The Westaim Corporation
Consolidated Statements of Financial Position
(unaudited)

(thousands of United States dollars)	June 30 2016	December 31 2015
ASSETS		
Cash and cash equivalents	$ 4,654	$ 7,798
Other assets (note 4)	3,477	2,586
Investments in private entities (note 5)	323,333	322,133
Investments in associates (note 5)	2,663	2,991
	$ 334,127	$ 335,508
LIABILITIES		
Accounts payable and accrued liabilities (note 6)	$ 6,167	$ 5,521
Site restoration provision (note 7)	5,313	3,899
	11,480	9,420
Commitments and contingent liabilities (note 8)		
SHAREHOLDERS' EQUITY		
Share capital (note 9)	382,182	382,182
Contributed surplus (note 10)	11,734	11,498
Accumulated other comprehensive loss (note 2m)	(2,227)	(2,227)
Deficit	(69,042)	(65,365)
	322,647	326,088
	$ 334,127	$ 335,508

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

The Westaim Corporation
Consolidated Statements of (Loss) Profit and Other Comprehensive Income (Loss)
(unaudited)

(thousands of United States dollars except share and per share data)	Three Months Ended June 30 2016	Three Months Ended June 30 2015 (Restated) note 2(b)	Six Months Ended June 30 2016	Six Months Ended June 30 2015 (Restated) note 2(b)
Revenue				
Investment income	$ 312	$ 50	$ 625	$ 122
Fee income (notes 5 and 11)	360	250	720	500
	672	300	1,345	622
Net results of investments				
Unrealized (loss) gain on investments in private entities (note 5):				
Unrealized (loss) gain on investments before foreign exchange	(2,173)	288	1,200	1,295
Unrealized foreign exchange (loss) gain on investments	-	(2,435)	-	8,451
Share of loss of associates (note 5)	(592)	-	(967)	-
Unrealized gain on other investments (note 4)	1	-	10	-
	(2,764)	(2,147)	243	9,746
Expenses				
Salaries and benefits	906	292	1,734	373
General, administrative and other	342	349	569	569
Professional fees (note 5)	306	943	673	1,448
Site restoration provision expense (recovery) (note 7)	831	(670)	1,166	103
Share-based compensation expense (note 10)	524	880	736	2,775
Foreign exchange loss (gain)	45	(64)	387	(1,263)
	2,954	1,730	5,265	4,005
(Loss) profit	$ (5,046)	$ (3,577)	$ (3,677)	$ 6,363
(Loss) earnings per share - basic and diluted (note 13)	$ (0.04)	$ (0.05)	$ (0.03)	$ 0.09
Weighted average number of common shares outstanding (in thousands)				
Basic and diluted	143,187	70,297	143,187	70,297
(Loss) profit	$ (5,046)	$ (3,577)	$ (3,677)	$ 6,363
Other comprehensive income (loss)				
Exchange differences on change in presentation currency	-	2,874	-	(11,512)
Comprehensive loss	$ (5,046)	$ (703)	$ (3,677)	$ (5,149)

Comparative amounts have been restated due to a change in presentation currency from the Canadian dollar to the United States dollar

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

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

Six Months ended June 30, 2016 (thousands of United States dollars)		Share Capital		Contributed Surplus		Accumulated Other Comprehensive Loss		Deficit		Total Equity
Balance at January 1, 2016	$	382,182	$	11,498	$	(2,227)	$	(65,365)	$	326,088
Stock option plan expense (note 10)		-		236		-		-		236
Loss		-		-		-		(3,677)		(3,677)
Balance at June 30, 2016	$	382,182	$	11,734	$	(2,227)	$	(69,042)	$	322,647

Six Months ended June 30, 2015 (Restated) note 2(b) (thousands of United States dollars)		Share Capital		Contributed Surplus		Accumulated Other Comprehensive Income (Loss)		Deficit		Total Equity
Balance at January 1, 2015	$	210,404	$	11,498	$	18,331	$	(73,005)	$	167,228
Share issuance costs, net of recovery (note 9)		(2,742)		-		-		-		(2,742)
Profit		-		-		-		6,363		6,363
Other comprehensive loss (note 2m)		-		-		(11,512)		-		(11,512)
Balance at June 30, 2015	$	207,662	$	11,498	$	6,819	$	(66,642)	$	159,337

Comparative amounts have been restated due to a change in presentation currency from the Canadian dollar to the United States dollar

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

The Westaim Corporation
Consolidated Cash Flow Statements
(unaudited)

(thousands of United States dollars)	Six Months Ended June 30 2016	2015 (Restated) note 2(b)
Operating activities		
(Loss) profit	$ (3,677)	$ 6,363
Unrealized gain on investments in private entities	(1,200)	(9,746)
Share of loss of associates	967	-
Unrealized gain on other investments	(10)	-
Share-based compensation expense	736	2,775
Share-based compensation payments	(105)	-
Site restoration provision expense	1,166	103
Lease expense	(38)	(52)
Depreciation and amortization	22	19
Unrealized foreign exchange loss	530	-
Net change in other non-cash balances		
Other assets	(837)	201
Accounts payable and accrued liabilities [1]	5	368
Deferred revenue	-	254
Cash (used in) provided from operating activities	(2,441)	285
Investing activities		
Purchase of capital assets	(64)	(14)
Purchase of investments in private entities	-	(50,637)
Change in investments in associates	(639)	-
Cash used in investing activities	(703)	(50,651)
Financing activities		
Recovery of share issuance costs [1]	-	2,201
Cash provided from financing activities	-	2,201
Effect of exchange rate fluctuations on cash held	-	(3,613)
Net decrease in cash and cash equivalents	(3,144)	(51,778)
Cash and cash equivalents, beginning of period	7,798	80,091
Cash and cash equivalents, end of period	$ 4,654	$ 28,313
Cash and cash equivalents is composed of:		
Cash	$ 4,654	$ 28,313

[1] Excludes non-cash share issuance costs of $4,873 at June 30, 2015.

Comparative amounts have been restated due to a change in presentation currency from the Canadian dollar to the United States dollar

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

1 Nature of Operations

The Westaim Corporation ("Westaim" or the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company's head office is located at Suite 1700, 70 York Street, Toronto, Ontario, Canada. These consolidated financial statements were authorized for issue by the Board of Directors of the Company effective August 11, 2016.

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the global financial services industry. The Company's principal investments consist of Houston International Insurance Group, Ltd., through Westaim HIIG Limited Partnership, and the Arena Group (as described in note 5). The Company's common shares are traded on the TSX Venture Exchange (the "TSXV") under the symbol WED.

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

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

2 Summary of Significant Accounting Policies

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

(a) Basis of preparation

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

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

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

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

(b) Functional and presentation currency

IAS 21 "*The Effects of Changes in Foreign Exchange Rates*" ("IAS 21") describes functional currency as the currency of the primary economic environment in which an entity operates. Following the completion of the Arena Transactions (as described in note 5), a significant majority of the Company's revenues and costs are earned and incurred in US$. As a result, the Company changed its functional currency from Canadian dollars ("C$") to US$, prospectively from the date of change of August 31, 2015.

2 Summary of Significant Accounting Policies (continued)

On August 31, 2015, the Company also changed its presentation currency from C$ to US$. Comparative information for periods prior to August 31, 2015 has been restated in US$ in accordance with IAS 21. The comparative consolidated financial statements and associated notes prior to August 31, 2015 presented herein have been translated from C$ to US$ using the following procedures:

- Assets and liabilities were translated into US$ at period end exchange rates.
- Operating results were translated into US$ at the exchange rates prevailing at the dates of the transactions, or average rates where they are suitable proxies.
- Share capital, contributed surplus and deficit were translated at the historic rates prevailing at the dates of the transactions.
- Differences resulting from the translation of the opening net assets and the results for the periods have been included in other comprehensive income (loss).

(c) Use of estimates

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

(d) Judgments made by management

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include determining that the Company meets the definition of an investment entity under IFRS 10, valuation techniques for fair value determination of investments in private entities, applying the equity method of accounting for associates, determining that the Company's functional currency is the US$, site restoration provision and income taxes. For additional information on these judgments, see note 5 for investments in private entities and associates, note 2(b) for functional currency, note 7 for site restoration provision and note 12 for income taxes.

(e) Foreign currency translation

The US$ is the functional and presentation currency of the Company. Transactions in foreign currencies are translated into US$ at rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities in foreign currencies are translated into US$ at rates of exchange at the end of the reporting period. Any resulting foreign exchange gain or loss is included in the consolidated statements of (loss) profit and other comprehensive income (loss).

(f) Revenue recognition

Investment income includes interest income and dividend income. Interest income is recognized on an accrual basis and dividend income is recognized on the ex-dividend date. Advisory and management fees are recorded as fee income on an accrual basis when earned.

(g) 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.

(h) Capital assets

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

(i) Investments

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

2 Summary of Significant Accounting Policies (continued)

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

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

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

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

(j) Income taxes

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

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

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

(k) Site restoration provision

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

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

2 Summary of Significant Accounting Policies (continued)

(l) 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 included in contributed surplus.

(m) Accumulated other comprehensive loss

Comprehensive income (loss) consists of profit (loss) and other comprehensive income (loss). Accumulated other comprehensive loss of $2,227 at June 30, 2016 and December 31, 2015 comprised cumulative exchange differences from currency restatement as a result of a change in presentation currency from the C$ to the US$ on August 31, 2015.

(n) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 10. The cost of stock options is recognized in income as an expense over the period from the issue date to the vesting date with a corresponding increase in contributed surplus. Any consideration paid by stock option holders for the purchase of stock is credited to share capital.

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

(o) Earnings per share

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

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

3 Accounting Pronouncements Issued but not yet Adopted

In November 2009, the International Accounting Standards Board (“IASB”) issued IFRS 9 “*Financial Instruments*” (“IFRS 9”) as part of its plan to replace IAS 39 “*Financial Instruments: Recognition and Measurement*”. IFRS 9 requires financial assets, 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. In July 2014, the IASB issued the final version of IFRS 9 incorporating a new expected loss impairment model and introducing limited amendments to the classification and measurement requirements for financial assets. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

On May 28, 2014, the IASB and the Financial Accounting Standards Board (FASB) jointly issued a converged standard on the recognition of revenue from contracts with customers, which will replace all existing revenue standards and interpretations, once mandatorily effective. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue and provide guidance for transactions that were not previously addressed comprehensively. Application of the standard is mandatory and it applies to nearly all contracts with customers. The main exceptions are leases, financial instruments, insurance contracts and certain non-monetary exchange transactions. IFRS 15 “*Revenue from Contracts with Customers*” (“IFRS 15”) is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2018 and is to be applied using the retrospective or the modified retrospective approach. While the standards are largely converged, the U.S. standard does not permit early adoption. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

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

3 Accounting Pronouncements Issued but not yet Adopted (continued)

On January 13, 2016, the IASB issued IFRS 16 "*Leases*" ("IFRS 16") which will replace IAS 17 "*Leases*". IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Company is currently assessing the impact of this new standard on its consolidated financial statements.

4 Other Assets

Other assets consist of the following:

	June 30, 2016	December 31, 2015
Capital assets	$ 159	$ 115
Investment in Arena Special Opportunities Fund, LP (a)	1,885	1,875
Receivables from related parties (b)	1,327	411
Accounts receivable and other	106	185
	$ 3,477	$ 2,586

(a) In connection with the Arena Transactions, on August 31, 2015 the Company acquired limited partnership interests in Lantern Endowment Partners, L.P. ("Lantern") from an entity affiliated with Daniel B. Zwirn, the Chief Executive Officer of the Arena Group, for $1,786 (the "Lantern Purchase"). On October 1, 2015, the assets of Lantern were transferred to Arena Special Opportunities Fund, LP ("ASOF LP"), a fund managed by Arena Investors, at fair value and the Company's investment in Lantern was correspondingly exchanged into an investment in ASOF LP. For a description of Arena Investors, see note 5. The Company's portfolio investment in ASOF LP is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At June 30, 2016 and December 31, 2015, the fair value of the Company's interest in ASOF LP was determined by Arena Investors to be $1,885 and $1,875, respectively. In the three and six months ended June 30, 2016, the Company reported nominal unrealized gains with respect to the investment in ASOF LP in the consolidated statements of (loss) profit and other comprehensive income (loss).

(b) Receivables from related parties totaled $1,327 at June 30, 2016 and $411 at December 31, 2015 and represent miscellaneous costs paid by the Company on behalf of Houston International Insurance Group, Ltd. ("HIIG") and the Arena Group from time to time which are subject to reimbursement.

5 Investments in Private Entities and Associates

The Company's principal investments as at June 30, 2016 and December 31, 2015 consisted of its investment in HIIG (through the HIIG Partnership) and its investments in the Arena Group. Investments in private entities are measured at FVTPL and investments in associates are accounted for using the equity method.

As at June 30, 2016 and December 31, 2015	Place of establishment	Principal place of business	Ownership interest
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim
Investments in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by WCA *
- ASOF-ON GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by WCA *
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim *

* legal equity ownership is 100%, beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described below under "Investments in Associates"

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

5 Investments in Private Entities and Associates (continued)

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

As at June 30, 2016 and December 31, 2015	Place of establishment	Principal place of business	Ownership interest
HIIG Partnership:			
- HIIG	Delaware, U.S.	Texas, U.S.	74.5% owned by HIIG Partnership
Arena Finance:			
- Arena Finance Holdings Co., LLC ("AFHC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Finance
- Arena Finance National, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC
- Arena Finance Global, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC
- Arena Finance Markets, LP	Delaware, U.S.	New York, U.S.	100% owned by AFHC
Arena Origination:			
- Arena Origination Co., LLC ("AOC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Origination

Houston International Insurance Group, Ltd.

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

Arena Group

On August 31, 2015, the Company established the following three businesses:

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

- Arena Finance – Arena Finance, through AFHC and AFHC's subsidiaries, was set up as a specialty finance company to primarily purchase fundamentals-based, asset-oriented credit investments for its own account. The Company's investment in Arena Finance is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

- Arena Origination – Arena Origination, through AOC, was set up to facilitate the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or other third parties. The Company's investment in Arena Origination is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

The establishment, capitalization and organization of Arena Investors, Arena Finance and Arena Origination are referred to as the "Arena Transactions"; and Arena Investors, Arena Finance and Arena Origination and related entities are collectively referred to as the "Arena Group".

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

5 Investments in Private Entities and Associates (continued)

INVESTMENTS IN PRIVATE ENTITIES

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

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

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

As at June 30, 2016	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	$ 148,297	$ -	$ -	$ 148,297
- Arena Finance	142,470	-	-	142,470
- Arena Origination	32,566	-	-	32,566
	$ 323,333	$ -	$ -	$ 323,333

As at December 31, 2015	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	$ 146,066	$ -	$ -	$ 146,066
- Arena Finance	143,082	-	-	143,082
- Arena Origination	32,985	-	-	32,985
	$ 322,133	$ -	$ -	$ 322,133

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

	Three months ended June 30, 2016			Six months ended June 30, 2016		
	Opening balance	Unrealized loss	Ending balance	Opening balance	Unrealized gain (loss)	Ending balance
Investments in private entities:						
- HIIG Partnership	$ 149,208	$ (911)	$ 148,297	$ 146,066	$ 2,231	$ 148,297
- Arena Finance	143,358	(888)	142,470	143,082	(612)	142,470
- Arena Origination	32,940	(374)	32,566	32,985	(419)	32,566
	$ 325,506	$ (2,173)	$ 323,333	$ 322,133	$ 1,200	$ 323,333

Year ended December 31, 2015	Opening balance	Additions - Equity	Additions - Debt	Unrealized gain (loss)	Ending balance
Investments in private entities:					
- HIIG Partnership	$ 93,670	$ 50,637	$ -	$ 1,759	$ 146,066
- Arena Finance	-	146,585	-	(3,503)	143,082
- Arena Origination	-	17,340	17,000	(1,355)	32,985
	$ 93,670	$ 214,562	$ 17,000	$ (3,099)	$ 322,133

There were no transfers between any levels during the six months ended June 30, 2016 or in the year ended December 31, 2015. The Company recorded an unrealized loss of $2,173 and an unrealized gain of $1,200 on its investments in private entities in the three and six months ended June 30, 2016, respectively, and an unrealized loss of $2,147 and an unrealized gain of $9,746 in the three and six months ended June 30, 2015, respectively.

5 Investments in Private Entities and Associates (continued)

Investment in Houston International Insurance Group, Ltd.

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

At June 30, 2016, the Company owned approximately 58.5% of the HIIG Partnership Units, representing an approximate 43.6% indirect ownership interest in HIIG.

Westaim controls the HIIG Partnership through its ownership of approximately 58.5% of the Class A Units of the HIIG Partnership and through its control of HIIG GP, the general partner of the HIIG Partnership, and the HIIG Partnership exercises control over HIIG and its insurance subsidiaries through its ownership of approximately 74.5% of the issued and outstanding common shares of HIIG ("HIIG Shares") at June 30, 2016. The amount of dividends paid by the insurance subsidiaries of HIIG to HIIG may be subject to restrictions imposed by the insurance regulators in the United States, thereby limiting the amount of dividends HIIG can pay to its shareholders, including the HIIG Partnership. Payment of dividends from HIIG to the HIIG Partnership may also be restricted as a result of covenants in credit facilities entered into by HIIG from time to time.

FVTPL

The investment in HIIG, through the HIIG Partnership, is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be $148,297 at June 30, 2016 and $146,066 at December 31, 2015.

Management used net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership at June 30, 2016. The fair value of the HIIG Partnership of $148,297 at June 30, 2016 was derived from a valuation of the HIIG Shares owned by the HIIG Partnership and other net assets of the HIIG Partnership at June 30, 2016. The carrying values of the HIIG Partnership's other net assets, consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, using net asset value as the primary valuation technique, fair value was determined to be 1.0x the adjusted book value of HIIG, or 100% of the adjusted HIIG stockholders' equity, as at June 30, 2016. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Shares as at June 30, 2016 as it was also used in a number of HIIG share transactions with arm's length third parties since August 1, 2014. This same basis of valuation was used to determine the fair value of the Company's investment in the HIIG Partnership of $146,066 at December 31, 2015.

The significant unobservable inputs used in the valuation were the multiple applied and the adjusted stockholders' equity of HIIG as at June 30, 2016. Management applied a multiple of 1.0x as this was also the multiple used to price significant prior HIIG treasury transactions since the Company made its investment in HIIG (through the HIIG Partnership). The adjusted book value of HIIG as at June 30, 2016 reflected 100% of HIIG stockholders' equity obtained from the unaudited interim financial statements of HIIG for the three and six months ended June 30, 2016 prepared in accordance with United States generally accepted accounting principles ("US GAAP"), adjusted for a reclassification of a receivable from employees relating to their purchase of HIIG Shares. The adjusted book value contained certain significant judgments and estimates made by management of HIIG including the provision for loss and loss adjustment expenses (LAE) and the valuation of goodwill and intangible assets.

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

The Company recorded an unrealized loss of $911 and an unrealized gain of $2,231 on its investment in the HIIG Partnership in the three and six months ended June 30, 2016, respectively, and an unrealized loss of $2,147 and an unrealized gain of $9,746 in the three and six months ended June 30, 2015, respectively. The unrealized loss in the three months ended June 30, 2015 included a foreign exchange loss of $2,435 and the unrealized gain in the six months ended June 30, 2015 included a foreign exchange gain of $8,451, resulting from a weakening and strengthening of the US$ against the C$ during the respective periods, prior to the adoption of the US$ as the Company's functional currency on August 31, 2015.

5 Investments in Private Entities and Associates (continued)

For purposes of assessing the sensitivity of HIIG stockholders' equity on the valuation of the Company's investment in the HIIG Partnership, if HIIG stockholders' equity at June 30, 2016 was higher by $1,000, the fair value of the Company's investment in the HIIG Partnership at June 30, 2016 would have increased by approximately $436 (December 31, 2015 - $441) and the unrealized loss on investments in private entities for the three and six months ended June 30, 2016 would have decreased by approximately $436. If HIIG stockholders' equity at June 30, 2016 was lower by $1,000, an opposite effect would have resulted.

Investment in Arena Finance and Arena Origination

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

On August 31, 2015, the Company completed the Arena Transactions and capitalized Arena Finance in the amount of $146,585 in the form of equity and Arena Origination in the amount of $34,340, consisting of $17,340 in the form of equity and $17,000 in the form of a term loan.

The loan to Arena Origination has a seven year term to August 31, 2022, is unsecured and carries interest at a rate of 7.25% per annum, with interest due on January 1 of each year during the term.

In connection with the Arena Transactions, on August 31, 2015, Arena Finance and BP LLC entered into a limited liability company agreement in respect of AFHC (the "AFHC LLC Agreement") under which BP LLC was issued Class M units of AFHC which are convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AFHC. The Class M units vest equally over 5 years from August 31, 2015 and carry pre-determined escalating conversion prices which are in excess of the price paid by the Company for its investment in AFHC (through Arena Finance). A similar agreement was entered into between Arena Origination and BP LLC with respect to AOC.

<u>FVTPL</u>

The investments in Arena Finance and Arena Origination are accounted for at FVTPL and are included in investments in private entities in the consolidated statements of financial position. The fair values of the Company's investments in Arena Finance and Arena Origination were determined to be $142,470 and $32,566, respectively, at June 30, 2016 and $143,082 and $32,985, respectively, at December 31, 2015.

Management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the shareholder's equity of Arena Finance at June 30, 2016 in the amount of $142,470 approximated the fair value of the Company's investment in Arena Finance; and 100% (or 1.0x) of the shareholder's equity of Arena Origination at June 30, 2016 in the amount of $15,566 and the fair value of the term loan of $17,000, totaling $32,566, approximated the fair value of the Company's investment in Arena Origination. Management determined that this valuation technique produced the best indicator of the fair value of Arena Finance and Arena Origination at June 30, 2016. This same basis of valuation was used to determine the fair value of the Company's investments in Arena Finance and Arena Origination of $143,082 and $32,985, respectively, at December 31, 2015.

The significant unobservable inputs used in the valuation of Arena Finance and Arena Origination at June 30, 2016 were the shareholder's equity of each of the entities at June 30, 2016 and the multiple applied. Management applied a multiple of 1.0x as the shareholder's equity of Arena Finance and Arena Origination approximated the net assets of the respective entity which were carried at fair value at June 30, 2016, as described below. The shareholder's equity of Arena Finance and Arena Origination at June 30, 2016 was obtained from the unaudited interim financial statements of Arena Finance and Arena Origination for the three and six months ended June 30, 2016 prepared in accordance with IFRS and US GAAP, respectively. The shareholder's equity contained certain significant judgments and estimates made by management of Arena Finance and Arena Origination, including the determination of the fair value of their subsidiaries' investments as noted below.

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

5 Investments in Private Entities and Associates (continued)

- Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange. Equity securities traded on inactive markets and certain foreign equity securities are valued using significant other observable inputs, if available, and include broker quotes or evaluated price quotes received from pricing services. If the inputs are not observable or timely, the values of these securities are determined using valuation methodologies for Level 3 investments described below.

- Corporate bonds are valued using various inputs and techniques, which include third-party pricing services, dealer quotations, and recently executed transactions in securities of the issuer or comparable issuers. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. Values for high-yield bonds are based primarily on pricing services and dealer quotations from relevant market makers. The dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds, and sector-specific trends. If these inputs are not observable or timely, the values of corporate bonds and convertible bonds are determined using valuation methodologies for Level 3 described below.

- Private loans are valued using valuation methodologies for Level 3 investments such as transaction pricing and discounted cash flows, with the discount rate being the primary unobservable input.

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

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

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

In the three months ended June 30, 2016, the Company recorded unrealized losses on its investments in Arena Finance and Arena Origination of $888 and $374, respectively. In the six months ended June 30, 2016, the Company recorded unrealized losses on its investments in Arena Finance Arena Origination of $612 and $419, respectively.

For purposes of assessing the sensitivity of the shareholder's equity of Arena Finance and Arena Origination on the valuation of the Company's investment in these entities which are wholly-owned by the Company, if the shareholder's equity of either Arena Finance or Arena Origination at June 30, 2016 was higher by $1,000, the fair value of the Company's investment in the respective entity at June 30, 2016 would have increased by $1,000 and the unrealized loss on investments in private entities for the three and six months ended June 30, 2016 would have decreased by approximately $1,000. If the shareholder's equity of either Arena Finance or Arena Origination at June 30, 2016 was lower by $1,000, an opposite effect would have resulted.

INVESTMENTS IN ASSOCIATES

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

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

5 Investments in Private Entities and Associates (continued)

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

The Company concluded that based on the contractual rights and obligations under the Associate Agreements, the Company exercises significant influence over the Associates. The Company's investments in the Associates are therefore accounted for using the equity method in accordance with IAS 28.

The following summarized financial information, which is in compliance with IFRS, represents amounts shown in the unaudited interim financial statements of the Associates:

As at June 30, 2016	WAHII	Other associates	Total
Financial information of Associates:			
Assets	$ 5,839	$ 40	$ 5,879
Liabilities	(9,537)	(30)	(9,567)
Net liabilities	$ (3,698)	$ 10	$ (3,688)
Company's share	$ (1,757)	$ 5	$ (1,752)
Advances to Associates	4,415	-	4,415
Carrying amount of the Company's interest in Associates	$ 2,658	$ 5	$ 2,663

As at December 31, 2015	WAHII	Other associates	Total
Financial information of Associates:			
Assets	$ 4,241	$ 4	$ 4,245
Liabilities	(6,292)	(4)	(6,296)
Net liabilities	$ (2,051)	$ -	$ (2,051)
Company's share	$ (1,046)	$ -	$ (1,046)
Advances to Associates	4,037	-	4,037
Carrying amount of the Company's interest in Associates	$ 2,991	$ -	$ 2,991

Three months ended June 30, 2016	WAHII	Other associates	Total
Financial information of Associates:			
Fee income	$ 2,164	$ 8	$ 2,172
Operating expenses	(3,315)	(18)	(3,333)
Loss and other comprehensive loss	$ (1,151)	$ (10)	$ (1,161)
Company's share of loss of Associates (51%)	$ (587)	$ (5)	$ (592)

Six months ended June 30, 2016	WAHII	Other associates	Total
Financial information of Associates:			
Fee income	$ 4,179	$ 35	$ 4,214
Operating expenses	(6,085)	(26)	(6,111)
(Loss) income and other comprehensive (loss) income	$ (1,906)	$ 9	$ (1,897)
Company's share of (loss) profit of Associates (51%)	$ (972)	$ 5	$ (967)

On June 30, 2016, the Company made an additional equity investment of $260 in Arena Investors. The carrying amount of the Company's investments in the Associates was $2,663 at June 30, 2016 and $2,991 at December 31, 2015. In the three and six months ended June 30, 2016, the total of the Company's 51% share of losses of the Associates of $592 and $967, respectively, was reported under "Net results of investments" in the consolidated statements of (loss) profit and other comprehensive income (loss).

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

6 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	June 30, 2016	December 31, 2015
Liabilities related to:		
RSUs	$ 4,361	$ 3,809
DSUs	757	630
Other accounts payable and accrued liabilities	1,049	1,082
Ending balance	$ 6,167	$ 5,521

7 Site Restoration Provision

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

	Six months ended June 30, 2016	Year ended December 31, 2015
Opening balance	$ 3,899	$ 3,456
Changes due to:		
Estimates of future expenditures	-	489
Inflation	-	151
Passage of time and discount rates	1,166	374
Exchange adjustment	248	(571)
Ending balance	$ 5,313	$ 3,899

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

Cash flows are estimated to take place over the next 150 years, with the majority to take place later than 50 years after June 30, 2016. To calculate the site restoration provision, the estimated cash outflows were adjusted for inflation and discounted to June 30, 2016. 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 1.72% (December 31, 2015 - 1.72%) per annum over the next 100 years. Discount rates are based on risk free rates which range from 0.5% to 1.7% (December 31, 2015 - 0.5% to 2.1%) 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 June 30, 2016.

8 Commitments and Contingent Liabilities

(a) In connection with the sale of the operations and assets of the Company's former subsidiary NUCRYST Pharmaceuticals Corp. ("Nucryst") in 2009, Nucryst agreed to indemnify the purchaser against certain liabilities or losses as described in the asset purchase agreement to an aggregate maximum of $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 Nucryst 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 4 years. At June 30, 2016, the Company had a total commitment of $1,086 for future occupancy cost payments including payments due not later than one year of $318 and payments due later than one year but not later than four years of $768.

(c) The Company may be involved in legal matters that arise from time to time in the ordinary course of the Company's business. At this time, the Company is not aware of any legal matters of this type that are believed to be material to the Company's results of operations, liquidity or financial condition.

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

9 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. Changes to the Company's share capital are as follows:

	Six months ended June 30, 2016		Year ended December 31, 2015	
Common shares	Number	Stated Capital	Number	Stated Capital
Opening balance	143,186,718	$ 382,182	70,297,342	$ 210,404
Issued	-	-	72,889,376	179,150
Share issuance costs	-	-	-	(9,904)
Recovery of share issuance costs	-	-	-	2,532
Ending balance	143,186,718	$ 382,182	143,186,718	$ 382,182

No shares of the Company are held by the Company, and there were no Class A preferred shares or Class B preferred shares outstanding at June 30, 2016 and December 31, 2015.

Equity Financing Related to the Arena Transactions

In order to provide funding to Arena Finance and Arena Origination, and capitalize and fund the start-up costs of the Arena Group (see note 5), on May 28, 2015 the Company sold, on a private placement basis, 65,296,993 special warrants of the Company (the "Special Warrants") at a price of C$3.25 per Special Warrant (the "2015 Offering"). Each Special Warrant was deemed to be exercisable into one subscription receipt of Westaim (each, a "2015 Subscription Receipt"), without further consideration or action, and each 2015 Subscription Receipt entitled the holder to receive upon the deemed conversion thereof one common share of Westaim subject to adjustment, without further consideration or action. An additional 6,823,152 Special Warrants were also sold pursuant to a concurrent non-brokered private placement of Special Warrants on the same terms as the 2015 Offering (the "2015 Concurrent Private Placement"). The 2015 Concurrent Private Placement included subscriptions by members of the Company's Board of Directors and management team.

Concurrent with closing of the 2015 Offering and the 2015 Concurrent Private Placement, the Company entered into a subscription agreement with Daniel B. Zwirn, pursuant to which Mr. Zwirn irrevocably agreed to subscribe for 769,231 common shares of Westaim at a price of C$3.25 per share (the "Zwirn Subscription").

On August 31, 2015, the Company issued an aggregate of 72,120,145 additional common shares of the Company for aggregate gross proceeds of $177,259 upon the deemed conversion of the 2015 Subscription Receipts issued on the deemed exercise of all the Special Warrants. The Company used the proceeds of the 2015 Offering, the 2015 Concurrent Private Placement, and cash on hand to capitalize Arena Finance and Arena Origination in the amounts of $146,585 and $34,340, respectively. See note 5 for additional information on the Arena Transactions. The Company also completed the Zwirn Subscription and an additional 769,231 common shares of the Company were issued to Mr. Zwirn on August 31, 2015 for aggregate gross proceeds of approximately $1,891. At June 30, 2016 and December 31, 2015, the Company had a total of 143,186,718 common shares issued and outstanding.

The proceeds from the 2015 Offering, the 2015 Concurrent Private Placement and the Zwirn Subscription to the Company was $169,246, net of share issuance costs of $9,904.

Share Issuance Costs

Share issuance costs of $5,274, representing 50% of underwriters' fees and other professional fees, incurred up to June 30, 2015 in connection with the 2015 Offering and the 2015 Concurrent Private Placement were deducted from share capital at June 30, 2015. Of this amount, $4,873 was included in accounts payable and accrued liabilities at June 30, 2015.

On February 25, 2015, the Company received from HIIG an additional reimbursement of $2,532 in share issuance costs in connection with the Company's common share private placement in 2014, the proceeds from which was used, in part, to make the Company's initial investment in HIIG (through the HIIG Partnership). The amount was recorded as an increase in the Company's share capital in the year ended December 31, 2015.

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

10 Share-based Compensation

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

At the annual and special meeting of shareholders of the Company held on May 12, 2016, the shareholders approved amendments to the Incentive Plan which, among other things, increased the maximum number of common shares which may be issued under the Incentive Plan from 7,042,150 to 14,318,671. The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

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

	Six months ended June 30, 2016		Six months ended June 30, 2015	
Common share stock options	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	3,000	C$ 144.00	5,000	C$ 158.80
Granted	2,752,940	C$ 3.25	-	C$ -
Expired	(1,000)	C$ 309.00	(2,000)	C$ 181.00
Ending balance	2,754,940	C$ 3.29	3,000	C$ 144.00
Options exercisable at end of period	2,000	C$ 61.50	3,000	C$ 144.00

Information on stock options outstanding and exercisable at June 30, 2016 is as follows:

As at June 30, 2016 Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of stock options exercisable	Exercisable Weighted Average Exercise Price
C$ 3.25	2,752,940	6.75	C$ 3.25	-	C$ -
C$ 61.50	2,000	0.64	C$ 61.50	2,000	C$ 61.50
	2,754,940	6.75	C$ 3.29	2,000	C$ 61.50

On April 1, 2016, 2,752,940 options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and have an exercise price of C$3.25.

In the three and six months ended June 30, 2016, compensation expense relating to options was $236, with an offsetting increase to contributed surplus. The fair value of the options granted by the Company on April 1, 2016 is estimated using the Black-Scholes option pricing model assuming no dividends are paid on common shares, a risk-free interest rate of 0.61%, an average life of 4.0 years and a volatility of 46.49%. The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

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

Changes to the number of RSUs are as follows:

	Six months ended June 30	
	2016	2015
Opening balance	2,209,563	2,375,000
Granted	925,198	-
Exercised	(52,688)	-
Ending balance	3,082,073	2,375,000

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

10 Share-based Compensation (continued)

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. At June 30, 2016, 1,885,156 of these RSUs (79.4%) had vested, with the remaining 489,844 RSUs (20.6%) vesting evenly over 11 months after June 30, 2016.

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

In the three months ended June 30, 2016, 52,688 RSUs were exercised for a cash payment of C$2.55 per RSU and the RSU liability was correspondingly reduced by $105.

Compensation expense relating to RSUs was $256 and $413 for the three and six months ended June 30, 2016, respectively, and $834 and $2,389 for the three and six months ended June 30, 2015, respectively. At June 30, 2016, a liability of $4,361 (December 31, 2015 - $3,809) had been accrued with respect to outstanding RSUs in the consolidated statements of financial position.

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

Changes to the number of DSUs are as follows:

	Six months ended June 30	
	2016	2015
Opening balance	319,465	113,200
Granted	60,995	139,582
Ending balance	380,460	252,782

In the six months ended June 30, 2016, 60,995 DSUs were issued as payment of director fees (31,132 at a price of C$2.59 and 29,863 at a price of C$2.70). On February 2, 2015, 91,138 DSUs were issued at a price of C$2.99 to settle a liability of $235 relating to director fees accrued at December 31, 2014. In the six months ended June 30, 2015, an additional 48,444 DSUs were issued as payment of director fees (24,446 at a price of C$3.26 and 23,998 at a price of C$3.36). Compensation expense relating to DSUs was $32 and $87 for the three and six months ended June 30, 2016, respectively, and $46 and $386 for the three and six months ended June 30, 2015, respectively. At June 30, 2016, a liability of $757 (December 31, 2015 - $630) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

11 Related Party Transactions

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

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

	Three months ended June 30		Six months ended June 30	
	2016	2015 (restated)	2016	2015 (restated)
Salaries and benefits	$ 817	$ 258	$ 1,526	$ 300
Share-based compensation	503	765	700	2,447
	$ 1,320	$ 1,023	$ 2,226	$ 2,747

Fees paid to Hartford Consulting, Inc. (the "Consultant"), a company owned by William R. Andrus, a director of HIIG, for insurance industry related consulting services were $35 and $68 in the three and six months ended June 30, 2016, respectively, and $37 and $73 in the three and six months ended June 30, 2015, respectively. Compensation expense relating to RSUs issued to the Consultant was $7 and $21 for the three and six months ended June 30, 2016, respectively, and $62 and $176 for the three and six months ended June 30, 2015, respectively, and the amounts were included in the consolidated statements of (loss) profit and other comprehensive income (loss) under share-based compensation expense. At June 30, 2016, a liability of $102 (December 31, 2015 - $76) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

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

11 Related Party Transactions (continued)

On May 28, 2015, pursuant to the 2015 Concurrent Private Placement, 6,823,152 Special Warrants were sold at a price of C$3.25 per Special Warrant to members of the Company's Board of Directors and management team, a shareholder of HIIG and members of the future Arena Group management team as well as to HIIG and certain HIIG subsidiaries for portfolio investment purposes, on terms equivalent to the other participants in the 2015 Concurrent Private Placement. See note 9 for additional information on the 2015 Concurrent Private Placement. On August 31, 2015, an aggregate of 6,823,152 additional common shares of the Company were issued under the 2015 Concurrent Private Placement upon the deemed conversion of the 2015 Subscription Receipts issued on the deemed exercise of the Special Warrants. The aggregate gross proceeds from the 2015 Concurrent Private Placement to the Company was $16,770.

On August 31, 2015, the Company completed the Lantern Purchase (see note 4) and the Zwirn Subscription (see note 9), and 769,231 common shares of the Company were issued to Mr. Zwirn for aggregate gross proceeds of $1,891.

On August 31, 2015, the Company provided $17,000 in funding to Arena Origination in the form of an unsecured term loan (see note 5). The Company earned interest of $307 and $613 on the loan in the three and six months ended June 30, 2016, respectively.

The Company earned advisory fees from Arena Finance and Arena Origination of $50 and $60, respectively, in the three months ended June 30, 2016, and $100 and $120, respectively, in the six months ended June 30, 2016. The Company also earned advisory fees from HIIG of $250 and $500 in the three and six months ended June 30, 2016, respectively, and $250 and $500 in the three and six months ended June 30, 2015, respectively.

In the six months ended June 30, 2015, the Company received from HIIG a reimbursement of $2,532 in share issuance costs (see note 9). The amount was recorded as an increase in the Company's share capital in the year ended December 31, 2015.

12 Income Taxes

Income taxes are recognized for deferred income taxes attributed to estimated differences between the financial statement carrying values of assets and liabilities and their respective income tax bases.

Deferred tax (liabilities)/assets recognized in profit or loss are as follows:

	Three months ended June 30		Six months ended June 30	
	2016	2015 (restated)	2016	2015 (restated)
Unrealized loss (gain) on investments in private entities	$ 288	$ 287	$ (163)	$ (1,274)
Non-capital loss carry-forwards	(288)	(287)	163	1,274
	$ -	$ -	$ -	$ -

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

	June 30, 2016	December 31, 2015
Non-capital loss carry-forwards	$ 35,107	$ 20,697
Capital loss carry-forwards	5,371	5,049
Deductible temporary differences	21,283	16,876
Corporate minimum tax credits	1,081	1,016
Investment tax credits	7,405	6,960

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2036, as follows:

Non-capital losses by year of expiry:	
2028	$ 3,868
2029	79
2030	194
2031	16,118
2033	2,944
2034	3,751
2035	4,263
2036	3,890
	$ 35,107

Investment tax credits by year of expiry:	
2016	$ 739
2017	2,491
2018	683
2019	739
2020	633
2021	494
Beyond 2021	1,626
	$ 7,405

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

12 Income Taxes (continued)

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

	Three months ended June 30		Six months ended June 30	
	2016	2015 (restated)	2016	2015 (restated)
(Loss) profit before income tax	$ (5,046)	$ (3,577)	$ (3,677)	$ 6,363
Statutory income tax rate	26.5%	26.5%	26.5%	26.5%
Income taxes at statutory income tax rate	(1,337)	(948)	(974)	1,686
Variations due to:				
Non-allowable (non-taxable) portion of unrealized loss (gain) on investments in private entities	288	287	(163)	(1,274)
Tax losses allocated from the HIIG Partnership	(5)	(5)	(8)	(12)
Non-deductible (non-taxable) items	242	-	(26)	-
Difference between statutory and foreign tax rates	(176)	-	(274)	-
Unrecognized temporary differences	138	257	125	899
Unrecognized (recognized) tax losses	850	409	1,320	(1,299)
Income tax expense	$ -	$ -	$ -	$ -

13 Earnings per Share

The Company had 2,754,940 stock options and 3,082,073 RSUs outstanding at June 30, 2016 and 3,000 stock options and 2,209,563 RSUs outstanding at December 31, 2015. The stock options and RSUs were excluded in the calculation of diluted earnings per share for the three and six months ended June 30, 2016 and 2015 as they were anti-dilutive.

14 Capital Management

The Company's capital currently consists of common shareholders' equity. It may have different components in the future.

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

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

15 Financial Risk Management

The Company is exposed to a number of risks due to its business operations. The Company's consolidated statement of financial position at June 30, 2016 consists of short-term financial assets and financial liabilities with maturities of less than one year, investments in private entities and associates and the site restoration provision. The most significant identified risks which arise from holding financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and equity risk. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

Credit risk

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

Liquidity risk

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

15 Financial Risk Management (continued)

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

At June 30, 2016, the Company had no debt and its financial assets, excluding investments in private entities and associates, were higher than its financial liabilities, resulting in minimal liquidity risk. At June 30, 2016, the Company's short-term financial liabilities amounted to $1,049.

Currency risk

The Company maintains certain cash balances in C$ and has other C$ denominated monetary assets and liabilities. A 10% strengthening of the C$ against the US$ would have increased the foreign exchange loss for the three and six months ended June 30, 2016 by approximately $773. A similar weakening of the C$ would have resulted in an opposite effect.

The Company has not entered into any hedging with respect to currencies.

Interest rate risk

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

Equity risk

There is no active market for the Company's investments in HIIG and the Arena Group. The Company holds these investments for strategic and not trading purposes. As such, the Company's exposure to equity risk is nominal.