

THE WESTAIM CORPORATION

ANNUAL REPORT 2013



THE WESTAIM CORPORATION

ANNUAL REPORT 2013

Contents

Letter to Shareholders	1
Management's Discussion and Analysis	2
Management's Responsibility for Financial Information	14
Independent Auditor's Report	15
Consolidated Financial Statements	16
Notes to Consolidated Financial Statements	20
Board of Directors	30
Shareholder and Corporate Information	30

All figures are in Canadian dollars, unless otherwise stated.



LETTER TO SHAREHOLDERS

Dear Shareholders:

Throughout 2013 your management team reviewed several investment opportunities with a strategic objective of partnering with proven management teams that have demonstrated successful execution to achieve attractive risk-adjusted returns. In particular, our efforts in the past year have been concentrated toward the financial service sector with a focus on the property and casualty insurance market.

On March 12, 2014, Westaim announced the two stage investment in Houston International Insurance Group, Ltd. ("HIIG"), a global specialty insurance company led by its Chairman and Chief Executive Officer, Stephen L. Way, who previously founded and led HCC Insurance Holdings, Inc. (NYSE: "HCC") to become a multi-billion dollar global specialty insurer, achieving significant shareholder returns. The HIIG transaction will allow Westaim to align itself with a dynamic insurance industry executive with a proven track record.

Your management team and board members are significant Westaim shareholders unifying our personal capital with our fellow shareholders and now, our new partners at HIIG. Westaim's long-term capital is a material advantage; however, it is limited in size. Management is actively considering how best to leverage our knowledge, expertise and relationships and will actively seek new sources of capital, including third party capital to invest alongside Westaim's equity.

On behalf of the Board of Directors, I want to thank all of the Westaim employees and stakeholders for their support over the past year and look forward to a rewarding 2014.

Sincerely,



J. Cameron MacDonald,
President and Chief Executive Officer

TABLE OF CONTENTS

1. THE COMPANY
2. OVERVIEW OF PERFORMANCE
3. INVESTMENT IN HIIG
4. SALE OF JEVCO
5. ANALYSIS OF FINANCIAL RESULTS
6. ANALYSIS OF FINANCIAL POSITION
7. OUTLOOK
8. LIQUIDITY AND CAPITAL RESOURCES
9. RISKS
10. RELATED PARTY TRANSACTIONS
11. QUARTERLY FINANCIAL INFORMATION
12. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

"Westaim" or the "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation on a consolidated basis, where applicable. This MD&A, which has been approved by the Westaim Board of Directors, should be read in conjunction with Westaim's audited annual consolidated financial statements including notes for the years ended December 31, 2013 and 2012 as set out on pages 16 to 29 of this annual report. Financial data in this MD&A has been derived from the audited annual consolidated financial statements for the years ended December 31, 2013 and 2012 and is intended to enable the reader to assess Westaim's results of operations for the three months and year ended December 31, 2013 and financial condition as at December 31, 2013. The Company reports its consolidated financial statements using accounting policies consistent with International Financial Reporting Standards ("IFRS"). All amounts are in Canadian dollars unless otherwise indicated. The following commentary is current as of March 11, 2014. Additional information relating to Westaim is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

Non-GAAP measures

Westaim uses both IFRS and non-generally accepted accounting principles ("non-GAAP") measures to assess performance. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. Management believes these measures allow for a more complete understanding of the underlying business. These measures are used to monitor Westaim's results and should not be viewed as a substitute for those determined in accordance with IFRS. Reconciliations of such measures to the most comparable IFRS figures are included herein. Book value per share represents shareholders' equity at the end of the period, determined on an IFRS basis, divided by the total number of common shares outstanding on the same date. The Company believes that this is a useful measurement as the relative increase or decrease from period to period in book value per share should approximate over the long-term the relative increase or decrease in the intrinsic value of the business, but is not necessarily equivalent to the net realizable value of the Company's assets per share. Adjusted book value per share represents shareholders' equity at the end of the period, determined on an IFRS basis and adjusted to include or exclude one or more items required by IFRS but which are either unusual or non-recurring, divided by the total number of common shares outstanding on the same date.

Future Oriented Financial Information

This MD&A may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter or in the Company's 2013 Annual Information Form. Please refer to the cautionary note in Section 12 of this MD&A.

The Westaim Corporation
Management's Discussion and Analysis
Year ended December 31, 2013

1. THE COMPANY

Westaim is a publicly traded Canadian-based company that invests directly and indirectly through acquisitions, joint ventures and other arrangements, with the objective of providing its shareholders with capital appreciation and real wealth preservation. Westaim's strategy is to pursue investment opportunities to grow shareholder value (as measured by book value per share) over the long term.

Subsequent to December 31, 2013, the Company announced that it has agreed to make an investment in Houston International Insurance Group, Ltd., through Westaim HIIG Limited Partnership. See discussion in Section 3, *Investment in HIIG* of this MD&A.

Until September 4, 2012, the Company held all the issued and outstanding shares of Jevco Insurance Company ("Jevco"), a leading Canadian property and casualty insurer. Section 4, *Sale of Jevco* of this MD&A provides details of the disposition of Jevco on September 4, 2012.

On October 1, 2013, the Company completed a 50:1 share consolidation of all of its outstanding common shares. All share capital, per share amounts, warrants and share-based awards in the current and comparative periods have been adjusted to reflect this change.

2. OVERVIEW OF PERFORMANCE

Highlights (millions except share and per share data)	Three months ended December 31		Year ended December 31	
	2013 ⁽¹⁾	2012 ⁽¹⁾	2013 ⁽¹⁾	2012 ⁽¹⁾
Continuing operations				
Revenue	\$ 0.1	\$ 0.1	\$ 0.4	\$ 0.3
Expenses excluding share-based compensation	(2.1)	(0.9)	(4.1)	(13.2)
Share-based compensation	-	(0.2)	(0.1)	(20.5)
Income tax recovery	-	-	0.1	-
Loss from continuing operations	(2.0)	(1.0)	(3.7)	(33.4)
Discontinued operations				
Gain on sale of Jevco, net of income tax expense	-	-	-	106.7
Profit of discontinued operations, net of income tax expense	-	-	-	29.7
Income from discontinued operations	-	-	-	136.4
Profit or loss and other comprehensive income	\$ (2.0)	\$ (1.0)	\$ (3.7)	\$ 103.0
Earnings per share				
Loss from continuing operations - basic	\$ (0.15)	\$ (0.07)	\$ (0.27)	\$ (2.52)
Loss from continuing operations - diluted	\$ (0.15)	\$ (0.07)	\$ (0.27)	\$ (2.49)
Profit from discontinued operations - basic	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10.32
Profit from discontinued operations - diluted	\$ 0.00	\$ 0.00	\$ 0.00	\$ 10.17
Profit or loss and other comprehensive income - basic	\$ (0.15)	\$ (0.07)	\$ (0.27)	\$ 7.80
Profit or loss and other comprehensive income - diluted	\$ (0.15)	\$ (0.07)	\$ (0.27)	\$ 7.68
Number of common shares outstanding - at December 31			13,902,937	13,902,940
Book value per share - at December 31			\$ 2.22	\$ 2.49
Adjustment for reimbursement of fees			\$ 0.14	
Adjusted book value per share - at December 31 ⁽²⁾			\$ 2.36	

⁽¹⁾ Adjusted to reflect a 50:1 share consolidation completed on October 1, 2013.

⁽²⁾ After giving effect to the reimbursement of approximately \$1.9 million in professional fees incurred by the Company in 2013 in connection with the investment in Houston International Insurance Group, Ltd. See discussion in Section 3, *Investment in HIIG* of this MD&A.

For the three months ended December 31, 2013, the Company reported a loss of \$2.0 million (2012 - \$1.0) from continuing operations.

For the year ended December 31, 2013, the Company reported a loss of \$3.7 million, from continuing operations. For the year ended December 31, 2012, the Company's consolidated profit was \$103.0 million, which comprised a loss from continuing operations of \$33.4 million, gain on sale of Jevco of \$106.7 million and a profit of discontinued operations of \$29.7 million.

3. INVESTMENT IN HIIG

Subsequent to December 31, 2013, the Company announced that Westaim HIIG Limited Partnership (the "Partnership"), an Ontario limited partnership newly established by the Company, has agreed to acquire a significant interest in Houston International Insurance Group, Ltd. ("HIIG"). HIIG is a U.S. based diversified specialty insurance provider and managing general insurance agent covering risks across the United States and certain niche global markets. The Partnership has agreed to acquire an approximate 42.5% equity ownership interest in HIIG for approximately US\$75 million (the "Initial Acquisition"). In addition, the Partnership will have the exclusive right and obligation, subject to financing, to acquire an additional equity ownership position of approximately 24.6% (the "Second Acquisition"). Overall, after giving effect to the Initial Acquisition and Second Acquisition (together, the "Acquisition"), the Partnership would have purchased approximately 67.1% of HIIG for approximately US\$113.7 million, excluding transaction costs not otherwise subject to reimbursement.

Initial Acquisition

The Initial Acquisition will be a two-part transaction involving the concurrent (i) acquisition by the Partnership for approximately US\$15 million of approximately 14.1% of the outstanding shares of common stock of HIIG ("HIIG Shares") held by certain shareholders of HIIG (the "Sellers") in accordance with the terms and conditions of a stock purchase agreement between the Partnership and the Sellers, and (ii) subscription by the Partnership for approximately US\$60 million of HIIG Shares from treasury, subject to closing adjustments.

To fund the Initial Acquisition, the Partnership has signed equity commitment letters with the Company and certain other investors for an aggregate of approximately US\$77 million. Pursuant to these equity commitment letters, the Partnership will collectively be funded as to (i) US\$20 million by the Company and (ii) approximately US\$57 million by other investors. The Company has also committed to the Partnership to fund up to US\$3.3 million if there are positive post-closing adjustments.

Second Acquisition

Under a stock purchase agreement to be entered into in connection with, and as a condition to, the completion of the Initial Acquisition, the Partnership will also have the right and obligation (for six months after the completion of the Initial Acquisition), subject to obtaining financing, to purchase the remaining shares of HIIG owned by the Sellers (24.6% assuming the completion of the Acquisition) for an aggregate purchase price of approximately US\$38.7 million, subject to closing adjustments. Completion of the Second Acquisition will be conditional on the Partnership raising the funds necessary to complete such purchase on terms reasonably satisfactory to the Partnership. In the event that the Initial Acquisition is completed but the Second Acquisition is not completed, Westaim will be obligated in certain circumstances to pay the Sellers a termination fee of US\$1 million.

The Acquisition is subject to the receipt of all requisite regulatory approvals, including TSX Venture Exchange approval, and any other regulatory approvals required under applicable U.S. competition and insurance laws, including approval of the Departments of Insurance of the States of Texas and Oklahoma. The Initial Acquisition is expected to close in the second quarter of 2014.

Upon completion of the Initial Acquisition, the Company is entitled to be reimbursed by HIIG for approximately \$1.9 million in professional fees incurred by the Company in 2013 in connection with the Acquisition.

4. SALE OF JEVCO

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

Shareholder approval for the Transaction was received at a special meeting of shareholders on June 28, 2012. All regulatory approvals were received and other conditions of the Agreement were met during the third quarter of 2012 and the Transaction closed on September 4, 2012. The Transaction was reflected in Westaim's statements of financial position, profit or loss and other comprehensive income, equity and cash flow for the year ended December 31, 2012.

For the year ended December 31, 2012, a gain of \$106.7 million was realized on the sale of Jevco, after deducting the carrying value of Jevco of \$414.3 million, costs related to the sale of \$7.5 million and income tax of \$1.5 million.

In connection with the Transaction and as approved by the shareholders at the special meeting on June 28, 2012, Westaim completed a cash distribution by way of a return of capital to its common shareholders (the "Cash Distribution"). The Cash Distribution was made on September 28, 2012 to common shareholders of record on September 21, 2012 at \$37.50 per common share. The amount was determined by the Board of Directors based on the present and contingent liabilities of Westaim, as well as its future business objectives. The total amount of the Cash Distribution of \$521.4 million was recorded as a reduction of stated common share capital.

The Westaim Corporation
Management's Discussion and Analysis
Year ended December 31, 2013

5. ANALYSIS OF FINANCIAL RESULTS

The Company's operating results include the results from continuing operations and discontinued operations.

5.1 Continuing Operations

Details of continuing operations are as follows:

Continuing operations (millions)	Three months ended December 31		Year ended December 31	
	2013	2012	2013	2012
Revenue	\$ 0.1	\$ 0.1	\$ 0.4	\$ 0.3
Expenses				
Salaries and benefits	0.2	0.2	1.1	0.6
Office expenses	0.1	0.2	0.7	0.6
Professional fees	2.2	0.3	2.7	3.3
Site restoration provision (recovery) expense	(0.4)	0.2	(0.4)	0.3
Share-based compensation	-	0.2	0.1	20.5
Management services	-	-	-	8.4
Total expenses	2.1	1.1	4.2	33.7
Income tax recovery	-	-	0.1	-
Loss from continuing operations	\$ (2.0)	\$ (1.0)	\$ (3.7)	\$ (33.4)

Revenue

Revenue of continuing operations for the three months and year ended December 31, 2013 of \$0.1 million and \$0.4 million (2012 - \$0.1 million and \$0.3 million) consisted of interest on cash invested.

Expenses

Expenses for the three months and year ended December 31, 2013 were \$2.1 million and \$4.2 million (2012 - \$1.1 million and \$33.7 million). The increase in expenses of \$1.0 million in the fourth quarter of 2013 compared to the same period in the prior year was mainly due to professional fees of \$2.0 million incurred in connection with the investment in HIIG (see discussion in Section 3, *Investment in HIIG* of this MD&A), offset in part by a site restoration provision recovery of \$0.4 million.

The reduction in expenses of \$29.5 million in the year ended December 31, 2013 compared to the same period in 2012 was mainly due to fees for management services provided by Goodwood Management Inc. ("GMI") of \$8.4 million and share-based compensation of \$20.5 million incurred in 2012. In 2012, the Company recorded an accounting charge of \$5.0 million when the management services agreement was extinguished upon the windup of GMI following the acquisition of GMI by the Company, and a share-based compensation expense of \$9.1 million reflecting the additional value of the restricted share units which were extinguished as a result of the windup of GMI. See further discussion in Section 10, *Related Party Transactions* of this MD&A. In 2013, the Company incurred \$2.0 million in professional fees related to the investment in HIIG and recorded a site restoration provision recovery of \$0.6 million. Employee salaries and benefits of \$0.2 million and \$1.1 million were incurred in the three months and year ended December 31, 2013 (2012 - \$0.2 million and \$0.6 million).

Upon completion of the Initial Acquisition, the Company is entitled to be reimbursed by HIIG for approximately \$1.9 million in professional fees incurred by the Company in 2013 in connection with the Acquisition. See discussion in Section 3, *Investment in HIIG* of this MD&A.

5.2 Discontinued Operations

The profit from discontinued operations is summarized as follows:

Discontinued operations (millions)	Three months ended December 31		Year ended December 31	
	2013	2012	2013	2012
Revenue	\$ -	\$ -	\$ -	\$ 275.7
Expenses	-	-	-	(236.9)
Profit of discontinued operations before income tax	-	-	-	38.8
Income tax expense	-	-	-	(9.1)
Profit of discontinued operations	-	-	-	29.7
Gain on sale of discontinued operations	-	-	-	106.7
Profit from discontinued operations	\$ -	\$ -	\$ -	\$ 136.4

5. ANALYSIS OF FINANCIAL RESULTS (continued)

The results of Jevco's operations prior to the sale of Jevco on September 4, 2012 are included in profit of discontinued operations. Revenue of discontinued operations includes unrealized gains and losses on available-for-sale investments as unrealized gains and losses of a subsidiary are considered realized and included in profit or loss with the sale of the subsidiary. Income tax expense includes income tax previously deducted to determine profit or loss and income tax on unrealized gains previously included in other comprehensive income. The Company disposed of Jevco for gross cash proceeds of \$530.0 million. A gain on sale of Jevco of \$106.7 million was recognized in the year ended December 31, 2012, after deducting the carrying value of Jevco of \$414.3 million, transaction costs comprising financial, legal and consulting fees of \$7.5 million and income tax of \$1.5 million.

6. ANALYSIS OF FINANCIAL POSITION

The Company's assets, liabilities and shareholders' equity comprise the following:

(millions)	December 31, 2013	December 31, 2012
Assets		
Cash and cash equivalents	\$ 35.4	\$ 39.2
Other assets	0.2	0.2
	\$ 35.6	\$ 39.4
Liabilities		
Accounts payable and accrued liabilities	\$ 2.5	\$ 0.6
Income taxes payable	-	1.5
Site restoration provision	2.2	2.7
	4.7	4.8
Shareholders' equity	30.9	34.6
Total liabilities and shareholders' equity	\$ 35.6	\$ 39.4

6.1 Cash and Cash Equivalents

At December 31, 2013, the Company had cash and cash equivalents of \$35.4 million compared to \$39.2 million at December 31, 2012. See further discussion in Section 8, *Liquidity and Capital Resources* of this MD&A.

6.2 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were \$2.5 million at December 31, 2013 and \$0.6 million at December 31, 2012.

6.3 Income Taxes Payable

Income taxes accrued at December 31, 2012 of \$1.5 million were related to the Transaction and \$1.4 million was paid during the three months ended March 31, 2013, resulting in an income tax recovery of \$0.1 million.

6.4 Site Restoration Provision

The site restoration provision of \$2.2 million at December 31, 2013 and \$2.7 million at December 31, 2012 relates to costs associated with soil and groundwater reclamation and remediation costs. The Company conducts periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements, and recorded a site restoration provision recovery of \$0.4 million in the fourth quarter of 2013 accordingly. Reimbursements of costs resulting from indemnifications provided by previous owners of the industrial sites have not been recognized in these consolidated financial statements. Future reimbursements will be recorded when received.

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.5 Shareholders' Equity

The details of shareholders' equity are as follows:

(millions)	December 31, 2013	December 31, 2012
Common shares	\$ 203.6	\$ 203.6
Contributed surplus	12.9	12.9
Deficit	(185.6)	(181.9)
Shareholders' equity	\$ 30.9	\$ 34.6

The increase in deficit of \$3.7 million from December 31, 2012 to December 31, 2013 is due to the loss for the year ended December 31, 2013.

7. OUTLOOK

The Company's investment in HIIG is consistent with Westaim's strategy to deploy capital at above average risk-adjusted returns. The investment allows Westaim to partner with an experienced management team with a proven track record in the attractive global specialty P&C insurance market.

The Company continues to seek additional investment opportunities to create meaningful shareholder value through partnering with aligned and capable management teams to build profitable businesses that generate attractive returns over the long-term.

8. LIQUIDITY AND CAPITAL RESOURCES

Capital Management Objectives

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

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

Share Capital

The Company's authorized share capital consists of an unlimited number of common shares, Class A preferred shares and Class B preferred shares. On October 1, 2013, the Company completed a 50:1 share consolidation of all of its outstanding common shares. All share capital, per share amounts, warrants and share-based awards in the current and comparative periods have been adjusted to reflect this change. At December 31, 2013 and March 11, 2014, the Company had 13,902,937 common shares outstanding. The Company had 6,000 stock options outstanding at December 31, 2013 and 5,000 stock options outstanding at March 11, 2014. At those dates, there were no Class A or Class B preferred shares outstanding.

On September 4, 2012, 730,298 common shares were issued as partial consideration for the acquisition of GMI. In the year ended December 31, 2012, 544 common shares were issued upon the exercise of 544 stock options. DSUs vested upon the sale of Jevco, and certain directors of Westaim and Jevco and certain officers of Jevco elected to exercise their right to apply the cash compensation received to purchase common shares of Westaim. The Company issued 89,414 common shares as a result of these elected subscriptions. In September 2012, 200,000 warrants were exercised for 200,000 Series 1 Class A preferred shares and the resulting preferred shares totaling 1,477,058 were converted into common shares on a one for one basis.

The Series 1 Class A preferred shares are entitled to dividends as the directors may declare, provided that an equal dividend is declared on the common shares, and rank equally with the common shares with respect to liquidation proceeds. The Series 1 Class A non-voting preferred shares are convertible into common shares, on a one to one basis, subject to any adjustments resulting from subdivision or consolidation of the common shares.

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

Cash Distribution and Stated Share Capital Reduction

In connection with the Transaction and as approved by the shareholders at the special meeting on June 28, 2012, Westaim completed the Cash Distribution to its common shareholders in the form of a return of capital. The Cash Distribution was made on September 28, 2012 to common shareholders of record on September 21, 2012 at \$37.50 per common share. The amount was determined by the Board of Directors based on the present and contingent liabilities of Westaim, as well as its future business objectives. The total amount of the Cash Distribution of \$521.4 million was recorded as a reduction of stated common share capital.

Dividends

No dividends were paid in the years ended December 31, 2013 and 2012.

Share-based Compensation Plans

On April 12, 2010, the Board of Directors of the Company approved the adoption of a comprehensive long-term equity incentive plan (the "Incentive Plan"), ratified at the Company's annual general meeting of shareholders held on May 12, 2010, designed to combine the Company's prior equity incentive plans, being the Employee and Director Stock Option Plan, the Directors and Officers Share Purchase Program, the Restricted Share Unit Plan, and the Deferred Share Unit Plan, collectively, the "Prior Plans". All awards granted under the Prior Plans remain in full force and effect in accordance with their terms, however, no additional grants will be made under the Prior Plans. See Note 7 to the audited consolidated financial statements for the year ended December 31, 2013.

On September 4, 2012, the Company purchased all the issued and outstanding shares of GMI for \$4.2 million cash and 730,298 common shares of the Company. GMI was the holder of all of the outstanding RSUs and Westaim had accrued a liability in respect of the RSUs. The share consideration paid for GMI reflected the fair value of the RSUs held by GMI at the time of the acquisition. Immediately following Westaim's acquisition of GMI, GMI was wound up into Westaim and an additional expense of \$9.1 million was recognized to reflect the additional value of the RSUs which were extinguished as a result of the windup of GMI.

DSUs are granted at the market value of the Company's shares at the date of grant to non-executive directors of the Company in lieu of fees, and prior to the sale of Jevco, to non-executive directors, officers and employees of Jevco. Prior to January 1, 2013, directors could elect to receive DSUs in lieu of fees. Vested DSUs are paid out in cash when the participant ceases to be a director, officer or employee. All DSUs issued prior to the sale of Jevco vested and were paid out upon the sale of Jevco. As determined by Westaim's Board of Directors, in connection with the completion of the sale of Jevco, each holder of DSUs was entitled to receive a cash payment in consideration for relinquishing their rights in respect of each such DSU equal to the "market price" of the common shares (as determined in accordance with the terms of the Incentive Plan) immediately prior to the completion of the sale (being \$37.50) less any required withholdings, and could elect to apply all or a part of such cash payment to a subscription for common shares at the same price per share. An aggregate of 89,414 common shares were issued to the DSU holders in connection with the entitlements.

In July 2012, 544 stock options were exercised at \$11.00 per share.

On December 20, 2012, the long-term equity incentive plan was amended to, among other things, restrict the awards which may be granted under the plan to stock options and DSUs and to reduce the number of common shares issuable under the plan to not more than 10% of the aggregate number of common shares outstanding. The Company had 6,000 stock options outstanding at December 31, 2013 and 5,000 stock options outstanding at March 11, 2014. At December 31, 2013 and March 11, 2014, the company had 113,200 DSUs outstanding.

Volatility of Share Price

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

The Westaim Corporation
Management's Discussion and Analysis
Year ended December 31, 2013

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

Market for Securities

On January 9, 2013, Westaim's common shares commenced trading on the TSX Venture Exchange ("TSX-V") under the symbol "WED". Until January 8, 2013, the common shares of Westaim were listed on the Toronto Stock Exchange (the "TSX") under the symbol "WED". The Westaim Board of Directors has determined that a listing with the TSX-V better suits the needs of the Company while providing continued trading liquidity for the Company's shareholders. The Company received approval of its listing on the TSX-V prior to voluntarily de-listing from the TSX.

Cash Flow Objectives

The Company manages its liquidity with a view to ensuring that there is sufficient cash to meet all financial commitments and obligations as they fall due. The Company believes its liquidity requirements for the next year will be met with the cash and cash equivalents on hand. Although the Company currently does not have any operating assets that generate revenue, the Company has sufficient funds to meet its financial obligations and pursue other opportunities. As part of pursuing one or more new opportunities, the Company may from time to time issue shares from treasury.

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

December 31, 2013 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	\$ 35.4	\$ -	\$ 35.4
Other assets	0.2	-	0.2
Total financial assets	35.6	-	35.6
Financial obligations:			
Accounts payable and accrued liabilities	2.5	-	2.5
Site restoration provision	-	2.2	2.2
Total financial obligations	2.5	2.2	4.7
Financial assets net of financial obligations	\$ 33.1	\$ (2.2)	\$ 30.9

December 31, 2012 (millions)	One year or less	No specific date	Total
Financial assets:			
Cash and cash equivalents	\$ 39.2	\$ -	\$ 39.2
Other assets	0.2	-	0.2
Total financial assets	39.4	-	39.4
Financial obligations:			
Accounts payable and accrued liabilities	0.6	-	0.6
Income taxes payable	1.5	-	1.5
Site restoration provision	-	2.7	2.7
Total financial obligations	2.1	2.7	4.8
Financial assets net of financial obligations	\$ 37.3	\$ (2.7)	\$ 34.6

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

9. RISKS

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

9. RISKS (continued)

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

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

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

Failure to satisfy closing conditions may delay or prevent completion of the Acquisition

Completion of the Acquisition is conditioned upon the receipt of certain regulatory authorizations, consents, or other approvals, including required regulatory approvals as well as the satisfaction of other conditions. These approvals may impose conditions or obligations on the Company, the Partnership and/or HIIG and such conditions may jeopardize or delay completion of the Acquisition. Further, no assurance can be given that the required approvals will be obtained or conditions satisfied and, even if all such approvals are obtained, no assurance can be given as to the terms, conditions and timing of the approvals or that they will satisfy the terms of the purchase agreements.

Failure to complete the Acquisition could negatively impact the stock price and the future business and financial results of the Company

If the Acquisition is not completed, the business of the Company may be adversely affected. Additionally, if the Acquisition is not completed, the Company may be required to pay the Sellers a termination fee or may be liable to the Sellers or HIIG for damages, and will have to pay its own costs relating to the Acquisition, such as legal, accounting, financial advisor, filing, printing and mailing fees. Any of the foregoing, or other risks arising in connection with the failure of the Acquisition, including the diversion of management attention from pursuing other opportunities during the pendency of the Acquisition, may have an adverse effect on the business, financial results and stock price of the Company.

The pendency of the Acquisition could adversely affect the business and operations of the Company and/or HIIG

In connection with the pending Acquisition, third parties utilized or relied on by the Company or HIIG may make decisions, which could negatively impact the Company or HIIG regardless of whether the Acquisition is completed. For example, current and prospective employees or customers of HIIG may experience uncertainty about the future of HIIG following the Acquisition or in the event that the Acquisition is not completed, which may materially and adversely affect the ability of each of HIIG and the Company to attract and retain key personnel or to retain or attract customers.

HIIG may have undisclosed liabilities

Although the Company has conducted investigations in connection with HIIG and its business, risks remain regarding any undisclosed or unknown liabilities of the acquired business or assets. The Company may discover that it has acquired substantial undisclosed liabilities. The Company may have little effective recourse against the Sellers or HIIG if any of the representations or warranties provided in connection with the Acquisition prove to be inaccurate. Such liabilities could have an adverse impact on the Company's business, financial conditions, results of operations, or cash flows.

Risks inherent in acquisitions generally

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

9. RISKS (continued)

Volatile stock price

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

Liquidity and financing risks

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

Income taxes

The calculation of income taxes requires the use of estimates and judgment. The validity and measurement of tax benefits associated with various tax positions taken or expected to be taken in Westaim's tax filings are a matter of tax law and are subject to interpretation. The impact of the final determination of tax audits, appeals of decisions of a taxing authority, or tax litigation may be materially different from that reflected in the Company's financial statements. The assessment of additional taxes, interest and penalties could be materially adverse to Westaim's future results of operations and financial position.

Operational risks

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

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

10. RELATED PARTY TRANSACTIONS

Management services agreement

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

Prior to the purchase of GMI by the Company on September 4, 2012, GMI was controlled by corporations controlled by two directors of the Company. Upon the extinguishment of the MSA in September 2012, an expense of \$5.0 million was recognized in the statement of profit or loss and other comprehensive income. For the three months and year ended December 31, 2012, GMI fee expense, inclusive of harmonized sales tax, was \$nil and \$3.4 million.

All RSUs previously outstanding were held by GMI (details discussed under *Share-based Compensation Plans* in Section 8, *Liquidity and Capital Resources* of this MD&A).

10. RELATED PARTY TRANSACTIONS (continued)

Acquisition of GMI

On September 4, 2012, the Company purchased all the issued and outstanding shares of GMI for \$4.2 million in cash and 730,298 common shares of the Company. The consideration paid reflected the fair value of the assets and liabilities of GMI. As the fair value of the consideration paid was determined to be equal to the fair value of the assets and liabilities of GMI, no goodwill was recorded. Immediately following the acquisition, GMI was wound up into the Company.

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

Transactions with key management personnel

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

Compensation expenses related to key management personnel, including non-executive directors, are as follows:

(millions)	Three months ended December 31		Year ended December 31	
	2013	2012	2013	2012
Salaries and benefits	\$ 0.2	\$ 0.2	\$ 1.1	\$ 0.6
Share-based compensation	-	0.2	0.1	1.3
	\$ 0.2	\$ 0.4	\$ 1.2	\$ 1.9

11. QUARTERLY FINANCIAL INFORMATION

(millions)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	2013	2013	2013	2013	2012	2012	2012	2012
Revenue of continuing operations	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ -
Expenses of continuing operations	2.1	0.6	0.8	0.6	1.1	16.5	9.6	6.5
Gain (loss) on sale of discontinued operations	-	-	-	-	-	108.1	(1.4)	-
Profit from discontinued operations	-	-	-	-	-	3.7	12.8	13.2
Profit or loss and other comprehensive income	(2.0)	(0.5)	(0.7)	(0.5)	(1.0)	95.4	1.9	6.7

Quarterly revenue from continuing operations includes miscellaneous investment income. Expenses of continuing operations vary from quarter to quarter mainly due to the share-based compensation expense which varies according to the market price of Westaim's common shares. In the fourth quarter of 2013, the Company's expenses included \$2.0 million in professional fees incurred in connection with the investment in HIIG and a site restoration provision recovery of \$0.4 million. Costs of \$1.3 million were incurred in each of the first and second quarters of 2012 to investigate an acquisition which Westaim ultimately did not pursue.

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

Profit from discontinued operations for the third quarter of 2012 included two months of operating results from the Company's insurance business to the date of sale of Jevco on September 4, 2012.

12. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

Certain portions of this MD&A, as well as other public statements by the Company, contain forward-looking statements. In particular, the words "strategy", "may", "will", "continue", "developed", "objective", "potential", "exploring", "could", "expect", "expected", "expects", "tends", "indicates", and words and expressions of similar import, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements concerning: strategies, alternatives and objectives to maximize value for shareholders; expectations and assumptions relating to the Company's business plan; the completion of the Acquisition; the effect of adverse changes in equity markets or the Company's operations; expectations regarding the Company's assets and liabilities; the Company's ability to retain key employees, management's belief that its estimates for determining the valuation of the Company's assets and liabilities are appropriate; the Company's views regarding potential future remediation costs; the effect of changes to interpretations of tax legislation on income tax provisions in future periods; and the Company's determination that the adoption of new accounting standards will not have a material impact on its consolidated financial statements.

12. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION (continued)

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

The Company's actual results could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company's control, including but not limited to: (i) the Company's ability to complete the Acquisition or any portion thereof on the terms described herein or at all, (ii) the Company's ability to raise the funds required to complete the Second Acquisition on favourable terms or at all, (iii) difficult economic conditions or a prolonged economic downturn may adversely affect the Company's business; (iv) the Company may not be able to realize its investment objectives or its liquid assets may prove to be insufficient to meet future obligations; (v) the Company and/or HIIG may have undisclosed liabilities; (vi) the Company may require significant additional funding; (vii) changes in market conditions or deterioration in underlying investments; (viii) general economic, market, financing, regulatory and industry developments and conditions, and (ix) other risk factors set forth herein or in the Company's Annual Information Form or other public filings. The Company disclaims any intention or obligation to revise forward-looking statements whether as a result of new information, future developments or otherwise except as required by law. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.



March 11, 2014

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The accompanying consolidated financial statements including the notes thereto have been prepared by, and are the responsibility of, the management of The Westaim Corporation. This responsibility includes selecting appropriate accounting policies and making estimates and informed judgments based on the anticipated impact of current transactions, events and trends, consistent with International Financial Reporting Standards. The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control. In meeting our responsibility for the reliability and timeliness of financial information, the Company maintains and relies upon a comprehensive system of internal controls including organizational, procedural and disclosure controls. The Audit Committee, which is comprised of three Directors, a majority of whom are independent, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the report of the auditors. It reports its findings to the Board of Directors who approve the consolidated financial statements.

The accompanying consolidated financial statements have been audited by Deloitte LLP, the independent auditors, in accordance with generally accepted auditing standards. The auditors have full and unrestricted access to the Audit Committee.

A handwritten signature in black ink, appearing to read 'J. Cameron MacDonald'.

J. Cameron MacDonald
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read 'Jeffrey A. Sarfin'.

Jeffrey A. Sarfin
Chief Financial Officer

Independent Auditor's Report

TO THE SHAREHOLDERS OF THE WESTAIM CORPORATION

We have audited the accompanying consolidated financial statements of The Westaim Corporation, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Westaim Corporation as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

March 11, 2014
Toronto, Ontario

The Westaim Corporation
Consolidated Statements of Financial Position

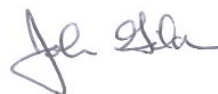
(thousands of Canadian dollars)	December 31 2013	December 31 2012
ASSETS		
Current		
Cash and cash equivalents	\$ 35,412	\$ 39,164
Accounts receivable and other assets	159	202
	\$ 35,571	\$ 39,366
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 2,450	\$ 561
Income taxes payable (note 9)	-	1,530
	2,450	2,091
Site restoration provision (note 4)	2,219	2,663
	4,669	4,754
Commitments and contingent liabilities (note 5)		
SHAREHOLDERS' EQUITY		
Share capital (note 6)	203,640	203,640
Contributed surplus (note 2h)	12,890	12,890
Deficit	(185,628)	(181,918)
	30,902	34,612
	\$ 35,571	\$ 39,366

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

Approved on behalf of the Board



Ian W. Delaney
Director



John W. Gildner
Director

The Westaim Corporation

Consolidated Statements of Profit or Loss and Other Comprehensive Income

(thousands of Canadian dollars except share and per share data)	Year Ended December 31	
	2013	2012
Continuing operations		
Revenue		
Investment income	\$ 421	\$ 747
Realized gains and losses on sale of investments	-	(442)
	421	305
Expenses		
Salaries and benefits	1,149	564
Office expenses	776	628
Professional fees (note 15)	2,677	3,284
Site restoration provision (recovery) expense (note 4)	(444)	262
Share-based compensation (note 7)	97	20,467
Management services (note 8)	-	8,439
	4,255	33,644
Loss from continuing operations before income tax	(3,834)	(33,339)
Income tax recovery	124	-
Loss from continuing operations	(3,710)	(33,339)
Gain on sale of discontinued operations (note 14)		
Proceeds on sale of subsidiary	-	530,000
Carrying value of subsidiary	-	(414,289)
Transaction costs	-	(7,498)
Gain on sale of discontinued operations before income tax	-	108,213
Income tax expense	-	(1,530)
Gain on sale of discontinued operations	-	106,683
Discontinued operations (note 14)		
Revenue	-	275,740
Expenses	-	(236,903)
Profit of discontinued operations before income tax	-	38,837
Income tax expense	-	(9,170)
Profit of discontinued operations	-	29,667
Profit from discontinued operations	-	136,350
Profit or loss and other comprehensive income	\$ (3,710)	\$ 103,011
Earnings per share (note 10)		
Loss from continuing operations - basic	\$ (0.27)	\$ (2.52)
Loss from continuing operations - diluted	\$ (0.27)	\$ (2.49)
Profit from discontinued operations - basic	\$ 0.00	\$ 10.32
Profit from discontinued operations - diluted	\$ 0.00	\$ 10.17
Profit or loss and other comprehensive income - basic	\$ (0.27)	\$ 7.80
Profit or loss and other comprehensive income - diluted	\$ (0.27)	\$ 7.68
Weighted average number of common and Series 1 Class A preferred shares outstanding (in thousands)		
Basic	13,903	13,210
Diluted	13,903	13,407

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

The Westaim Corporation
Consolidated Statements of Changes in Equity

Year ended December 31, 2013

(thousands of Canadian dollars)	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2013	\$ 203,640	\$ -	\$ 12,890	\$ (181,918)	\$ 34,612
Profit or loss and other comprehensive income	-	-	-	(3,710)	(3,710)
Balance at December 31, 2013	\$ 203,640	\$ -	\$ 12,890	\$ (185,628)	\$ 30,902

Year ended December 31, 2012

(thousands of Canadian dollars)	Share Capital	Warrants	Contributed Surplus	Deficit	Total Equity
Balance at January 1, 2012	\$ 687,402	\$ 1,900	\$ 12,890	\$ (284,929)	\$ 417,263
Profit or loss and other comprehensive income	-	-	-	103,011	103,011
Share capital issued and paid	30,745	-	-	-	30,745
Exercise of warrants	6,900	(1,900)	-	-	5,000
Return of capital	(521,407)	-	-	-	(521,407)
Balance at December 31, 2012	\$ 203,640	\$ -	\$ 12,890	\$ (181,918)	\$ 34,612

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

The Westaim Corporation
Consolidated Cash Flow Statements

(thousands of Canadian dollars)	Year Ended December 31	
	2013	2012
Operating activities		
Loss from continuing operations	\$ (3,710)	\$ (33,339)
Income tax recovery recognized in profit or loss	(124)	-
Income taxes paid	(1,406)	-
Share-based compensation	97	20,467
Net realized loss on investments	-	442
Extinguishment of management contract (note 8)	-	4,966
Net change in other non-cash balances	1,391	(4,185)
Cash used in operating activities of continuing operations	(3,752)	(11,649)
Discontinued operations operating activities	-	34,120
Cash (used in) provided from operating activities	(3,752)	22,471
Investing activities		
Purchase of subsidiary, net of cash acquired (note 8)	-	(4,155)
Proceeds from sale of discontinued operations	-	530,000
Cash of discontinued operations	-	(22,551)
Transaction costs incurred upon sale of discontinued operations	-	(7,498)
Discontinued operations investing activities	-	9,598
Cash provided from investing activities	-	505,394
Financing activities		
Issuance of share capital, net of cash issuance costs	-	8,359
Return of capital to common shareholders	-	(521,407)
Cash used in financing activities	-	(513,048)
Net (decrease) increase in cash and cash equivalents	(3,752)	14,817
Cash and cash equivalents, beginning of year	39,164	24,347
Cash and cash equivalents, end of year	\$ 35,412	\$ 39,164
Cash and cash equivalents is comprised of:		
Cash	\$ 35,412	\$ 39,164

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(Currency amounts in thousands of Canadian dollars unless otherwise indicated)

1 Nature of Operations and Basis of Preparation

The Westaim Corporation (the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company's registered office is located at 201-212 King Street West, Toronto, Ontario, Canada. These financial statements were authorized for issue by the Board of Directors of the Company on March 11, 2014.

On January 9, 2013, the Company's common shares commenced trading on the TSX Venture Exchange under the symbol WED. Until January 8, 2013, the Company's common shares were traded on the Toronto Stock Exchange under the symbol WED. Concurrent with the commencement of trading on the TSX Venture Exchange, the Company's common shares were voluntarily delisted from the Toronto Stock Exchange.

Until September 4, 2012, the Company operated in the insurance industry in Canada through its wholly-owned subsidiary, Jevco Insurance Company ("Jevco"). Jevco was sold on September 4, 2012. Note 14 *Sale of Subsidiary* provides information regarding the sale of the Company's investment in Jevco and Jevco's results of operations to the date of sale.

These financial statements also include, on a consolidated basis, the accounts of wholly-owned subsidiaries, Westaim Holdings Limited ("WHL"), 1685740 Alberta Ltd., 1685753 Alberta Ltd. and 1686581 Alberta Ltd. The Company amalgamated with WHL, 1685740 Alberta Ltd. and 1685753 Alberta Ltd. on July 1, 2012, and with 1686581 Alberta Ltd. on January 1, 2013.

On October 1, 2013, the Company completed a 50:1 share consolidation of all of its outstanding common shares. All share capital, per share amounts, warrants and share-based awards in the current and comparative periods have been adjusted to reflect this change.

These financial statements are prepared in compliance with International Financial Reporting Standards ("IFRS").

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

2 Summary of Significant Accounting Policies

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

(a) Principles of consolidation

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intercompany balances and transactions are eliminated upon consolidation. The Company adopted IFRS 10 "Consolidated Financial Statements" ("IFRS 10") on a retrospective basis on January 1, 2013. IFRS 10 defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements. Under IFRS 10, an investor controls an investee when it has power over the investee, exposure or rights to variable returns from involvement with the investee and the ability to use power over the investee to affect the amount of the investor's returns. The adoption of IFRS 10 did not have an impact on the Company's consolidated financial statements.

(b) 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. The key estimates used in these financial statements relate to the site restoration provision and are discussed in note 2(g) and note 4.

(c) Judgments made by management

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include the site restoration provision and income taxes. For additional information on these judgments, see note 4 for site restoration provision and note 9 for income taxes.

(d) Foreign currency translation

The Canadian dollar is the functional and presentation currency of the Company. Transactions in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange at end of period.

2 Summary of Significant Accounting Policies (continued)

(e) Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less.

Cash and cash equivalents are classified in the financial instrument category of loans and receivables for purposes of measurement. Cash and cash equivalents are valued at fair value at the issuance date and subsequently at amortized cost using the effective interest method. Carrying value is a reasonable approximation of fair value.

(f) Income taxes

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

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

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

(g) 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 the rate of interest of a high quality government bond.

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 site restoration costs will be recorded when received.

(h) Contributed surplus

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

(i) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 7. Any consideration paid by stock option holders for the purchase of stock is credited to share capital. The cost of stock options is recognized over the period from the issue date to the vesting date and recorded as a component of equity in contributed surplus.

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

(j) Discontinued operations

Results of discontinued operations are presented in the statement of profit or loss and other comprehensive income as profit from discontinued operations and comprise the revenues and expenses of Jevco and the gain on sale of Jevco, net of related income tax expense. In accordance with IAS 27 "Consolidated and Separate Financial Statements", gains and losses on available-for-sale investments are included in revenue from discontinued operations as these are considered realized due to the sale of Jevco. Income tax on unrealized gains and losses has been reclassified as income taxes on profit of discontinued operations.

2 Summary of Significant Accounting Policies (continued)

(k) Earnings per share

Basic earnings per share is calculated by dividing profit or loss by the total of the weighted average number of common shares outstanding during the reporting period plus the weighted average number of preferred shares outstanding during the reporting period. Profit or loss equals profit or loss and other comprehensive income for the years ended December 31, 2013 and 2012. The preferred shares are considered in substance common shares.

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

3 Accounting Standards Issued But Not Yet Applied

In November 2009, the IASB issued IFRS 9 "Financial Instruments" ("IFRS 9") as part of its plan to replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 requires financial assets, including hybrid contracts, to be measured at either fair value or amortized cost.

In October 2010, the IASB amended the requirements for classification and measurement of financial assets and liabilities. In November 2013, the IASB introduced a new hedge accounting model and allowed early adoption of the own credit provisions of IFRS 9. The impairment of financial assets phase of the project is currently under development. The mandatory effective date of January 1, 2015 was removed and the effective date will be determined when the remaining phases of IFRS 9 are finalized.

4 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 for the years ended December 31, 2013 and 2012 are as follows:

	Year ended December 31	
	2013	2012
Balance at January 1	\$ 2,663	\$ 2,401
Changes due to:		
Estimates of future expenditures	237	(632)
Inflation	133	(474)
Passage of time and discount rates	(814)	1,368
Balance at December 31	\$ 2,219	\$ 2,663

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 does not expect to settle any portion of the site restoration provision within twelve months after December 31, 2013.

Cash flows are estimated to take place over the next 150 years, with the majority to take place later than 50 years after December 31, 2013. To calculate the site restoration provision, the estimated cash flows were adjusted for inflation and discounted to December 31, 2013. For inflation and discounting calculations, all cash flows later than 50 years are treated as if the cash flow would occur at 100 years. Inflation is estimated at 1.3% per annum over the next 100 years. Discount rates are based on risk free rates which range from 1.0% to 3.2% over the next 30 years. The 30-year risk free rate is used for discounting cash flows that are estimated to occur later than 30 years after December 31, 2013.

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(Currency amounts in thousands of Canadian dollars unless otherwise indicated)

5 Commitments and Contingent Liabilities

- (a) In connection with the sale of the operations and assets of WHL in 2009, WHL agreed to indemnify the purchaser against certain liabilities or losses as described in the asset purchase agreement to an aggregate maximum of US\$11,000, subject to certain exclusions. The Company also agreed to indemnify the purchaser and the purchaser's directors, officers and employees, for an indefinite period, from certain environmental liabilities and costs relating to the premises formerly leased by WHL in Fort Saskatchewan, Alberta. No claims have been made under, and no amounts have been accrued related to, these indemnities.
- (b) The Company has operating leases in Toronto with remaining lease terms of up to 6 years. At December 31, 2013, the Company had a total commitment of \$275 for future minimum lease payments including payments due not later than one year of \$99, payments due later than one year and not later than five years of \$167, and payments due later than five years of \$9.

6 Share Capital and Warrants

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.

On October 1, 2013, the Company completed a 50:1 share consolidation of all of its outstanding common shares. All share capital, per share amounts, warrants and share-based awards in the current and comparative periods have been adjusted to reflect this change.

Changes in the Company's share capital for the years ended December 31, 2013 and 2012 are as follows:

Common shares (thousands)	Year ended December 31, 2013 ⁽¹⁾		Year ended December 31, 2012 ⁽¹⁾	
	Number	Stated Capital	Number	Stated Capital
Outstanding at January 1	13,903	\$ 203,640	11,606	\$ 656,618
Issued	-	-	820	30,745
Conversion of Series 1 Class A preferred shares	-	-	1,477	37,684
Return of capital	-	-	-	(521,407)
	13,903	\$ 203,640	13,903	\$ 203,640

⁽¹⁾ Adjusted to reflect a 50:1 share consolidation completed on October 1, 2013.

Series 1 Class A preferred shares (thousands)	Year ended December 31, 2013		Year ended December 31, 2012 ⁽¹⁾	
	Number	Stated Capital	Number	Stated Capital
Outstanding at January 1	-	\$ -	1,277	\$ 30,784
Exercise of warrants	-	-	200	6,900
Conversion to common shares	-	-	(1,477)	(37,684)
	-	\$ -	-	\$ -

⁽¹⁾ Adjusted to reflect a 50:1 share consolidation completed on October 1, 2013.

The Company's share capital consisted of 13,902,937 common shares with stated capital of \$203,640 at December 31, 2013 and 13,902,940 common shares with stated capital of \$203,640 at December 31, 2012. In the year ended December 31, 2013, 3 common shares were cancelled.

At a special meeting of the Company's shareholders on June 28, 2012, the shareholders voted in favour of a special resolution to reduce the stated capital of the common shares of the Company through a return of capital in the form of a cash distribution. The amount of the cash distribution was determined by the Board of Directors of the Company and the distribution was made on September 28, 2012 at \$37.50 per common share for a total of \$521,407. The return of capital was recorded as a reduction in the stated capital of the common shares.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(Currency amounts in thousands of Canadian dollars unless otherwise indicated)

6 Share Capital and Warrants (continued)

There were no Series 1 Class A preferred shares outstanding during the year ended December 31, 2013 and 2012. The Series 1 Class A preferred shares rank equally with the common shares with respect to liquidation proceeds and are entitled to dividends as the directors may declare, provided that an equal dividend is declared on the common shares. All the issued Series 1 Class A preferred shares previously outstanding were held by one shareholder (the "Holder"). Series 1 Class A preferred shares are non-voting and convertible into common shares, on a one to one basis. The Series 1 Class A preferred shares initially prohibited conversion of such shares where the conversion would result in the Holder exercising control or direction over greater than 40% of the common shares. At the special meeting of the Company's shareholders on June 28, 2012, an amendment to the Company's articles was approved by a special resolution which, upon completion of the sale of Jevco, permitted Series 1 Class A preferred shares to be converted to common shares while permitting the Holder to exceed an ownership of 40% of the common shares. In anticipation of this special resolution, the Company and the Holder entered into a voting agreement ("Voting Agreement") on May 25, 2012 to provide comparable protection to the common shareholders as was provided by the conversion restrictions which were in place prior to the special resolution. Pursuant to the Voting Agreement, the Holder agreed to vote the shares over which it exercises control or discretion and which represent in excess of 40% of the issued and outstanding common shares, in such manner as the Company's Board of Directors specifies or directs. On September 11, 2012, 200,000 Series 1 Class A preferred shares were issued upon the exercise of 200,000 warrants. All Series 1 Class A preferred shares were converted to common shares prior to the cash distribution.

There were no Class B preferred shares outstanding during the years ended December 31, 2013 and 2012. No shares of the Company are held by the Company.

Warrants

200,000 warrants to purchase an equal number of Series 1 Class A preferred shares of the Company at an exercise price of \$25.00 per share were exercised on September 11, 2012 for cash consideration of \$5,000. The fair value of the warrants at the time of issuance on February 9, 2010 was \$1,900, which was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.59% and a volatility of 30.0%. This amount was reclassified to share capital upon the exercise of the warrants.

7 Share-based Compensation

Under the Company's comprehensive long-term equity incentive plan, as approved by the Board of Directors and ratified by the shareholders, the Company may grant share-based awards for 1,390,293 common shares of the Company.

Stock Options - Changes to the number of stock options for the years ended December 31, 2013 and 2012 are as follows:

	Year ended December 31, 2013 ⁽¹⁾		Year ended December 31, 2012 ⁽¹⁾	
	Number	Weighted Average Exercise Price in dollars	Number	Weighted Average Exercise Price in dollars
Common share stock options				
Outstanding at January 1	7,456	\$ 153.50	9,500	\$ 165.00
Exercised	-	-	(544)	\$ 11.00
Expired and forfeited	(1,456)	\$ 104.00	(1,500)	\$ 280.00
Outstanding at December 31	6,000	\$ 165.25	7,456	\$ 153.50

⁽¹⁾ Adjusted to reflect a 50:1 share consolidation completed on October 1, 2013.

Stock options outstanding are exercisable at prices ranging from \$61.50 to \$309.00 and at December 31, 2013 had an average remaining contractual life of 1.8 years.

Deferred Share Units - DSUs are granted to non-executive directors of the Company and, prior to the sale of Jevco, also to non-executive directors, officers and employees of Jevco, and are issued at the market value of the Company's shares at the date of grant. Prior to January 1, 2013, directors could elect to receive DSUs in lieu of fees. Thereafter, all fees are payable in cash only. Vested DSUs are paid out in cash when the participant ceases to be a director, officer or employee. All DSUs issued prior to the sale of Jevco vested and were paid out upon the sale of Jevco (note 14).

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(Currency amounts in thousands of Canadian dollars unless otherwise indicated)

7 Share-based Compensation (continued)

Changes to the number of DSUs for the years ended December 31, 2013 and 2012 are as follows:

DSUs	Year ended December 31	
	2013 ⁽¹⁾	2012 ⁽¹⁾
Outstanding at January 1	113,200	110,760
Granted	-	144,640
Exercised and cancelled	-	(142,200)
Outstanding at December 31	113,200	113,200

⁽¹⁾ Adjusted to reflect a 50:1 share consolidation completed on October 1, 2013.

For the year ended December 31, 2013, compensation expense relating to DSUs was \$97 (2012 - \$1,296). At December 31, 2013, a liability of \$239 (December 31, 2012 - \$141) has been accrued with respect to outstanding DSUs.

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

Compensation expense with respect to RSUs for the year ended December 31, 2012 was \$10,050. Upon the acquisition of Goodwood Management Inc. (“GMI”) by the Company on September 4, 2012, an expense of \$9,121 was recognized to reflect the value of the RSUs which were extinguished as a result of the subsequent windup of GMI (note 8).

On December 20, 2012, the long-term equity incentive plan was amended to, among other things, restrict the awards which may be granted under the plan to stock options and DSUs and to reduce the number of common shares issuable under the plan to not more than 10% of the aggregate number of common shares outstanding. Accordingly, no additional RSUs may be issued under the plan and no RSUs are currently outstanding.

8 Related Party Transactions

Management services agreement

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

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

For the year ended December 31, 2012, GMI fee expense, inclusive of harmonized sales tax, was \$3,473. Upon the extinguishment of the MSA, an expense of \$4,966 was recognized in the statement of profit or loss and other comprehensive income.

All RSUs previously outstanding were held by GMI (note 7).

Acquisition of GMI

On September 4, 2012, the Company purchased all the issued and outstanding shares of GMI for \$4,190 in cash and 730,298 common shares of the Company. The consideration paid reflected the fair value of the assets and liabilities of GMI. As the fair value of the consideration paid was determined to be equal to the fair value of the assets and liabilities of GMI, no goodwill was recorded. Immediately following the acquisition, GMI was wound up into the Company.

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(Currency amounts in thousands of Canadian dollars unless otherwise indicated)

8 Related Party Transactions (continued)

Transactions with key management personnel

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

Compensation expenses related to key management personnel for the years ended December 31, 2013 and 2012 are as follows:

	Year ended December 31	
	2013	2012
Salaries and other short-term employee benefits	\$ 1,149	\$ 565
Share-based compensation	97	1,296
	\$ 1,246	\$ 1,861

9 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.

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

	December 31, 2013	December 31, 2012
Non-capital loss carry-forwards	\$ 48,234	\$ 44,404
Capital loss carry-forwards	6,987	6,640
Deductible temporary differences	6,066	6,064
Corporate minimum tax credits	1,406	1,530
Investment tax credits	9,633	9,633

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2033, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2026	\$ 7,883	2016	\$ 961
2027	6,151	2017	3,241
2028	9,048	2018	888
2029	103	2019	961
2030	610	2020	823
2031	20,609	2021	643
2033	3,830	Beyond 2021	2,116
	\$ 48,234		\$ 9,633

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

	Year ended December 31	
	2013	2012
Loss from continuing operations before income tax	\$ (3,834)	\$ (33,339)
Gain on sale of discontinued operations before income tax	-	108,213
Profit or loss on continuing operations and gain on sale of discontinued operations, before income tax	(3,834)	74,874
Statutory income tax rate	26.5%	26.5%
Income taxes at statutory income tax rate	(1,016)	19,842
Variations due to:		
Non-deductible and non-taxable items	-	(9,647)
Unrecognized temporary differences	1	1,838
Unrecognized tax losses	1,015	(12,033)
Adjustment to prior year provision	(124)	-
Corporate minimum tax	-	1,530
Income tax (recovery) expense on continuing operations and gain on sale of discontinued operations	\$ (124)	\$ 1,530

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(Currency amounts in thousands of Canadian dollars unless otherwise indicated)

9 Income Taxes (continued)

Income tax expense is recognized in the statements of profit or loss and other comprehensive income as follows:

	Year ended December 31	
	2013	2012
Income tax (recovery) expense on:		
Continuing operations	\$ (124)	\$ -
Gain on sale of discontinued operations	-	1,530
Income tax (recovery) expense on continuing operations and gain on sale of discontinued operations	(124)	1,530
Income tax expense on profit of discontinued operations	-	9,170
Total income tax on continuing and discontinued operations	\$ (124)	\$ 10,700

10 Earnings per Share

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

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

Number of common shares and Series 1 Class A preferred shares (in thousands)	Year ended December 31	
	2013 ⁽¹⁾	2012 ⁽¹⁾
Number of shares for basic earnings per share	13,903	13,210
Effect of dilutive securities:		
- restricted share units	-	190
- warrants	-	7
Number of shares for diluted earnings per share	13,903	13,407

⁽¹⁾ Adjusted to reflect a 50:1 share consolidation completed on October 1, 2013.

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

Stock options to purchase 6,000 common shares were outstanding at December 31, 2013 (December 31, 2012 - 7,456). These stock options were excluded in the calculation of diluted earnings per share because the exercise price of the stock options was greater than the weighted average market value of the common shares in the years ended December 31, 2013 and 2012.

11 Capital Management

The Company's capital consists of its shareholders' equity. The Company's objectives when managing capital are to maintain a strong balance sheet and maximize shareholder value. In order to achieve the Company's capital management objectives, it employs a strong and efficient capital base and manages capital in accordance with policies established by the Board of Directors. These policies relate to capital strength, capital mix, dividends and return on capital. The Company has a capital management process in place to measure, deploy and monitor its available capital to assess its adequacy on a continuous basis. Management develops the capital strategy and oversees the capital management processes. Capital is managed using internal metrics. There are no internal or external restrictions on the Company's capital.

At the special meeting of the Company's shareholders on June 28, 2012, the shareholders voted in favour of a special resolution to reduce the stated capital of the common shares of the Company through a return of capital in the form of a cash distribution. The amount of the cash distribution was determined by the Board of Directors of the Company and the distribution was made on September 28, 2012 at \$37.50 per common share for a total of \$521,407.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the years ended December 31, 2013 and 2012
(Currency amounts in thousands of Canadian dollars unless otherwise indicated)

12 Risk Management

The Company's statement of financial position at December 31, 2013 consists of short-term financial assets and financial liabilities with maturities of less than one year, other than the site restoration provision discussed in note 4 and the commitments in note 5(b). The most significant identified risks which arise from holding financial instruments include credit risk, market risk and liquidity risk. As at December 31, 2013, the Company's exposure to credit and market risk is nominal as the Company's financial assets consisted of cash and cash equivalents held with a Schedule 1 bank in Canada. Additionally, at December 31, 2013 the Company's financial assets were significantly higher than its financial liabilities resulting in minimal liquidity risk. Overall, the Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

13 Operating Segment

Prior to the sale of Jevco, the Company had one reportable segment which comprised the Company's property and casualty insurance business carried on through Jevco. All other revenues, expenses, assets and liabilities are related to corporate activities. The reportable segment is presented in accordance with the Company's accounting policy for discontinued operations as described in note 2(j). Segment profit or loss and other comprehensive income represents segment profit or loss and other comprehensive income without allocation of certain administration costs.

	Year ended December 31, 2013			Year ended December 31, 2012		
	Insurance segment	All other	Total	Insurance segment	All other	Total
Revenue of continuing operations	\$ -	\$ 421	\$ 421	\$ -	\$ 305	\$ 305
Profit or loss and other comprehensive income:						
From continuing operations	-	(3,710)	(3,710)	-	(33,339)	(33,339)
From discontinued operations	-	-	-	29,667	106,683	136,350
Total	-	(3,710)	(3,710)	29,667	73,344	103,011

14 Sale of Subsidiary

On May 2, 2012, the Company announced it had entered into an agreement with an unrelated party to sell all the issued and outstanding shares in the capital of Jevco to the purchaser for \$530,000 in cash. On June 28, 2012, at the special meeting of the Company's shareholders, a special resolution in favour of the agreement was approved by shareholder vote. The sale of Jevco was concluded on September 4, 2012 after all regulatory approvals were received. In the third quarter of 2012, a gain on sale of Jevco of \$106,683 was realized after deducting the carrying value of Jevco of \$414,289, costs related to the sale of \$7,498, and income tax of \$1,530.

The insurance segment presented in note 13 *Operating Segment* consists solely of Jevco.

15 Subsequent Event

Subsequent to December 31, 2013, the Company announced that Westaim HIIG Limited Partnership (the "Partnership"), an Ontario limited partnership newly established by the Company, has agreed to acquire a significant interest in Houston International Insurance Group, Ltd. ("HIIG"). HIIG is a U.S. based diversified specialty insurance provider and managing general insurance agent covering risks across the United States and certain niche global markets.

The Partnership has agreed to acquire an approximate 42.5% equity ownership interest in HIIG for aggregate consideration of approximately US\$75,000 (the "Initial Acquisition"), through the purchase of shares from certain existing shareholders of HIIG (the "Sellers") for approximately US\$15,000 and the subscription for stock from HIIG's treasury for approximately US\$60,000, subject to closing adjustments. The Company has agreed to provide a US\$20,000 capital commitment to the Partnership to fund, in part, the Initial Acquisition, and has also committed to fund up to US\$3,333 if there are positive post-closing adjustments.

Under a stock purchase agreement to be entered into in connection with, and as a condition to, the completion of the Initial Acquisition, the Partnership will also have the right and obligation (for six months after the completion of the Initial Acquisition), subject to obtaining financing, to purchase the remaining shares of HIIG owned by the Sellers (24.6% assuming the completion of the Acquisition) for an aggregate purchase price of approximately US\$38,700, subject to closing adjustments (the "Second Acquisition", and together with the Initial Acquisition, the "Acquisition"). Completion of the Second Acquisition will be conditional on the Partnership raising the funds necessary to complete such purchase on terms reasonably satisfactory to the Partnership. In the event that the Initial Acquisition is completed but the Second Acquisition is not completed, Westaim will be obligated in certain circumstances to pay the Sellers a termination fee of US\$1,000.

After giving effect to the Acquisition, the Partnership would have purchased approximately 67.1% of HIIG for approximately US\$113,700, excluding transaction costs not otherwise subject to reimbursement.

15 Subsequent Event (continued)

The Acquisition is subject to the receipt of all requisite regulatory approvals, including TSX Venture Exchange approval, and any other regulatory approvals required under applicable U.S. competition and insurance laws, including approval of the Departments of Insurance of the States of Texas and Oklahoma. The Initial Acquisition is expected to close in the second quarter of 2014.

Upon completion of the Initial Acquisition, the Company is entitled to be reimbursed by HIIG for approximately \$1,900 in professional fees incurred by the Company in 2013 in connection with the Acquisition.

SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

Ian W. Delaney^{1,3}

Non-executive Chairman of the Board,
The Westaim Corporation

Independent Businessman

John Gildner^{1,2,3}

Independent Businessman

J. Cameron MacDonald

President and Chief Executive Officer,
The Westaim Corporation

Daniel P. Owen^{1,2,3}

Chairman and Chief Executive Officer, Molin Holdings
Limited

Chairman, Heli-Lynx Helicopter Services Inc.

Peter J. Puccetti^{2,3}

Chairman and Chief Investment Officer, Goodwood Inc.

Numbers indicate the individual's committee membership:

- 1. Member of the Audit Committee*
- 2. Member of the Human Resources and Compensation Committee*
- 3. Member of the Corporate Governance Committee*

The Westaim Corporation Annual General Meeting of Shareholders Thursday May 15, 2014 10:00 a.m.

Baker & McKenzie LLP
Brookfield Place
Bay/Wellington Tower
181 Bay Street, Suite 2100
Toronto, Ontario

CORPORATE INFORMATION

J. Cameron MacDonald

President and Chief Executive Officer

Robert Kittel

Chief Operating Officer

Jeffrey A. Sarfin

Chief Financial Officer

Corporate Office

212 King Street West
Suite 201
Toronto, Ontario M5H 1K5
Tel: (416) 203-2253
Fax: (416) 203-0734
E-mail: info@westaim.com
www.westaim.com

STOCK INFORMATION

Traded on the TSX Venture Exchange
under the symbol **WED**

Shares issued and outstanding
at December 31, 2013 were 13,902,937

TRANSFER AGENT

Computershare Trust Company of Canada
600, 530 – 8th Avenue SW
Calgary, Alberta T2P 3S8
Tel: 1-800-564-6253
E-mail: service@computershare.com

THIS PAGE INTENTIONALLY LEFT BLANK

THIS PAGE INTENTIONALLY LEFT BLANK

THIS PAGE INTENTIONALLY LEFT BLANK



THE WESTAIM CORPORATION

212 King Street West, Suite 201
Toronto, Ontario, Canada
M5H 1K5

www.westaim.com
info@westaim.com