign exchange gain of \$29 and an unrealized loss of \$69 in the three and nine months ended September 30, 2019, respectively, under foreign exchange in the consolidated statements of profit (loss) and comprehensive income (loss). At September 30, 2020 and December 31, 2019, a liability of \$789 and \$1,921, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position.

The fair value of the vested Warrants at September 30, 2020 of \$789 (December 31, 2019 - \$1,921) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the Company's common shares, a risk-free interest rate of 0.25% (December 31, 2019 - 1.69%), an expiration date between October 1, 2020 and June 2, 2024 (December 31, 2019: January 1, 2020 and June 2, 2024), a volatility of the underlying common shares of the Company of 29.19% (December 31, 2019 - 23.23%), a closing price of the Company's common shares of C\$2.28 (December 31, 2019 - C\$2.65) and a strike price of C\$3.50. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

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

10 Site Restoration Provision

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

Changes to the site restoration provision are as follows:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Opening balance	\$ 4,097	\$ 3,584
Changes due to:		
Indemnity payment for site restoration	-	(341)
Indemnity recovery for site restoration	-	292
Estimates of future expenditures	-	(839)
Present value adjustment	54	1,187
Unrealized foreign exchange (gain) loss	(96)	214
Ending balance	\$ 4,055	\$ 4,097

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.

The Company conducts periodic reviews of the underlying assumptions supporting the provision, 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 amount of the provision is adjusted for the present value of the estimated future restoration costs discounted using interest rates of high quality government bonds and inflation in relation to the estimated timing of cash outflows.

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

11 Commitments and Contingent Liabilities

- (a) In connection with Canadian dollar currency forward contract which the Company entered into on September 21, 2020, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$3,000 (December 31, 2019 - \$3,000) as security (see note 8).

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

11 Commitments and Contingent Liabilities (continued)

- (b) Effective, December 1, 2019, Westaim entered into a new operating lease for the office premises in Toronto expiring on November 30, 2024. At September 30, 2020, the Company had a total commitment of \$1,127 for future occupancy cost payments including payments due not later than one year of \$266 and payments due later than one year of \$861. At December 31, 2019, the Company had a total commitment of \$1,367 for future occupancy cost payments including payments due not later than one year of \$255 and payments due later than one year of \$1,112.

12 Share Capital

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

At September 30, 2020 and December 31, 2019, the Company had a total of 143,186,718 common shares issued and outstanding, with a stated capital of \$382,182. There were no changes in share capital in the nine months ended September 30, 2020 and the year ended December 31, 2019.

No shares of the Company are held by the Company, and there were no Class A preferred shares or Class B preferred shares outstanding at September 30, 2020 and December 31, 2019.

13 Share-based Compensation

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

The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding or 14,318,671 as at September 30, 2020. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding. As the DSUs are settled solely in cash, they are not included in the 10% limitation referred to above.

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

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

	Nine months ended September 30, 2020		Nine months ended September 30, 2019	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	10,428,337	C\$ 3.10	10,428,337	C\$ 3.10
Granted	-	C\$ -	-	C\$ -
Ending balance	10,428,337	C\$ 3.10	10,428,337	C\$ 3.10
Options vested at end of period	9,156,670	C\$ 3.10	6,598,205	C\$ 3.12

As at September 30, 2020		Weighted Average Remaining Contractual Life (years)	Outstanding Weighted Average Exercise Price	Number of stock options vested	Vested Weighted Average Exercise Price
Exercise prices	Number of stock options outstanding				
C\$ 3.10	3,815,000	4.30	C\$ 3.10	2,543,333	C\$ 3.10
C\$ 3.00	3,860,397	3.51	C\$ 3.00	3,860,397	C\$ 3.00
C\$ 3.25	2,752,940	2.50	C\$ 3.25	2,752,940	C\$ 3.25
	10,428,337	3.53	C\$ 3.10	9,156,670	C\$ 3.10

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

13 Share-based Compensation (continued)

As at December 31, 2019		Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Outstanding Weighted Average Exercise Price	Number of stock options vested	Vested Weighted Average Exercise Price
Exercise prices						
C\$	3.10	3,815,000	5.05	C\$ 3.10	2,543,333	C\$ 3.10
C\$	3.00	3,860,397	4.26	C\$ 3.00	3,860,397	C\$ 3.00
C\$	3.25	2,752,940	3.25	C\$ 3.25	2,752,940	C\$ 3.25
		10,428,337	4.28	C\$ 3.10	9,156,670	C\$ 3.10

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

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

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

No options were granted or issued in the nine months ended September 30, 2020 and the year ended December 31, 2019.

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

Compensation expense relating to options was \$63 and \$187 in the three and nine months ended September 30, 2020, respectively, and \$234 and \$736 in the three and nine months ended September 30, 2019, respectively, with a corresponding increase to contributed surplus.

Restricted Share Units - RSUs vested on specific dates and became payable when vested with either cash or common shares of the Company, at the option of the holder.

Changes to the number of RSUs are as follows:

	Nine months ended September 30	
	2020	2019
Opening balance	3,034,261	3,034,261
Exercised	-	-
Ending balance	3,034,261	3,034,261

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. These RSUs have a term of fifteen years from date of issue and at September 30, 2020, all of these RSUs had vested, of which 265,937 RSUs had been exercised and 2,109,063 RSUs were outstanding.

On April 1, 2016, an additional 925,198 RSUs were granted to certain officers and employees of the Company. These RSUs have a term of fifteen years from date of issue and at September 30, 2020, all of these RSUs had vested and none have been exercised.

There were 3,034,261 RSUs outstanding at September 30, 2020 and December 31, 2019. No RSUs were granted or exercised in the nine months ended September 30, 2020 and the year ended December 31, 2019.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

13 Share-based Compensation (continued)

Compensation expenses relating to RSUs, including the impact of the change in the market value of the Company's common shares was an expense of \$478 and a recovery of \$744 for the three and nine months ended September 30, 2020, respectively, and a recovery of \$344 and \$181 for the three and nine months ended September 30, 2019, respectively. At September 30, 2020, a liability of \$5,197 (December 31, 2019 - \$6,192) had been accrued by the Company with respect to outstanding RSUs in the consolidated statements of financial position.

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

Changes to the number of DSUs are as follows:

	Nine months ended September 30	
	2020	2019
Opening balance	642,779	518,855
Granted	162,709	89,488
Ending balance	805,488	608,343

In the nine months ended September 30, 2020, 162,709 DSUs were issued in lieu of director fees of \$246 and in the nine months ended September 30, 2019, 89,488 DSUs were issued in lieu of director fees of \$174. No DSUs were exercised in the nine months ended September 30, 2020 and 2019.

Compensation expenses relating to DSUs, including the impact of the change in the market value of the Company's common shares was an expense of \$215 and \$116 in the three and nine months ended September 30, 2020, respectively, and a recovery of \$5 and an expense of \$138 in the three and nine months ended September 30, 2019, respectively. At September 30, 2020, a liability of \$1,380 (December 31, 2019 - \$1,312) 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 expense related to the Company's key management personnel are as follows:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Salaries and benefits ¹	\$ 828	\$ 751	\$ 2,363	\$ 2,356
Share-based compensation expense (recovery)	744	(110)	(427)	688
Compensation expense	\$ 1,572	\$ 641	\$ 1,936	\$ 3,044

¹ Salaries and benefits include director fees paid in cash totaling \$55 and \$81 in the three and nine months ended September 30, 2020, respectively. No director fees were paid in cash in the three and nine months ended September 30, 2019.

Fees paid to Hartford Consulting, Inc. ("Hartford"), a company owned by William R. Andrus, a director of HIIG, for insurance industry related consulting services were \$19 and \$55 in the three and nine months ended September 30, 2020, respectively, and \$34 and \$102 in the three and nine months ended September 30, 2019, respectively. Compensation relating to RSUs issued to Hartford was an expense of \$9 and a recovery of \$15 in the three and nine months ended September 30, 2020, respectively, and a recovery of \$7 and \$4 in the three and nine months ended September 30, 2019, and the amounts were included in the consolidated statements of profit (loss) and comprehensive income (loss) under share-based compensation expense. At September 30, 2020, a liability of \$101 (December 31, 2019 - \$121) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by Hartford.

On April 20, 2020, as part of a rights offering, Westaim purchased \$44,004 million (or 44%) of HIIG convertible preferred shares.

In addition to the DSUs (note 13) issued to the directors of the Company, director fees of \$55 and \$81 were paid in cash to certain directors in the three and nine months ended September 30, 2020, respectively. No director fees were paid in cash in each of the three and nine months ended September 30, 2019.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

14 Related Party Transactions (continued)

The Company received a cash dividend from the Arena FINCOs in the amount of \$nil and \$22,733 in the three and nine months ended September 30, 2020, respectively, and \$882 in each of the three and nine months ended September 30, 2019.

Arena FINCOs returned capital to the Company in the amount of \$12,117 in the nine months ended September 30, 2020 and \$nil in each of the three months ended September 30, 2020 and the three and nine months ended September 30, 2019.

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Related parties:				
Arena FINCOs Term Loan (note 5)	\$ -	\$ -	\$ -	\$ 179
Arena FINCOs Demand Loan (note 3 and 5)	-	160	-	680
Arena Investors Revolving Loan (note 5)	264	265	786	753
	\$ 264	\$ 425	\$ 786	\$ 1,612
Unrelated parties:				
Interest earned on bank balances	2	44	106	108
	\$ 266	\$ 469	\$ 892	\$ 1,720

The Company earned advisory fees of \$125 and \$375 from HIIG in the three and nine months ended September 30, 2020, respectively, and \$167 and \$667 from HIIG in the three and nine months ended September 30, 2019, respectively, and the Company earned advisory fees of \$113 and \$338 in the three and nine months ended September 30, 2020, respectively, and \$562 and \$1,437 from the Arena Group in the three and nine months ended September 30, 2019, respectively. Advisory fees are included in fee income in the consolidated statements of profit (loss) and comprehensive income (loss).

15 Income Taxes

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Unrealized loss (gain) on investments in private entities	\$ 1	\$ (432)	\$ 5	\$ (3,217)
Non-capital loss carry-forwards	-	432	-	3,217
Difference between statutory and foreign tax credits	1	-	(8)	-
	\$ 2	\$ -	\$ (3)	\$ -

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

	September 30, 2020	December 31, 2019
Non-capital loss carry-forwards	\$ 50,701	\$ 38,612
Capital loss carry-forwards	5,249	5,380
Deductible temporary differences	15,000	11,138
Corporate minimum tax credits	334	342
Investment tax credits	2,690	2,758

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

15 Income Taxes (continued)

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2040, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2029	\$ 5,544	2020	\$ 618
2030	77	2021	483
2031	189	2022	243
2032	15,751	2023	131
2033	2,877	2024	298
2034	3,665	Beyond 2024	917
2035	1,917		<u>\$ 2,690</u>
2036	45		
2037	10,068		
2038	5,625		
2039	3,022		
2040	1,921		
	<u>\$ 50,701</u>		

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Profit (loss) before income tax	\$ 673	\$ 3,751	\$ (19,744)	21,623
Statutory income tax rates	26.5%	26.5%	26.5%	26.5%
Income taxes at statutory income tax rates	179	994	(5,232)	5,730
Variations due to:				
Non-taxable portion of unrealized (gain) loss				
on investments in private entities	(856)	(432)	5,670	(3,217)
Tax (losses) income allocated from the HIIG Partnership	-	7	(34)	(35)
Non-deductible (non-taxable) items	108	(223)	(6,365)	(49)
Difference between statutory and foreign tax rates	17	13	46	12
Unrecognized temporary differences	252	(275)	(297)	(108)
Unrecognized tax losses	318	(84)	6,315	(2,333)
Income tax expense	\$ 18	\$ -	\$ 103	\$ -

At September 30, 2020, current income tax receivable from the Canadian federal tax authority of \$410 (December 31, 2019 - \$427) and from the United States tax authority of \$64 (December 31, 2019 - \$nil) and current income tax payable to the Canadian federal tax authority of \$1 (December 31, 2019 - \$nil) and United States federal tax authority of \$309 (December 31, 2019 - \$387) were recorded in the consolidated statements of financial position.

16 Earnings (Loss) per Share

The Company had 10,428,337 stock options, 3,034,261 RSUs and 14,285,715 Warrants outstanding at September 30, 2020 and 2019. The stock options and Warrants for the three and nine months ended September 30, 2020 and 2019 were excluded in the calculation of diluted earnings (loss) per share as they were not dilutive. The RSUs for the nine months ended September 30, 2020 and the three and nine months ended September 30, 2019 were included in the calculation of diluted earnings (loss) per share as they were dilutive. The RSUs for the three months ended September 30, 2020 were not included in the calculation of diluted earnings (loss) per share as they were not dilutive.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

16 Earnings (Loss) per Share (continued)

Earnings (loss) per share, basic and diluted, are as follows:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Basic earnings (loss) per share:				
Profit (loss)	\$ 655	\$ 3,751	\$ (19,847)	\$ 21,623
Weighted average number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Basic earnings (loss) per share	\$ -	\$ 0.03	\$ (0.14)	\$ 0.15
Diluted earnings (loss) per share:				
Profit (loss)	\$ 655	\$ 3,751	\$ (19,847)	\$ 21,623
Dilutive RSU expense (recovery)	-	(415)	(995)	(7)
Profit (loss) on a diluted basis	\$ 655	\$ 3,336	\$ (20,842)	\$ 21,616
Weighted average number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Dilutive impact of RSUs	-	3,034,261	3,034,264	3,034,261
Weighted average number of common shares outstanding on a dilutive basis	143,186,718	146,220,979	146,220,979	146,220,979
Diluted earnings (loss) per share	\$ -	\$ 0.03	\$ (0.14)	\$ 0.15

17 Capital Management

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

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

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

18 Financial Risk Management

The Company is exposed to a number of risks due to its business operations. The Company's consolidated statement of financial position at September 30, 2020 consists of short-term financial assets and financial liabilities with maturities of less than one year, loans receivable, investments in preferred shares, 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 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 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 Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2020 and 2019

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

18 Financial Risk Management (continued)

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

At September 30, 2020, the Company's short-term financial liabilities amounted to \$2,684 (December 31, 2019 - \$3,008), and the Company has access to cash and other resources to meet these financial obligations.

Currency risk

The Company's C\$ denominated monetary liabilities exceed C\$ denominated monetary assets, including its C\$40 million (December 2019 – C\$40 million) foreign exchange forward contract. A 10% strengthening of the C\$ against the US\$ would have increased the foreign exchange loss for the three and nine months ended September 30, 2020 by approximately \$1,215. 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 investment in HIIG and the Arena FINCOs 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 investment in preferred shares of HIIG and 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.