The Westaim Corporation Reports 2010 Year End Results

Toronto, Canada – March 2, 2011 – The Westaim Corporation ("Westaim") today announced it recorded net income of $3.7 million, or $0.01 per share for the quarter ended December 31, 2010, compared to net income of $4.7 million or $0.05 per share for the quarter ended December 31, 2009. For the year ended December 31, 2010, Westaim recorded net income of $54.2 million, or $0.11 per share, compared to net income of $0.5 million or $0.01 per share for the year ended December 31, 2009. Net income for the year ended 2010 includes a gain on the purchase of JEVCO Insurance Company ("Jevco") of $25.1 million. The fourth quarter of 2009 includes a gain on the sale of the Nucryst operations and assets of $10.9 million before non-controlling interest. As of December 31, 2010, Westaim's Consolidated Shareholders' Equity increased to $374.8 million or $0.58 per share compared to $49.4 million or $0.52 per share at December 31, 2009.

Westaim's acquisition of Jevco closed on March 29, 2010. As a result, Westaim consolidated the results of Jevco beginning in the second quarter of 2010. Jevco is a Canadian open market specialty insurer offering products through two divisions. The Personal Lines Division provides insurance in the non-standard automobile, standard automobile, motorcycle and recreational vehicles product lines. The Commercial Lines Division offers property and liability, niche commercial automobile and surety product lines.

In the fourth quarter, direct premiums written were $72.1 million and net premiums written were $65.9 million. Net premiums earned in the fourth quarter of 2010 were $69.2 million producing a Combined Ratio of 99.1%. For the year ended December 31, 2010 (reflecting nine months of Jevco results) direct premiums written were $273.4 million and net premiums written were $254.9 million. Net premiums earned for the year were $236.3 million producing a Combined Ratio of 97.7%.

Total assets of Westaim at December 31, 2010 were $1.3 billion, compared to $72.6 million as of December 31, 2009. The increase represents the acquisition of Jevco and the $275 million equity financing, both completed in the first quarter of 2010. At December 31, 2010, the Company's investment portfolio of $993.3 million was invested predominantly in corporate and government bonds. For the fourth quarter, net investment income and net realized investment gains of $10.5 million are included in net income and fourth quarter net unrealized investment losses of $9.3 million are included in other comprehensive income. For the year ended December 31, 2010, net investment income and net realized gains were $34.1 million and net unrealized gains included in other comprehensive income were $5.9 million.

"We characterize the JEVCO acquisition as a solid first step. The contributions from this asset allowed Westaim's book value to appreciate from $0.49 per share at March 31, 2010, excluding the accounting gain on acquisition of Jevco, to $0.58 per share at December 31, 2010. While we were thrilled to have acquired JEVCO at an attractive valuation, your Westaim management team remained very active in sourcing additional complementary opportunities in 2010" said Cameron MacDonald, Chief Executive Officer of Westaim.

Jevco completed the year with an MCT ratio of 320% and a B++ credit rating from AM Best.

Westaim is a financial holding company focused on the property and casualty insurance industry. Westaim's common shares are listed on The Toronto Stock Exchange under the trading symbol WED.

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THE WESTAIM CORPORATION
Financial Highlights

(thousands of Canadian dollars except percentage, share and per share data)

	Three Months Ended December 31				Year Ended December 31			
		2010		2009		2010		2009
Direct premiums written	$	72,079	$	-	$	273,382	$	-
Net premiums written	$	65,889	$	-	$	254,872	$	-
Net premiums earned	$	69,215	$	-	$	236,304	$	-
Underwriting expenses		68,646		-		230,678		-
Underwriting income		569		-		5,626		-
Net investment income and net gain on sale of securities		10,530		654		34,105		1,025
Corporate costs and other		(1,307)		(1,680)		(5,196)		(4,418)
Site restoration provision recovery		11		247		525		805
Stock-based compensation expense		(2,670)		(270)		(6,586)		(791)
Gain on business acquisition		-		-		25,084		-
Costs of business acquisition		(36)		-		(2,936)		-
Income (loss) from continuing operations before income taxes		7,097		(1,049)		50,622		(3,379)
Income taxes		3,318		-		(4,538)		-
Income (loss) from continuing operations		3,779		(1,049)		55,160		(3,379)
(Loss) income from discontinued operations, net of income taxes		(58)		5,712		(990)		3,898
Net income		3,721		4,663		54,170		519
Other comprehensive (loss) income, net of income taxes		(6,424)		(1,050)		4,177		(1,120)
Comprehensive (loss) income	$	(2,703)	$	3,613	$	58,347	$	(601)
Loss ratio		63.0%		n/a		68.6%		n/a
Expense ratio		36.1%		n/a		29.1%		n/a
Combined ratio		99.1%		n/a		97.7%		n/a
Earnings (loss) per common share								
Continuing operations								
- basic and diluted	$	0.01	$	(0.01)	$	0.11	$	(0.04)
Net income								
- basic	$	0.01	$	0.05	$	0.11	$	0.01
- diluted	$	0.01	$	0.05	$	0.10	$	0.01
Book value per common share					$	0.58	$	0.52
Weighted average number of common shares outstanding (in thousands)								
- basic		644,417		94,220		511,762		94,220
- diluted		653,004		94,487		517,786		94,487

Consolidated Balance Sheets		**December 31, 2010**		**December 31, 2009**
Cash and cash equivalents	$	32,897	$	62,423
Investments		993,279		9,231
Other		244,250		913
Total assets	$	1,270,426	$	72,567
Total liabilities	$	895,607	$	14,564
Shareholders' equity		374,819		49,419
Non-controlling interest		-		8,584
Total liabilities and shareholders' equity	$	1,270,426	$	72,567

TABLE OF CONTENTS

"Westaim" or the "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation on a consolidated basis. This MD&A, which has been approved by the Westaim Board of Directors, should be read in conjunction with Westaim's audited consolidated financial statements including notes for the years ended December 31, 2010 and 2009, as set out on pages 41 to 70 of this Annual Report. Financial data in this MD&A has been derived from the audited consolidated financial statements for the years ended December 31, 2010 and 2009 and is intended to enable the reader to assess Westaim's results of operations for the three months and year ended December 31, 2010 and financial condition as at December 31, 2010. All amounts are in Canadian dollars unless otherwise indicated. The following commentary is current as of March 2, 2011. 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 generally accepted accounting principles ("GAAP") and non-GAAP measures to assess performance. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under GAAP and are unlikely to be comparable to similar measures used by other companies. Westaim analyzes insurance operations performance based on operating income and loss ratios, expense ratios and combined ratios. The loss ratio equals net claims and adjustment expenses divided by net premiums earned. The expense ratio equals the sum of commissions, premium taxes and general and administrative expenses divided by net premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio below 100% demonstrates underwriting profit whereas a combined ratio over 100% demonstrates an underwriting loss. Book value per share represents shareholders' equity at the end of the period, determined on a Canadian GAAP basis, divided by the total number of common shares plus convertible preferred 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 2010 Annual Information Form. Please refer to the cautionary note at the end of this MD&A.

1. THE COMPANY

Westaim is a publicly traded Canadian-based financial services holding 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.

The Company's strategic direction initiated in 2009 was to explore alternatives to grow shareholder value. As part of this initiative, the Company sold the assets and operations of Nucryst Pharmaceuticals Corp. ("Nucryst") in December 2009, which had been the last remaining material business operated by Westaim. With its cash on hand and the proceeds from the sale of the Nucryst business, Westaim's strategy was to pursue investment opportunities to grow shareholder value (as measured by book value per fully diluted share) over the long term.

On January 25, 2010, the Company announced that it had entered into an agreement to acquire all of the issued and outstanding shares of JEVCO Insurance Company ("Jevco") from Kingsway Financial Services Inc. (the "Acquisition") and had arranged equity financing of $275 million for the purpose of completing the Acquisition (the "Financing"). The purchase price paid was approximately 94.5% of the book value of Jevco's net assets at December 31, 2009, subject to certain closing and other adjustments.

Jevco is a leading Canadian property and casualty ("P&C") insurer that sells P&C products through a distribution network of over 2,000 independent brokers. Specialty insurance experience and proven track record allows Jevco to capitalize on underwriting opportunities not serviced profitably by many of the country's largest P&C insurers.

The Company's principal activities in the first quarter of 2010 were managing its investments, and completing the Financing and Acquisition. Beginning in the second quarter of 2010, the Company's consolidated operating results include those of Jevco.

2. OVERVIEW OF PERFORMANCE

Jevco's operating results prior to the date of acquisition are not included in the Company's audited annual consolidated financial statements. The audited annual consolidated financial statements for the year ended December 31, 2010 include Jevco's operating results from the date of acquisition on March 29, 2010 to December 31, 2010.

Highlights	Three months ended December 31		Year ended December 31	
(millions except per share data)	2010	2009	2010	2009
Direct premiums written	$ 72.1	$ -	$ 273.4	$ -
Net premiums written	$ 65.9	$ -	$ 254.9	$ -
Net premiums earned	$ 69.2	$ -	$ 236.3	$ -
Underwriting expenses	68.6	-	230.8	-
Underwriting income	0.6	-	5.5	-
Investment results (income and net realized gains and losses)	10.5	0.7	34.1	1.0
Corporate costs and other	(1.3)	(1.6)	(5.1)	(4.4)
Site restoration provision adjustment	-	0.2	0.5	0.8
Stock-based compensation expense	(2.7)	(0.3)	(6.6)	(0.8)
Net gain on business acquisition	-	-	22.2	-
Income (loss) from continuing operations before income taxes	7.1	(1.0)	50.6	(3.4)
Income tax (expense) recovery	(3.3)	-	4.5	-
Income (loss) from continuing operations	3.8	(1.0)	55.1	(3.4)
(Loss) income from discontinued operations, net of income taxes	(0.1)	5.7	(1.0)	3.9
Net income	3.7	4.7	54.1	0.5
Other comprehensive (loss) income	(6.4)	(1.1)	4.2	(1.1)
Comprehensive (loss) income	$ (2.7)	$ 3.6	$ 58.3	$ (0.6)
Net income (loss) per common share				
– Continuing operations - basic and diluted	$ 0.01	$ (0.01)	$ 0.11	$ (0.04)
– Net income – basic	$ 0.01	$ 0.05	$ 0.11	$ 0.01
– Net income - diluted	$ 0.01	$ 0.05	$ 0.10	$ 0.01
Book value per common share			$ 0.58	$ 0.52
Loss ratio	63.0%	n/a	68.6%	n/a
Expense ratio	36.1%	n/a	29.1%	n/a
Combined ratio	99.1%	n/a	97.7%	n/a

Consolidated Results – Three months ended December 31, 2010

For the three months ended December 31, 2010, the Company reported consolidated net income of $3.7 million compared to consolidated net income of $4.7 million for the three months ended December 31, 2009. The fourth quarter of 2009 included a gain from the sale of the Nucryst operations and assets of $10.9 million before non-controlling interest. As a result of the sale of the Nucryst operations and assets, its financial results and cash flows are reported as discontinued operations in the consolidated financial statements.

Income from continuing operations before income taxes was $7.1 million for the three months ended December 31, 2010 compared to a loss of $1.0 million for the same quarter in 2009. Underwriting income contributed $0.6 million (2009 – $nil), which is discussed below under Section 5, *Analysis of Financial Results*, and investment income and net realized investment gains contributed $10.5 million (2009 – $0.7 million). Stock-based compensation costs were $2.7 million (2009 – $0.3 million) and corporate and other costs were $1.3 million (2009 – $1.6 million).

2. OVERVIEW OF PERFORMANCE (continued)

The loss from discontinued operations of $0.1 million for the three months ended December 31, 2010 was $5.8 million less compared to income of $5.7 million for the three months ended December 31, 2009. Activity levels were nominal at both Nucryst and iFire Technology Ltd. ("iFire") in the fourth quarter of 2010 whereas the fourth quarter of 2009 included the above mentioned gain of $10.9 million from the sale of Nucryst assets and operations offset by expenses and losses from Nucryst and iFire operations of $5.2 million.

Investment income and net realized investment gains of $10.5 million for the quarter consist of $7.1 million in income earned on portfolio investments, $0.8 million in income related to financed insurance premiums and $2.6 million of net realized investment gains.

Net unrealized investment losses of $9.3 million, related to the available-for-sale investment portfolio, are excluded from net income and are included in other comprehensive income, net of income tax of $2.9 million. In addition, net unrealized losses of $2.0 million relating to the held-to-maturity investment portfolio are excluded from net income and other comprehensive income for the three months ended December 31, 2010.

Consolidated Results – Year ended December 31, 2010

For the year ended December 31, 2010, the Company reported consolidated net income of $54.1 million compared to consolidated net income of $0.5 million for the year ended December 31, 2009.

Income from continuing operations before income taxes was $50.6 million for the year ended December 31, 2010 compared to a loss of $3.4 million in the same period in 2009. The improvement in income from continuing operations resulted mainly from Jevco's income, before income taxes, of $33.6 million and the net gain on acquisition of Jevco of $22.2 million. The results for the year ended December 31, 2010 include underwriting income of $5.5 million (2009 – $nil), investment income and net realized gain on sale of investments of $34.1 million (2009 – $1.0 million). Stock-based compensation expense was $6.6 million (2009 – $0.8 million), corporate and other costs were $5.1 million (2009 – $4.4 million) and site restoration recovery was $0.5 million (2009 - $0.8 million).

The loss from discontinued operations of $1.0 million for the year ended December 31, 2010 was $4.9 million less than the income of $3.9 million for the year ended December 31, 2009.

The investment results of $34.1 million included in net income for the year ended December 31, 2010 are attributable to the insurance investment portfolio for the nine months since acquisition, as well as a gain on sale and redemption of investments in the first quarter of $4.0 million.

Net unrealized investment gains of $5.9 million, related to the available-for-sale investment portfolio, are excluded from net income and are included in other comprehensive income, net of income tax of $1.7 million. In addition, net unrealized gains of $3.3 million relating to the held-to-maturity investment portfolio are excluded from net income and other comprehensive income for the year ended December 31, 2010.

3. INSURANCE COMPANY ACQUISITION

On January 25, 2010, the Company announced the Acquisition and that it had arranged the Financing in order to complete the Acquisition. For a discussion of the Financing, refer to "Equity Financing" in Section 9, *Liquidity and Capital Resources* of this MD&A. The acquired company, Jevco, is a Canadian federal property and casualty insurance company, specializing in providing insurance products covering non-standard auto, recreational vehicles, commercial auto, property and liability. Jevco also provides surety insurance primarily to participants in the Canadian construction industry.

On March 29, 2010, the Company acquired all the issued and outstanding shares of Jevco at a purchase price of $261.4 million. The purchase price was allocated to the estimated fair value of the net assets of Jevco on the acquisition date as follows, with comparative information at December 31, 2010:

3. INSURANCE COMPANY ACQUISITION (continued)

(millions)	March 29, 2010	December 31, 2010
Cash	$ 15.7	$ 21.2
Investments	924.9	992.8
Accrued investment income	10.0	5.3
Financed premiums	52.2	65.1
Claims recoverable from other insurers	27.2	40.2
Accounts receivable and other assets	32.1	26.2
Recoverable from reinsurers	47.3	29.7
Deferred policy acquisition costs	29.5	29.8
Future income taxes	8.6	22.5
Capital assets	19.9	22.7
Capital assets held for sale	34.6	-
Intangible assets	1.3	2.0
Subtotal - Assets	1,203.3	1,257.5
Accounts payable and other liabilities	9.6	18.5
Income taxes payable	4.1	-
Unearned premiums	138.1	157.0
Unpaid claims and adjustment expenses	765.0	705.1
Subtotal - Liabilities	916.8	880.6
Fair value of net assets	$ 286.5	$ 376.9
Purchase price paid	$ 261.4	$ 261.4
Gain on acquisition	25.1	25.1
Additional capital contributions:		
- Cash	-	48.0
- Transfer of future tax benefit	-	15.3
Comprehensive income since acquisition:		
- Net income	-	22.9
- Other comprehensive income	-	4.2
Company's interest in Jevco	$ 286.5	$ 376.9

The gain on business acquisition of $25.1 million resulted from the shares of Jevco being acquired at a discount to the fair value of its net assets. Refinements to the gain on business acquisition were made in the second and third quarters of 2010. Capital assets held for sale with an estimated value of $34.6 million included real estate and other assets held by Jevco on the date of acquisition of Jevco. These assets were subsequently sold on June 15, 2010 for proceeds equal to their carrying value.

The Company made an additional capital contribution of $48.0 million to Jevco on April 29, 2010.

In August 2010, Jevco acquired and amalgamated iFire and as a result, the income tax losses of iFire, in the amount of $55.0 million, are expected to be available to offset Jevco's income for income tax purposes in future years. A corresponding future income tax benefit of $15.3 million was recognized for the year ended December 31, 2010.

Comprehensive income since the Acquisition has increased equity by $27.1 million.

4. DESCRIPTION OF INSURANCE BUSINESS

Established in 1980, Jevco is a provider of property and casualty insurance that operates in Canada distributing its specialty insurance products through a network of independent brokers to both individual and commercial customers. Jevco's vision is to be a first choice specialty insurer while striving to become a recognized alternative to the large players in certain niche insurance markets where it believes it has, or can obtain, a sustainable competitive advantage. The insurance products offered consist of (a) non-standard automobile insurance, (b) insurance for recreational vehicles and motorcycles (c) standard automobile insurance in Quebec, (d) commercial automobile insurance, (e) property and liability insurance, and (f) surety products.

4. DESCRIPTION OF INSURANCE BUSINESS (continued)

Personal Lines

Personal Lines include non-standard and standard automobile insurance and recreational vehicle insurance.

Personal Automobile

Personal automobile lines include the run-off of the discontinued “Kplus” product (which targeted insureds between the standard and non-standard markets) and the results from mandatory participation in provincial Facility Associations which provide automobile insurance coverage to individuals who are unable to purchase coverage in the voluntary market.

The Company writes non-standard automobile insurance in the provinces of Ontario, Alberta and Quebec as well as standard automobile insurance in Quebec. Jevco began writing non-standard auto insurance in Ontario effective October 1, 2009 after assuming the policy liabilities of Kingsway General Insurance Company (“KGIC”), making it a leading writer of non-standard automobile insurance in Ontario.

Non-standard automobile insurance covers individuals who do not qualify for standard automobile insurance because of their payment history, driving record, vehicle type or other factors. Non-standard automobile insurance is accompanied by increased loss exposure, higher claims experience and higher incidence of consumer and service provider fraud. These factors are mitigated by higher premium rates and the tendency of high-risk individuals to own lower value automobiles and to purchase coverage at the minimum prescribed limits. When the driving records of non-standard drivers improve, they may qualify to obtain insurance in the standard market at lower premium rates. As a result, non-standard automobile insurance policies experience a lower retention rate than that of standard market risk policies.

Standard automobile insurance provides coverage for standard risk drivers of private passenger automobiles. Premiums for these policies are usually lower than premiums charged in the non-standard market for comparable coverage. The frequency and severity of accidents and other loss events are also typically lower.

Motorcycle and Recreational Vehicles

The Company writes motorcycle insurance in the provinces of Ontario, Alberta and Quebec and is the leading writer of motorcycle insurance in Canada. Motorcycle insurance consists primarily of liability, physical damage and personal injury insurance coverage. The Company also writes insurance for ATVs and snowmobiles in the Province of Quebec.

Effective October 1, 2009, Jevco assumed policy liabilities associated with KGIC’s motorcycle business in Ontario and Alberta. Also, on the same date, Jevco implemented underwriting and pricing methodology consistent with Jevco standards for all KGIC policy renewals in an effort to maintain Jevco’s historic underwriting profitability for this business.

Commercial Lines

Commercial Lines include surety, automobile, property and liability insurance as well as the run-off of discontinued long haul trucking and home warranty lines.

Property and Liability

This business focuses on insuring against damage to property and accidents that may occur on such property. It consists of risks that are either difficult to place due to class, age, location or occupancy of the risk. These risks are characterized by high premiums and limited coverage. The Company’s specialty property business includes insurance for restaurants, rental properties and garages.

Commercial Automobile

The Company focuses on specialty or niche types of products such as taxi, driver training, light commercial business vehicles, short haul or trans-Canada trucking risks and other specialty risks such as sand and gravel, logging and tow trucks. Its strategy is to operate as a niche underwriter of classes that are more difficult to underwrite but where it has considerable expertise and experience.

4. DESCRIPTION OF INSURANCE BUSINESS (continued)

Surety

The Company writes contract, commercial, fiduciary and customs and excise bonds. Contract bonds (which include performance, labour and material) guarantee the performance of a construction contract while commercial bonds, which are primarily license type bonds, satisfy the needs of provincial governments who require contractors to be licensed in the province in which they operate. Customs and excise bonds provide security for the benefit of the Canada Revenue Agency in the event there is a failure to remit payment of any duties and taxes.

5. ANALYSIS OF FINANCIAL RESULTS

Jevco's results prior to the date of acquisition are not included in the Company's audited annual consolidated financial statements. The audited annual consolidated financial statements for the year ended December 31, 2010 include results from insurance operations of Jevco from the date of acquisition on March 29, 2010 to the end of December 31, 2010.

5.1 Underwriting Income

Details of premiums and underwriting income by lines of business are as follows:

	Three months ended December 31, 2010			Year ended December 31, 2010		
(millions)	Personal Lines	Commercial Lines	Total	Personal Lines	Commercial Lines	Total
Direct premiums written	$ 50.2	$ 21.9	$ 72.1	$ 204.3	$ 69.1	$ 273.4
Net premiums written	$ 47.0	$ 18.9	$ 65.9	$ 192.8	$ 62.1	$ 254.9
Underwriting income (loss)						
Net premiums earned	$ 50.0	$ 19.2	$ 69.2	$ 177.1	$ 59.2	$ 236.3
Underwriting expenses	61.4	7.2	68.6	199.2	31.6	230.8
Underwriting (loss) income	$ (11.4)	$ 12.0	$ 0.6	$ (22.1)	$ 27.6	$ 5.5
Loss ratio	89.5%	(6.0)%	63.0%	86.4%	15.2%	68.6%
Expense ratio	33.3%	43.6%	36.1%	26.1%	38.2%	29.1%
Combined ratio	122.8%	37.6%	99.1%	112.5%	53.4%	97.7%

The underwriting income for the three months ended December 31, 2010 was $0.6 million ($5.5 million year-to-date), producing a loss ratio of 63.0% (68.6% year-to-date) and an expense ratio of 36.1% (29.1% year-to-date). Personal Lines produced a underwriting loss of $11.4 million for the three months ended December 31, 2010 ($22.1 million year-to-date) which was more than offset by underwriting income of $12.0 million in Commercial Lines ($27.6 million year-to-date). Underwriting expenses include claims, adjustment expenses, commissions, premium taxes and all general and administrative expenses incurred in underwriting income. Fourth quarter underwriting expenses were negatively impacted by $3.3 million due to the change in the market yield used to calculate the discount rate applied in determining the net present value of unpaid claims and adjustment expenses.

Analysis of the underwriting performance is provided below by line of business.

<u>Personal Lines</u>

Premiums written in the personal lines segment were impacted by the hardening standard automobile market in Ontario where the Company is the largest provider of non-standard automobile insurance. The hardening automobile insurance market, which began in 2009 as a result of deteriorating underwriting results, has continued in 2010 as underwriting standards are tightened and rate increases are sought where possible. A hardening market tends to increase Jevco's premium volume. Tighter underwriting among the standard insurance market leads to higher retention rates at Jevco as policyholders who would have graduated to the standard market in softer market conditions are unable to do so in a hard market. Also, certain risks which previously qualified for standard insurance coverage no longer meet the tightened requirements and are required to seek coverage in the non-standard market at higher rates.

5. ANALYSIS OF FINANCIAL RESULTS (continued)

The underwriting loss in Personal Lines of $11.4 million for the three months ended December 31, 2010 ($22.1 million year-to-date) is primarily due to difficult underwriting conditions for Ontario (particularly the Greater Toronto Area) non-standard automobile insurance, driven largely by a frequency increase in accident benefit claims. The disappointing non-standard automobile results are primarily a result of accident benefit claims which accelerated quickly in the last half of 2010. Automobile insurance reform legislation intended to control costs of accident benefit claims was introduced in Ontario on September 1, 2010. Also, management has taken a number of steps to address the losses on this line of business including a review and cancellation of underperforming programs, strengthened fraud protection measures and commission reductions in certain territories. In July 2010, a 10% rate increase was granted effective October 1, 2010 for new business and effective November 1, 2010 for Ontario renewal business. In February 2011, a further rate increase of 8.9% was granted with effect from March 6, 2011 for new business and April 6, 2011 for renewal business.

Results in the motorcycle insurance line of business were negatively impacted by the longer than usual motorcycle season in 2010 caused by mild weather conditions in the spring and fall, resulting in an increase in the volume of claims.

Favourable prior years' claims development for personal lines of $5.8 million in the quarter ($7.9 million year-to-date) partially offset the factors described above.

The expense ratio in the quarter was negatively impacted by the premium deficiency described in section 6.6, *Deferred Policy Acquisition Costs* of this MD&A, as well as higher general and administrative expenses incurred by the Company in the final quarter of the year. In addition, fourth quarter earned premium is lower given the seasonal nature of certain personal lines.

Commercial Lines

Commercial Lines produced an underwriting profit of $12.0 million for the three months ended December 31, 2010 ($27.6 million year-to-date) mainly due to $10.5 million favourable development on prior years' claims ($27.3 million year-to-date).

The expense ratio for Commercial Lines is significantly higher compared to Personal Lines due to higher commissions paid on commercial business plus higher salary costs required due to the level of underwriting expertise required on commercial products. The expense ratio in the quarter was negatively impacted by higher general and administrative expenses incurred by the Company in the final quarter of the year.

5.2 Investment income and net realized and unrealized gains

	Three months ended December 31, 2010			Year ended December 31, 2010		
(millions)	Average portfolio	Return	Annualized return	Average portfolio	Return	Annualized return
Income net of expenses		$ 7.2	2.9%		$ 21.9	3.1%
Realized gains		2.6	1.0%		6.0	0.8%
Unrealized gains						
- AFS investments		(9.3)			5.9	
- HTM investments		(2.0)			3.3	
Change in unrealized gains		(11.3)	(4.5)%		9.2	1.3%
Insurance portfolio	$ 1,005.3	(1.5)	(0.6)%	$ 955.5	37.1	5.2%
Net financed premium income		0.8			2.1	
Other investments		-			4.0	
Other interest		-			0.2	
		$ (0.7)			$ 43.4	

On the investment portfolio backing the insurance operations, investment income net of expenses was $7.2 million for the three months ended December 31, 2010 ($21.9 million year-to-date) resulting in an annualized yield of 2.9% for the quarter (3.1% year-to-date). The portfolio is heavily concentrated in short duration, high quality fixed income securities to protect the portfolio from the impact of rising yields and further interest rate increases from the Bank of Canada.

5. ANALYSIS OF FINANCIAL RESULTS (continued)

On the investment portfolio backing the insurance operations, realized gains of $2.6 million for the three months ended December 31, 2010 ($6.0 million year-to-date) arose primarily on the sale of longer duration corporate fixed income securities to crystallize gains where yields on certain positions were concluded to be lower than the fundamentals supported and to position the portfolio more defensively in anticipation of higher yields.

In the fourth quarter, generally stronger economic data in Canada led investors away from bonds in favour of riskier assets, resulting in reduced market values for corporate and government bonds. These factors, in addition to gains crystallized, resulted in an decrease in unrealized gains on the investment portfolio backing the insurance operations by $11.3 million for the three months ended December 31, 2010. The $9.2 million year-to-date increase in unrealized gains arose primarily from significant foreign and domestic buying of Canadian bonds as a result of the European sovereign debt crisis, fears of an economic double dip in the U.S., and pessimism about global growth prospects. This year-to-date increase in unrealized gains was partially offset by factors impacting the quarter as described above and gains crystallized during the year.

Net financed premium income represents interest, net of expenses, earned from the lending of funds to policyholders to cover the cost of the insurance premiums.

In the first quarter of 2010, the Company sold an investment in a U.S. management software and service company for proceeds of $2.2 million. As the Company had previously written off the investment for accounting purposes, this amount was reported as a realized gain. In addition, the Company disposed of most of its other investments for additional realized gains of $1.8 million. Most of the proceeds from the sale of these investment assets were used to make an additional capital contribution to Jevco.

5.3 Corporate costs and other

Corporate costs for the three months ended December 31, 2010 of $1.3 million ($5.1 million year-to-date) decreased by $0.3 million over the comparative three months in 2009 ($0.7 million year-to-date increase over 2009) mainly as a result of the revised management services agreement with Goodwood Management Inc. ("Goodwood") discussed under Section 11, *Related Party Transactions* of this MD&A.

5.4 Site restoration provision adjustments

The provision for site restoration, which relates to site restoration costs associated with soil and groundwater reclamation and remediation on industrial sites formerly owned by the Company, is based on periodic independent estimates of these costs. At December 31, 2010, the provision for site restoration amounted to $5.0 million (2009 - $5.5 million). During the year ended December 31, 2010, no remediation costs were incurred. In the year ended December 31, 2009, remediation costs of $0.8 million were paid. This indemnified outlay was fully reimbursed by the previous owner of the industrial sites and as a result, the Company recorded a site restoration provision reduction of $0.8 million.

The Company conducts periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements. As a result, during the year ended December 31, 2010, a $0.5 million (2009 - $nil) reduction to the provision was recorded.

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

5.5 Stock-based compensation

Stock-based compensation expense for the quarter ended December 31, 2010 was $2.7 million (2009 - $0.3 million), an increase of $2.4 million over the comparative three months in 2009, and for the year ended December 31, 2010 was $6.6 million (2009 - $0.8 million), an increase of $5.8 million over the comparative 2009 year. The increases are due primarily to the issuance of restricted share units to Goodwood as well as to deferred share units to non-executive members of the boards of directors of the Company and Jevco in lieu of fees, and deferred share units to officers of Jevco.

5. ANALYSIS OF FINANCIAL RESULTS (continued)

5.6 Net gain on business acquisition

Other income of $22.2 million for the year ended December 31, 2010 includes the gain on business acquisition of Jevco of $25.1 million discussed in Section 3, *Insurance Company Acquisition* of this MD&A, partially offset by related acquisition costs of $2.9 million.

5.7 Income Taxes

For the three months ended December 31, 2010, the Company had a net income tax expense of $3.3 million compared to an expected expense of $2.2 million if applying the Company's tax rate of 31% to income from continuing operations of $7.1 million. The variance of $1.1 million is due to not having recognized the future benefit of the current year tax losses of certain entities within the consolidated group. The tax benefit of losses are not recognized in the consolidated financial statements unless it is more likely than not that the tax losses can be applied to reduce future taxable income.

For the year ended December 31, 2010, the Company had a net income tax recovery of $4.5 million compared to an expected expense of $15.6 million if applying the Company's tax rate of 31% to income from continuing operations of $50.6 million. The variance of $20.1 million is mainly due to the recognition of a tax benefit of $15.3 million, on $55.0 million of non-capital losses, which became realizable as a result of a corporate reorganization. An additional positive variance of $6.8 million resulted from no tax being accrued on the net gain on business acquisition of $22.2 million. Offsetting these two positive items are total other items of $2.0 million, including the non-recognition of the future benefit of current year tax losses of certain entities within the consolidated group.

5.8 Discontinued Operations

Westaim's former operating business segments, Nucryst and iFire, are presented as discontinued operations in the consolidated financial statements.

<u>Westaim Holdings Limited (formerly Nucryst Pharmaceuticals Corp.)</u>

In December, 2009, Nucryst sold all its operations and assets including all rights to its proprietary nanocrystalline silver technology for proceeds of $29.3 million, net of transaction costs, taxes and termination amounts, resulting in a gain of $10.9 million before minority interest. On February 8, 2010, the Company completed a capital restructuring and the shares held by the non-controlling shareholders of Nucryst were repurchased for US$8.2 million.

The results for Nucryst for the three months ended December 31, 2010 were nominal compared to net income of $5.9 million for the three months ended December 31, 2009. The net income for the three months ended December 31, 2009 included $3.1 million loss from operations before minority interest share of $0.8 million and a $10.9 million gain on the sale of Nucryst's assets and operations before minority interest share of $2.7 million. The loss from operations for the year ended December 31, 2010 was $0.8 million compared to $3.4 million for the year ended December 31, 2009. Nucryst's loss for 2010 related to operational wind down following the sale of the business, while the loss from operations in 2009 reflected normal operating results.

<u>iFire Technology Ltd.</u>

The loss at iFire for the three months ended December 31, 2010 was nominal compared to $0.2 million for the three months ended December 31, 2009, and for the year ended December 31, 2010, the loss was $0.2 million compared to $0.9 million in the same period in 2009. Following the sale of the land and building used in iFire's former operations in November 2009, operating costs related to the maintenance of a leased building that has been partially sublet. This lease was assigned from iFire to Westaim Holdings Limited in the second quarter of 2010. During the fourth quarter of 2010, iFire was formally dissolved.

5.9 Other comprehensive income

Other comprehensive income consists of the change in unrealized gains of the available-for-sale investments, net of income taxes.

5. ANALYSIS OF FINANCIAL RESULTS (continued)

As at December 31, 2010, the net unrealized gain on the available-for-sale investment portfolio was $5.9 million which equals the unrealized gain since acquisition of the portfolio on March 29, 2010. After income tax of $1.7 million, a $4.2 million net of tax increase in unrealized investment gains was included in other comprehensive income. Net unrealized gains on the held-to-maturity portfolio were $3.3 million as at December 31, 2010. The held-to-maturity portfolio is reported at amortized cost on the consolidated balance sheet. As a result, net unrealized gains in the held-to-maturity portfolio do not impact the comprehensive income or the financial position.

For an explanation of the change in unrealized gains in the fourth quarter and year-to-date, see Section 5.2 above.

6. BALANCE SHEET ANALYSIS

The Company's consolidated balance sheet is comprised of the following assets and liabilities:

(millions)	December 31, 2010	December 31, 2009
Assets		
Cash and cash equivalents	$ 32.9	$ 62.4
Investments	993.3	9.2
Financed premiums	65.1	-
Claims recoverable from other insurers	40.2	-
Recoverable from reinsurers	29.7	-
Deferred policy acquisition costs	29.8	-
Other assets	79.4	0.9
Total assets	$ 1,270.4	$ 72.5
Liabilities		
Unearned premiums	$ 157.0	$ -
Provision for unpaid claims and adjustment expenses	705.1	-
Provision for site restoration	5.0	5.5
Other liabilities	28.5	9.0
	895.6	14.5
Equity		
Shareholders' equity	374.8	49.4
Non-controlling interest	-	8.6
Liabilities and equity	$ 1,270.4	$ 72.5

6.1 Cash and cash equivalents

At December 31, 2010, the Company had consolidated cash and cash equivalents of $32.9 million compared to $62.4 million at December 31, 2009. Of this balance, $21.2 million is held by Jevco to support the insurance operations. See further discussion below in Section 9, *Liquidity and Capital Resources* of this MD&A.

6.2 Investments

The Company's investment portfolio of $993.3 million at December 31, 2010 consisted of investments held to support the insurance operations. At December 31, 2009, the Company held investments of $9.2 million comprised of short term investments of $5.2 million and Master Asset Vehicle Notes and related credit facility repayment option of $4.0 million.

Insurance companies must comply with applicable regulations that prescribe the type, quality and concentration of securities. These regulations permit investments in government, provincial, municipal and corporate bonds, and preferred and common equities, within specified limits and subject to certain qualifications.

6. BALANCE SHEET ANALYSIS (continued)

(millions)	December 31, 2010
Carrying value of investment portfolio:	
Term deposits	$ 246.3
Government bonds	177.3
Corporate debt securities	473.9
Mortgage and other asset backed securities	88.7
	986.2
Common shares	0.5
Preferred shares	6.6
	$ 993.3

Carrying value is fair value for available-for-sale securities and amortized cost for held-to maturity securities.

The Company manages its insurance operations investment portfolio to support the liabilities of its insurance operations, to preserve capital and to generate attractive, after-tax investment returns while adhering to a low risk philosophy. The investment portfolio consists primarily of corporate and government bonds with relatively short durations. Within the mortgage and other asset backed securities category are government guaranteed residential mortgage backed securities and very high quality consumer credit securities. Exposure to foreign markets, including the United States is considered to be low. Investments are managed by unrelated third-party investment management firms and the Company monitors their performance and their compliance with both their individual mandate and the Company's investment policies and guidelines. The Company's investment guidelines stress preservation of capital and market liquidity to support payment of liabilities and diversification of risk.

By virtue of the nature of the Company's business activities, financial instruments make up the majority of the balance sheet. The risks which arise from holding financial instruments include credit risk, market risk, liquidity risk and cash flow risk. These risks may be caused by factors specific to an individual instrument or factors affecting all instruments traded in the market. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

Credit risk:

Credit risk is defined as the risk of financial loss due to failure of the other party to a financial instrument to discharge an obligation. Credit risk arises from the Company's positions in term deposits, corporate debt securities, government bonds and mortgage and other asset backed securities.

The Investment Committee of the Board of Directors is responsible for the oversight of key investment policies and limits. These policies and limits are subject to annual review and approval by the Investment Committee. The Investment Committee is also responsible for ensuring that these policies are implemented and that procedures are in place to manage and control credit risk. The Company has policies to limit and monitor its exposure to individual issuers or related groups (with the exception of Canadian government bonds).

The table below summarizes the credit exposure of the Company from its investments in fixed income securities and term deposits using ratings assigned by DBRS Limited.

Available-for-sale (measured at fair value)

	December 31, 2010	
(millions)	Amount	Percentage
AAA	$ 366.9	41.3%
AA	225.1	25.4%
A	245.8	27.7%
BBB	48.8	5.5%
Not rated	1.3	0.1%
Total available-for-sale	$ 887.9	100.0%

6. BALANCE SHEET ANALYSIS (continued)

Held-to-maturity (measured at amortized cost)

	December 31, 2010	
(millions)	Amount	Percentage
AAA	$ 18.9	19.3%
AA	65.8	66.9%
A	13.6	13.8%
Total held-to-maturity	$ 98.3	100.0%

At December 31, 2010, 94.4% of the available-for-sale fixed income portfolio and 100.0% of held-to-maturity fixed income portfolio is rated "A" or better.

Management performs a quarterly analysis of securities holdings to determine if declines in market value are other-than-temporary. Impairment is charged to income if the fair value of a security falls below its cost/amortized cost, and the decline is considered other-than-temporary. Unrealized losses related to government bonds and term deposits as at December 31, 2010 were considered temporary as there was no evidence of default risk. Corporate bonds continued to pay interest and were not subject to material changes in their respective debt ratings. Management concluded that a default risk did not exist at the time and, therefore, the decline in value was considered temporary. As the Company has the capacity to hold these securities to maturity, no impairment provision was considered necessary. Additional information on the factors considered in establishing an other-than-temporary impairment on an investment security is discussed under Section 13, *Critical Accounting Estimates and Assumptions* of this MD&A and in Note 7 to the audited annual consolidated financial statements for the year ended December 31, 2010.

As at December 31, 2010, the net unrealized gain on the available-for-sale investment portfolio was $5.9 million which equals the unrealized gain since acquisition of the portfolio on March 29, 2010. After income tax of $1.7 million, a $4.2 million net of tax increase in unrealized investment gains was included in other comprehensive income. Net unrealized gains on the held-to-maturity portfolio, which is reported at amortized cost on the consolidated balance sheet, were $3.3 million as at December 31, 2010.

<u>Market risk</u>:

The market risk exposure of the Company is primarily to changes in interest rates, foreign currency exchange rates and equity prices. Market risk is subject to risk management. The Investment Committee of the Board and senior management of the Company monitor the Company's market risk exposures and activities that give rise to these exposures.

The Company's primary market risk exposure is changes in interest rates. Because substantially all of the investments are comprised of fixed income securities, periodic changes in interest levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. Also, during periods of rising interest rates, the market value of the existing fixed income securities will generally decrease and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

For a more detailed analysis and quantification of market risk, see Note 14 to the audited annual consolidated financial statements for the year ended December 31, 2010.

6.3 Financed Premiums

The financed premium asset at December 31, 2010 was $65.1 million. Premiums are typically payable at the time of policy issue or renewal. The Company offers the option to pay in monthly installments. The insured pays an additional amount for this option, reflecting handling costs and foregone investment income to the Company.

6.4 Claims Recoverable from Other Insurers

Claims recoverable from other insurers totaled $40.2 million at December 31, 2010. In accordance with the Insurance Act of Ontario (the "Act"), an insurance company has a right of indemnification for certain benefits paid to its own insured from the insurer of a third party at fault. The Act also provides for an arbitration process when the two insurers are not in agreement as to the amount of losses to be transferred. Claims recoverable from other insurers represent management's estimate of the amounts recoverable. Failure of other insurers to honour their obligations could result in losses to the Company.

6. BALANCE SHEET ANALYSIS (continued)

6.5 Recoverable from Reinsurers

At December 31, 2010, amounts recoverable from reinsurers totaled $29.7 million. The table below summarizes the credit exposure of the Company for amounts recoverable from reinsurers, by rating assigned by A.M. Best.

(millions)	December 31, 2010	
Financial strength ratings of reinsurers	Amount	Percentage
A++	$ 1.9	6%
A+	5.9	20%
A	21.8	74%
Other	0.1	-
	$ 29.7	100%

In the normal course of business, the Company seeks to reduce the loss that may arise from a catastrophe or other events that cause unfavorable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers. Failure of reinsurers to honour their obligations could result in losses to the Company.

For a more detailed discussion of the Company's reinsurance program, see Section 7, *Reinsurance* below.

6.6 Deferred Policy Acquisition Costs

At December 31, 2010, deferred policy acquisition costs were $29.8 million. The Company defers brokers' commissions, premium taxes and other underwriting and marketing costs relating to the acquisition of premiums written to the extent they are considered recoverable. These costs are expensed as the related premiums are earned. The method followed in determining the deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to estimated future claims and expenses to be incurred as premiums are earned. Anticipated investment income is considered in determining the realizable value of the deferred policy acquisition costs. Changes in estimates are reflected in the statement of operations in the period in which such estimates are updated.

As a result of recent underwriting losses in the non-standard automobile line of business, the deferred policy acquisition costs exceeded the related estimated equity in the unearned premium reserve, resulting in a premium deficiency of $3.9 million which was recorded as an underwriting expense in the fourth quarter. This adjustment increased the loss and expense ratios in the fourth quarter and year-to-date.

6.7 Other assets

Other assets include accounts receivable, capital assets, accrued investment income, income tax assets and intangible assets.

6.8 Unearned Premiums

At December 31, 2010, the unearned premium liability was $157.0 million. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the end of the period. The Company earns motorcycle premiums over the period of risk covered by each policy based on past experience and on all other lines evenly over the period covered by each individual insurance contract.

6.9 Provision for Unpaid Claims and Adjustment Expenses

At December 31, 2010, the provision for unpaid claims and adjustment expenses was $705.1 million. The table below shows the provision for unpaid claims and adjustment expenses by Personal and Commercial Lines of business, gross and net. The net unpaid claims and adjustment expenses are net of both external reinsurance and amounts recoverable from other insurers which are presented as assets on the consolidated balance sheet.

	December 31, 2010	
(millions)	Gross	Net
Personal Lines	$ 468.7	$ 422.9
Commercial Lines	236.4	213.7
	$ 705.1	$ 636.7

6. BALANCE SHEET ANALYSIS (continued)

A provision for unpaid claims and adjustment expenses includes several components: a provision for unpaid claims based on estimated liability on individual reported claims (more commonly known as case reserves), an estimated provision for claims that have not yet been reported and expected future development on case reserves, collectively known as the incurred but not reported claims provision ("IBNR"), an estimate of allocated loss adjustment expenses (primarily defense costs) and unallocated loss adjustment expenses (primarily the adjustment handling costs by claims personnel) expected to be incurred in the future. At December 31, 2010, the provision for unpaid claims and adjustment expenses of $705.1 million was comprised of $513.0 million related to case reserves and $192.1 million related to IBNR.

An evaluation of the adequacy of the provision for unpaid claims and adjustment expenses is completed at the end of each quarter. This evaluation includes a re-estimation of the provision for unpaid claims and adjustment expenses relating to each preceding financial year compared to the provision that was originally established. The results of this comparison and the changes in the provisions for unpaid claims and adjustment expenses for the year ended December 31, 2010 were as follows:

(millions)	3 months ended December 31, 2010	From acquisition on March 29, 2010 to December 31, 2010
Unpaid claims and adjustment expenses, beginning of period	$ 747.1	$ 765.0
Ceded	(72.1)	(73.4)
Unpaid claims and adjustment expenses, beginning of period, net	675.0	691.6
Increases due to:		
Current year claims	59.9	197.3
Prior years' claims	(16.3)	(35.2)
Claims and adjustment expenses paid during the period	(81.9)	(217.0)
Unpaid claims and adjustment expenses, end of period, net	636.7	636.7
Reinsurers' share	28.2	28.2
Other insurers' share	40.2	40.2
Provision for unpaid claims and adjustment expenses, end of period	$ 705.1	$ 705.1

Favourable prior years' claims development was $16.3 million in the fourth quarter and $35.2 million in 2010. For the fourth quarter, favourable prior years' claims development was 2.4% of opening net unpaid claims (for the year, 5.1% of net unpaid claims at acquisition).

The establishment of a provision for unpaid claims represents management's best estimate of the ultimate cost of both reported but unsettled claims and unreported claims utilizing actuarial and statistical procedures. The provision for unpaid claims represents the discounted estimates of the ultimate net cost of all unpaid claims and loss adjustment expenses plus provisions for adverse development. Establishing the provision for unpaid claims relies on the judgment and opinions of a large number of individuals, including the opinions of the external independent Appointed Actuary. Management regularly reviews its estimates and adjusts as experience develops and new information becomes available. In establishing the provision for unpaid claims, the Company also takes into account estimated recoveries, reinsurance, salvage and subrogation.

Factors affecting the provision for unpaid claims include the continually evolving and changing regulatory and legal environments, actuarial studies, professional experience and the expertise of claims personnel and independent adjustors retained to handle individual claims. Changes in claims handling procedures and the individuals involved in the reserving process also affect the provision for unpaid claims. Quality of the data used for projection purposes, existing claims management practices (including claims handling and settlement practices), the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes, all affect the provision for unpaid claims.

Time is a critical part of the provision's determination, since the longer the span between the incidence of a loss and the payment or claim settlement, the more variable the ultimate settlement amount can be. Short-tailed claims, such as property claims, tend to be more predictable than long-tailed claims such as general liability and automobile accident benefit claims. The provision for unpaid claims is discounted to reflect the time value of expected future payouts of claims. Adjustments to estimates of the provision for unpaid claims are reflected in the consolidated statement of operations in the period in which they become known. Even after such adjustments, ultimate liability or recovery may exceed or be less than the revised estimates. A change that increases the provision for unpaid claims is known as an unfavourable development and will reduce net income.

6. BALANCE SHEET ANALYSIS (continued)

Management has the responsibility to ensure that the provision for unpaid claims, including IBNR, is appropriate. Management establishes, maintains and evaluates its respective provisions for unpaid claims and evaluates all of its respective policy coverages and paid and open claim level data to ascertain claim frequency and severity trends, as well as the effects of inflation or changes in operating structure or process may have on future loss settlements. Management reviews the information by product and geographic regions to monitor emergence of any patterns. Management incorporates all of the above information to record its best estimate of the provision for unpaid claims. Management also uses actuarial and statistical procedures to allocate the IBNR by accident years and coverages, programs and/or lines of business.

6.10 Provision for Site Restoration

The Company's provision for site restoration amounted to $5.0 million at December 31, 2010 and $5.5 million at December 31, 2009 (see also Section 5.4). The provision relates to site restoration costs associated with soil and groundwater reclamation and remediation costs. The Company expects to spend only nominal amounts in future years unless a plant site formerly owned by the Company is decommissioned. There will be a reduction of the provision for site restoration to approximately $2.5 million upon transition to IFRS as at January 1, 2010, due to the effect of discounting for the time value of money. This change in accounting policy is planned to be reflected in the consolidated financial statements for the three months ending March 31, 2011.

6.11 Other liabilities

Other liabilities include accounts payable, accrued liabilities and a leasehold inducement of $2.8 million which will be amortized to income over the term of the lease.

6.12 Equity

(millions)	December 31, 2010	December 31, 2009
Common shares	$ 660.6	$ 426.3
Preferred shares	30.8	-
Warrants	1.9	-
Contributed surplus	8.7	8.7
Accumulated other comprehensive income	4.2	-
Deficit	(331.4)	(385.6)
Shareholders' equity	374.8	49.4
Equity held by non-controlling interest	-	8.6
Equity	$ 374.8	$ 58.0

Common shares increased by $234.3 million to $660.6 million from $426.3 million mainly as a result of the Financing discussed under Section 9, *Liquidity and Capital Management* of this MD&A. Preferred shares and warrants were issued in 2010 under the Financing. Accumulated other comprehensive income of $4.2 million represents the unrealized gains in the insurance company investment portfolio since acquisition. The decrease in the deficit of $54.2 million is entirely due to the net income for the year ended December 31, 2010. As at December 31, 2009, the Company had non-controlling shareholders' interest in equity of $8.6 million related to its subsidiary, Nucryst. In early 2010, the non-controlling shareholders' interest was redeemed by the Company at no significant gain or loss.

7. REINSURANCE

The Company's reinsurance program is designed with the objective of protecting capital and increasing underwriting capacity. The Company has policies to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from common ownership, geography, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer's insolvency. The reinsurers chosen to participate in the program have a minimum rating of A- from A.M. Best or S&P.

In 2011, the Company has reinsurance protection which limits the maximum amount on any one loss to $2.0 million (2010 - $2.5 million) in the event of a liability claim to a maximum of $20 million (2010 - $20 million), and $0.75 million (2010 - $0.75 million) in the event of a property claim to a maximum of $10 million (2010 - $5.0 million).

7. REINSURANCE (continued)

In addition, the Company has property catastrophe reinsurance which provides coverage in the event of a series of claims arising out of a single occurrence. Reinsurance limits this exposure to $2.5 million per occurrence to a maximum of $25 million.

For 2011, the Company has purchased reinsurance protection which limits the maximum amount on any one loss to $2.0 million in the event of a liability claim to a maximum of $20 million, and $0.75 million in the event of a property claim to a maximum of $10 million. This coverage is unchanged from 2010.

8. OUTLOOK

Westaim completed a very successful year in 2010, highlighted by the acquisition of Jevco on March 29, 2010. This acquisition transformed Westaim from an investment holding company with a book value per share of $0.52 at December 31, 2009 to a financial services holding company focused on the property and casualty insurance industry with a book value per share of $0.58 at December 31, 2010. For the year, book value per share grew 11.5%.

Management believes Westaim is well positioned to carry out its plan to grow its business organically, as well as through selective P&C insurance related acquisitions. The Company is well capitalized with a strong balance sheet to respond to opportunities and execute its business plan.

In 2011, Jevco will continue to focus its attention on prudently growing its core specialty lines of motorcycle, non-standard automobile, surety and specialty commercial risks, while prudently managing its investment portfolio.

Jevco’s scale and accumulated customer and claims experience in the motorcycle line of business offers the Company a competitive advantage in the market. Management expects the Ontario market to experience hardening in 2011, as competitors that do not specialize in motorcycle insurance retreat from this business after a period of higher claims costs. For Jevco, this creates an opportunity to increase market share under favorable terms in a less competitive environment. Accordingly, the Company expects to grow its motorcycle business in 2011 at acceptable levels of profitability.

Jevco experienced a very difficult year in 2010 for non-standard automobile, principally in the Ontario market and greater Toronto area. This was consistent with the trend observed across the whole industry. The hardening of the Ontario market which began in 2009 and continued throughout 2010 as a result of deteriorating underwriting results and lower than average investment returns, is expected to continue in 2011 as underwriting standards are tightened, and rate increases are sought where possible. Tighter underwriting is expected to increase Jevco’s retention rates as insured customers who have graduated to the standard market in softer market conditions are unable to do so in a hard market. In addition, certain risks which previously qualified for standard insurance coverage no longer meet tightened requirements, and are required to seek coverage in the non-standard market at higher rates.

In 2010, Jevco took decisive actions to improve the performance of its non-standard automobile business, including:

- obtaining approval for a 10% premium increase in Ontario effective October 1, 2010 for new business (November 1, 2010 for renewals);
- performing a complete review of underperforming programs;
- reducing commission rates in certain territories; and
- terminating unprofitable business.

These actions, along with legislative changes enacted in Ontario in September 2010, aimed at controlling costs of accident benefit claims, are expected to materially improve this line of business, beginning in the second half of 2011. In further support of this, Jevco received approval for an additional 8.9% rate increase in February 2011, effective March 6, 2011 for new business (April 6, 2011 for renewals).

The commercial property and liability industry continues to experience excess capital, and is expected to be very competitive. However, Jevco’s financial strength, disciplined pricing strategy and broad independent distribution network position it well to benefit from standard insurance companies retrenching from the niche markets in which it chooses to operate.

8. OUTLOOK (continued)

Strong demand in the surety business is expected to continue as federal government spending programs continue, provincial and municipal governments undertake infrastructure upgrades and the private sector continues to recover. Jevco is well positioned with the recent re-affirmation by A.M. Best of its B++ credit rating.

The low interest rate environment continues to result in lower investment yields relative to historical levels. Jevco's strategy is to take advantage of its short duration portfolio to redeploy capital and benefit from rising interest rates as they occur.

9. LIQUIDITY AND CAPITAL RESOURCES

Capital Management

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, satisfy all regulatory requirements, ensure the return of capital meets the Board of Directors' expectations relative to the risk taken, and minimize the after-tax cost of capital.

Towards achievement of these objectives, the Company employs a strong and efficient capital base and it 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. Capital is managed using both regulatory capital measures and internal metrics. The Company's capital is primarily derived from common shares, contributed surplus and retained earnings.

As specified in the capital guidelines of the Office of the Superintendent of Financial Institutions Canada ("OSFI"), property and casualty insurance companies are required to maintain a Minimum Capital Test ("MCT") ratio of a minimum of 100% and sets out 150% as the supervisory target. In some cases, OSFI may establish an alternative supervisory target level based upon an individual institution's risk profile.

Jevco's policy is to maintain its MCT ratio at a minimum target of 220%. This capital target ratio is reviewed by the Board of Directors at least annually.

The Company performs dynamic capital adequacy testing on the Company to evaluate the potential effects on the Company's financial condition of a set of specified changes in risk factors, corresponding to extreme events that are plausible, but unlikely. Under each scenario, the MCT exceeded the supervisory target MCT and Jevco's financial condition was considered to be satisfactory.

In addition, management regularly performs scenario stress-testing analysis and comparisons of actual, projected and targeted capital positions to ensure adequacy of actual capital.

Cash Flow

The Company manages its liquidity to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The Company believes it has the flexibility to obtain from internal sources the funds needed to fulfill its cash requirements during the following financial year and to satisfy regulatory capital requirements. The liquidity requirements of the Company's business are met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claims adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

9. LIQUIDITY AND CAPITAL RESOURCES (continued)

The following table illustrates the duration of the financial assets of the Company compared to its obligations:

December 31, 2010 (millions)	One year or less	1 to 3 years	4 to 5 years	More than 5 years	No specific date	Total
Financial assets:						
Cash and cash equivalents	$ 32.9	$ -	$ -	$ -	$ -	$ 32.9
Investments available-for-sale	371.4	128.3	209.6	178.6	7.1	895.0
Investments held-to-maturity	-	-	-	98.3	-	98.3
Accrued investment income	5.3	-	-	-	-	5.3
Financed premiums	65.1	-	-	-	-	65.1
Claims recoverable	13.4	15.1	7.4	4.4	-	40.3
Accounts receivable and other assets	26.5	-	-	-	-	26.5
Recoverable from reinsurers	9.9	11.1	5.4	3.2	-	29.6
Total financial assets	524.5	154.5	222.4	284.5	7.1	1,193.0
Contractual obligations:						
Accounts payable and accrued liabilities	25.8	-	-	-	-	25.8
Lease commitments	2.4	5.7	5.6	29.7	-	43.4
Unearned premiums	157.0	-	-	-	-	157.0
Unpaid claims and adjustment expenses	234.8	264.3	129.1	76.8	-	705.0
Provision for site restoration	-	-	-	5.0	-	5.0
Total contractual obligations	420.0	270.0	134.7	111.5	-	936.2
Financial assets net of contractual obligations	$ 104.5	$ (115.5)	$ 87.7	$ 173.0	$ 7.1	$ 256.8

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.

Bank Credit Agreement

As at December 31, 2009, the Company held a revolving credit facility with a financial institution in connection with MAV Notes held. In the second quarter of 2010, the MAV Notes were sold and this corresponding revolving credit facility agreement was terminated.

Capital Restructuring of Subsidiary Company

As part of the Company's strategic plan to maximize the value of its assets, on December 1, 2008 the Company requisitioned a special meeting of the shareholders of Nucryst to consider the return of capital to Nucryst shareholders of approximately US $14.7 million or US $0.80 per share. This meeting was held on February 12, 2009 and the shareholders approved the return of capital to be distributed on February 25, 2009. This resulted in a net reduction of approximately $4.6 million of consolidated cash and cash equivalents in 2009 due to the payment to Nucryst's minority shareholders.

On November 10, 2009, the Company entered into an agreement under which Nucryst Pharmaceuticals Corp. amalgamated with 1499642 Alberta Ltd., a newly-formed, wholly-owned subsidiary of Westaim. Under the terms of the amalgamation, each holder of common shares of Nucryst Pharmaceuticals Corp. (other than the Company) would receive one redeemable preferred share in the capital of Westaim Holdings Limited, the amalgamated company. These preferred shares would be redeemed for US$1.77 in cash upon completion of the amalgamation. Pursuant to the amalgamation, Westaim would receive all of the common shares of Westaim Holdings Limited. The capital restructuring was completed on February 8, 2010 and Westaim Holdings Limited became a wholly-owned subsidiary of the Company. The Company did not record any material gain or loss upon the redemption of the preferred shares held by Nucryst non-controlling shareholders.

9. LIQUIDITY AND CAPITAL RESOURCES (continued)

In connection with the sale of the operations and assets of Nucryst to Smith & Nephew, Nucryst agreed to indemnify Smith & Nephew against certain liabilities or losses to an aggregate maximum of US$11 million, subject to certain exclusions. The Company also agreed to indemnify Smith & Nephew, its directors, officers and employees, for an indefinite period, from certain environmental liabilities and costs relating to premises formerly leased by Nucryst in Fort Saskatchewan, Alberta.

Equity Financing

At closings held on February 9, 2010 and February 19, 2010, the Company issued and sold, on a private placement basis, an aggregate of 550 million subscription receipts at a purchase price of $0.50 each for aggregate gross proceeds of $275.0 million. An aggregate of 219 million Subscription Receipts were sold pursuant to an underwriting and agency agreement between the Company and GMP Securities LP ("GMP") and an additional 296 million Subscription Receipts were sold to Her Majesty the Queen in Right of the Province of Alberta ("HMQ") through Alberta Investment Management Corporation, for aggregate gross proceeds of $257.5 million. The remaining 35 million Subscription Receipts were sold to directors and officers of Westaim, funds managed by Goodwood Inc., existing senior management of Jevco and certain other designated investors for gross proceeds of $17.5 million. Following the approval of shareholders at a special meeting on March 25, 2010 and the receipt of the necessary regulatory approvals, the Acquisition was completed on March 29, 2010 for a purchase price of $261.4 million. Immediately prior to the closing of the Acquisition on March 29, 2010, the subscription receipts were automatically converted into 486,147,088 common shares and 63,852,912 Series 1 Class A non-voting, convertible participating preferred shares ("Series 1 Class A preferred shares") of the Company. In connection with the Financing, the Company also issued 10,000,000 warrants to purchase an equal number of Series 1 Class A preferred shares of the Company at an exercise price of $0.50 per share at any time until February 9, 2013. After transaction costs of $9.9 million, net proceeds of the Financing to the Company were $265.1 million. The Financing is also described in Note 11 to the audited annual consolidated financial statements for the year ended December 31, 2010.

Regulatory Compliance

Jevco is regulated by the OSFI and is required to maintain a level of capital sufficient to support the volume and risk profile of Jevco's business. Generally, OSFI requires insurers to achieve a ratio of at least 150% under an MCT formula.

In connection with the Acquisition, the Company agreed that it would maintain liquid and unencumbered assets up to a maximum of $20.0 million at the holding company level and, depending on Jevco's MCT ratio, this amount may not be required at all. On April 9, 2010, the Company injected $48.0 million additional cash in exchange for additional common shares into Jevco and at December 31, 2010, the MCT ratio of Jevco was 320% which eliminates the requirement to maintain the $20.0 million liquid and unencumbered assets. Since the Acquisition, the Company continues to own 100% of Jevco's share capital.

Dividends

No dividends were paid in 2010 or 2009. The Company's current policy is to retain its cash reserves to finance investments and operations.

Share Capital

At December 31, 2010, the Company had 580,564,387 (March 2, 2011 – 580,634,386) common shares and 63,852,912 (March 2, 2011 – 63,852,912) Series 1 Class A non-voting, convertible participating preferred shares ("Series 1 Class A preferred shares") outstanding. At December 31, 2010, the Company had 1,072,500 stock options (March 2, 2011 – 866,500) outstanding. At December 31, 2010 and March 2, 2011, the Company also had 25,775,225 restricted share units, exercisable for common shares at future dates, and 10,000,000 warrants, exercisable for Series 1 Class A preferred shares, outstanding.

9. LIQUIDITY AND CAPITAL RESOURCES (continued)

The Company's authorized share capital consists of an unlimited number of common shares, Class A preferred shares and Class B preferred shares. For purposes of the Financing, on February 26, 2010, the Company amended its articles for the issuance of Series 1 Class A preferred shares. 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, provided that the conversion does not result in the holder owning common shares exceeding an ownership limit of 40%.

<u>Stock based compensation plans</u>

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 12 to the audited annual consolidated financial statements for the year ended December 31, 2010.

<u>Volatility of Share Price</u>

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.

<u>Market for Securities</u>

The common shares of The Westaim Corporation are listed on The Toronto Stock Exchange ("TSX") under the symbol "WED".

10. RISKS

Westaim and/or Jevco are 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 or Jevco. If any of the following risks, or any other risks and uncertainties that have not yet been identified by Westaim or Jevco or that Westaim or Jevco 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 and/or Jevco could be materially and adversely affected.

Risk Factors Related to Jevco

Financial Risk

Difficult conditions in the economy may materially adversely affect Jevco's business, results of operations, and statement of financial position and these conditions may not improve in the near future.

Current market conditions and the instability in the global credit markets present risks and uncertainties for Jevco's business. In particular, deterioration in the public debt and equity markets could lead to investment losses and an erosion of capital as a result of a reduction in the fair value of investment securities.

The severe downturn in the public debt and equity markets, reflecting uncertainties associated with the mortgage crisis, worsening economic conditions, widening of credit spreads, bankruptcies and government intervention in large financial institutions contributed to significant realized and unrealized losses in Jevco's investment portfolio. Depending on market conditions going forward, Jevco could incur substantial realized and unrealized losses in future periods, which could have an adverse impact on its results of operations and financial condition.

10. RISKS (continued)

Jevco could also experience a reduction in capital below levels required by the regulators in the jurisdictions in which it operates. Certain trust accounts and letters of credit for the benefit of related companies and third parties have been established with collateral on deposit under the terms and conditions of the relevant trust and letter of credit agreements. The value of collateral could fall below the levels required under these agreements.

Financial disruption or a prolonged economic downturn may materially and adversely affect Jevco's business.

Worldwide financial markets have recently experienced extraordinary disruption and volatility, resulting in heightened credit risk, reduced valuation of investments and decreased economic activity. Moreover, many companies are experiencing reduced liquidity and uncertainty as to their ability to raise capital. In the event that these conditions persist or result in a prolonged economic downturn, Jevco's results of operations, financial position and/or liquidity could be materially and adversely affected. These market conditions may affect Jevco's ability to access debt and equity capital markets. In addition, as a result of recent financial events, Jevco may face increased regulation.

Jevco may not be able to realize its investment objectives, which could significantly reduce Jevco's net income.

Jevco depends on income from its investment portfolio for a substantial portion of its earnings. A significant decline in investment yields in Jevco's investment portfolio or an impairment of securities that Jevco owns could have a material adverse effect on its business, results of operations and financial condition. Jevco currently maintains and intends to continue to maintain an investment portfolio comprising primarily fixed income securities. Due to fluctuations in the yields on fixed income securities, Jevco faces reinvestment risk as these securities mature because the funds may be reinvested at rates lower than those of the maturing securities.

Jevco's ability to achieve its investment objectives is affected by general economic conditions that are beyond its control. General economic conditions can adversely affect the markets for interest rate sensitive securities, including the extent and timing of investor participation in such markets, the level and volatility of interest rates and, consequently, the value of fixed income securities.

In addition, changing economic conditions can result in increased defaults by the issuers of securities that Jevco owns. Interest rates are highly sensitive to many factors, including monetary policies, domestic and international economic and political conditions and other factors beyond Jevco's control. General economic conditions, stock market conditions and many other factors can also adversely affect the securities markets and, consequently, the value of the securities Jevco owns. Jevco may not be able to realize its investment objectives, which could reduce its net income significantly.

Jevco's liquid assets may prove to be insufficient to meet future obligations.

Jevco manages its cash and liquid assets in an effort to ensure there is sufficient cash to meet all of its financial obligations as they fall due. As a federally regulated insurance company, Jevco is required to maintain an asset base comprised of liquid securities that can be used to satisfy its ongoing commitments. Jevco believes that internally generated funds provide the financial flexibility needed to fulfill cash commitments on an ongoing basis. However, there can be no assurances that Jevco's cash on hand and liquid assets will be sufficient to meet any future obligations that may come due.

Strategic Risk

The insurance and related industries and businesses in which Jevco operates may be subject to periodic negative publicity which may negatively impact its financial results.

Jevco's products and services are ultimately distributed to individual consumers. From time-to-time, consumer advocacy groups or the media may focus attention on insurance products and services, thereby subjecting the industry to periodic negative publicity. Jevco also may be negatively impacted if participants in one or more of its markets engage in practices resulting in increased public attention to its businesses. Negative publicity may also result in increased regulation and legislative scrutiny of practices in the property and casualty insurance industry as well as increased litigation. These factors may further increase Jevco's costs of doing business and adversely affect its profitability by impeding its ability to market its products and services, requiring Jevco to change its products or services or by increasing the regulatory burdens under which it operates.

10. RISKS (continued)

The highly competitive environment in which Jevco operates could have an adverse effect on its business, results of operations and financial condition.

The markets in which Jevco operates are highly competitive. Jevco competes with major insurers, many of which have more financial, marketing, management, technical personnel and other resources than Jevco. There may also be other companies of which Jevco is not aware that may be planning to enter the insurance industry. Insurers in Jevco's markets generally compete on the basis of price, consumer recognition, coverages offered, claims handling, financial stability, customer service and geographic coverage. Although Jevco's pricing is influenced to some degree by that of Jevco's competitors, Jevco generally believes that it is not in its best interest to compete solely on price, and may from time-to-time experience a loss of market share during periods of intense price competition. Jevco's business could be adversely impacted by the loss of business to competitors offering competitive insurance products at lower prices in an attempt to gain market share. This competition could affect Jevco's ability to attract and retain profitable business.

In Jevco's non-standard automobile business, Jevco competes with both large national underwriters and smaller regional companies. Jevco's competitors include other companies that, like Jevco, serve the independent agency market, as well as companies that sell insurance directly to customers. Direct underwriters may have certain competitive advantages over agency underwriters, including increased name recognition, loyalty of the customer base to the insurer rather than to an independent agency and reduced costs to acquire policies. Any new, proposed or potential legislative or industry developments could further increase competition in Jevco's markets.

New competition from these developments could cause the demand for Jevco's products to decrease, which would adversely affect Jevco's profitability. From time-to-time, Jevco's markets may also attract competition from new entrants. In some cases, such entrants may, because of inexperience, the desire for new business or for other reasons, price their insurance below the rates that Jevco believes offer acceptable premiums for the related risk. Further, a number of Jevco's competitors, including new entrants to Jevco's markets, are developing e-business capabilities which may impact the level of business transacted through Jevco's more traditional distribution channels or that may affect pricing in the market as a whole. As new competitors enter the market and as new products are introduced, Jevco may encounter additional and more intense competition and there can be no assurance that Jevco will maintain or increase its revenues or be profitable. To a large degree, the future revenues of Jevco are dependent upon its ability to continue to develop and market its products and to enhance its products to meet changes in customer needs.

Although Jevco's business strategy assumes that the industry will generate competition, there can be no assurance as to how any level of competition may impact the future revenues of Jevco.

If Jevco is unable to maintain its current claims-paying ratings, Jevco's ability to write insurance and to compete with other insurance companies may be adversely impacted.

Third party rating agencies assess and rate the claims-paying ability of insurers and reinsurers based upon criteria that they have established. Periodically these rating agencies evaluate Jevco to confirm that it continues to meet the criteria of the ratings previously assigned to it. Financial strength ratings are an important factor in establishing the competitive position of insurance companies and may be expected to have an effect on an insurance company's premiums.

Jevco is rated B++ (Good) by A.M. Best (fifth highest of 15 rating levels) with a stable outlook. A.M. Best issues independent opinions of an insurer's financial strength and its ability to meet policyholder obligations. According to A.M. Best, entities with a B++ rating are deemed "secure" and this rating is assigned to companies that have, in their opinion, a good ability to meet their ongoing insurance obligations. A stable outlook indicates a low likelihood of a rating change over an intermediate term, generally defined as 12 to 36 months, due to stable financial/market trends.

There can be no assurances that A.M. Best will not further downgrade Jevco's ratings in the future. If Jevco is unable to maintain its current ratings, its ability to write insurance business and compete with other insurance companies may be adversely affected. Rating agencies evaluate insurance companies based on financial strength and the ability to pay claims, factors that are more relevant to policyholders than to investors. Financial strength ratings by rating agencies are not ratings of securities or recommendations to buy, hold or sell any security and should not be relied upon as such.

10. RISKS (continued)

Jevco's business could be adversely affected as a result of changing political, regulatory, economic or other influences.

The insurance industry is subject to changing political, economic and regulatory influences. These factors affect the practices and operation of insurance and reinsurance organizations. The governments in jurisdictions in which Jevco operates have periodically considered programs to reform or amend their respective insurance and reinsurance systems. Recently, the insurance and reinsurance regulatory framework has been subject to increased scrutiny in many jurisdictions.

Changes in current insurance regulation may include increased governmental involvement in the insurance industry, initiatives aimed at premium controls, changes to minimum capital requirements, changes in loss transfer legislation, or initiatives that may otherwise change the business and economic environment in which insurance industry participants operate. Historically, the insurance industry has been under pressure from time-to-time from regulators, legislators or special interest groups to reduce, freeze or set rates at levels that are not necessarily related to underlying costs or risks, including initiatives to roll back automobile and other personal line rates. These changes may limit Jevco's ability to price insurance adequately and could require Jevco to discontinue unprofitable product lines, make unplanned modifications to its products and services, or result in delays or cancellations of sales of its products and services. Jevco cannot predict the future impact of changing laws or regulations on its operations and any changes could have a material adverse effect on its results of operations or financial condition.

Where OSFI is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a federally regulated insurance company, OSFI may direct the insurance company to refrain from a course of action or to perform acts necessary to remedy the situation. In certain circumstances, OSFI may take control of the assets of an insurance company or take control of the company itself. More restrictive laws, rules or regulations may be adopted in the future that could make compliance more difficult and/or expensive. Specifically, recently adopted legislation addressing privacy issues, among other matters, is expected to lead to additional regulation of the insurance industry in the coming years, which could result in increased expenses or restrictions on Jevco's operations.

The financial performance of the insurance industry has historically tended to fluctuate in cyclical patterns of "soft" markets characterized generally by increased competition, resulting in lower premium rates and underwriting standards, followed by "hard" markets characterized generally by lessening competition, stricter underwriting standards and increasing premium rates. Jevco's profitability tends to follow this cyclical market pattern with profitability generally increasing in hard markets and decreasing in soft markets. These fluctuations in demand and competition could produce underwriting results that would have a negative impact on Jevco's results of operations and financial condition.

Operational Risk

Jevco's provision for unpaid claims may be inadequate, which would result in a reduction in its net income and might adversely affect its financial condition.

Jevco's provisions for unpaid claims do not represent an exact calculation of its actual liability, but are estimates involving actuarial and statistical projections at a given point in time of the expected cost of the ultimate settlement and administration of known and unknown claims incurred prior to period end. The process for establishing the provision for unpaid claims reflects the uncertainties and significant judgmental factors inherent in estimating future results of both known and unknown claims and as such, the process is inherently complex and imprecise. These estimates are based upon various factors, including:

- actuarial projections of the cost of settlement and administration of claims reflecting facts and circumstances then known;
- estimates of future trends in claims severity and frequency;
- judicial theories of liability;
- variability in claims handling procedures;
- economic factors such as inflation;
- judicial and legislative trends, and actions such as class action lawsuits and judicial interpretation of coverage or policy exclusions; and
- level of insurance fraud.

Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact Jevco's ability to accurately assess the risks of the policies that it writes. In addition, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer and additional lags between the time of reporting and final settlement of claims.

10. RISKS (continued)

Jevco regularly refines its estimates in an ongoing process as claims are reported and settled. The following factors may have a substantial impact on Jevco's future claims and adjustment expenses incurred and reported:

- the amounts of claims payments;
- the expenses that Jevco incurs in resolving claims;
- legislative and judicial developments;
- changes in economic conditions, including inflation; and
- provision for adverse development and discount rate assumptions.

As time passes and more information about the claims becomes known, the estimates are appropriately adjusted upward or downward to reflect this additional information. Because of the elements of uncertainty encompassed in this estimation process, and the extended time it can take to settle many of the more substantial claims, several years of experience may be required before a meaningful comparison can be made between actual losses and the original provision for unpaid claims.

Actual claims and claim adjustment expenses that Jevco incurs under insurance policies that Jevco writes may deviate, perhaps substantially, from the amounts of provisions reflected in its financial statements. To the extent that actual claims incurred exceed its expectations and exceed the provision for unpaid claims reflected on Jevco's financial statements, Jevco will be required to reflect those changes by increasing its provision for unpaid claims. In addition, government regulators could require that Jevco increase its provisions if they determine that Jevco's provisions for unpaid claims are understated. When Jevco increases the provision for unpaid claims, the resulting reduction in its surplus could cause a downgrading of its ratings. Any such downgrade could, in turn, adversely affect Jevco's ability to sell insurance policies. See the risk factors regarding claims-paying ratings above for a more detailed discussion of the impact of a ratings downgrade.

Jevco relies on independent brokers and is exposed to risks in connection with such reliance.

Jevco markets and distributes insurance products through a network of independent brokers across Canada. As a result, it relies heavily on these brokers to attract new business and service existing clients. These brokers typically represent more than one insurance company, which may expose Jevco to competition within the agencies and, therefore, Jevco cannot rely on their commitment to its insurance products. In some markets, Jevco operates pursuant to "open market" arrangements in which it has no formal relationships with the brokers who place its risk in these markets. Loss of all or a substantial portion of the business provided by these intermediaries could have a material adverse effect on Jevco's business, results of operations and financial condition or a material decrease in the number of brokers that choose to sell Jevco's products.

In accordance with industry practice, Jevco's customers often pay the premiums for their policies to brokers for payment to Jevco. These premiums are considered paid when received by the broker and thereafter the customer is no longer liable to Jevco for those amounts, whether or not Jevco has actually received the premiums from the broker. Consequently, Jevco assumes a degree of risk associated with its reliance on independent brokers in connection with the settlement of insurance balances.

The majority of Jevco's direct premiums written are derived from the non-standard automobile and recreational vehicle insurance markets. If the demand for insurance in these markets declines, Jevco's results of operations could decline significantly.

Jevco is one of the largest writers of non-standard auto insurance in Ontario and of recreational vehicle insurance in Canada. The size of both of these insurance markets can be affected significantly by many factors outside of Jevco's control, such as the underwriting capacity and underwriting criteria of standard automobile insurance carriers, and Jevco may be specifically affected by these factors. Additionally, an economic downturn in one or more of Jevco's principal markets could result in fewer automobile or recreational vehicle sales, resulting in less demand for these insurance products. To the extent that these insurance markets are affected adversely for any reason, Jevco's direct premiums written will be disproportionately affected due to Jevco's substantial reliance on these insurance markets.

10. RISKS (continued)

If reinsurance rates rise significantly or reinsurance becomes unavailable or reinsurers are unable to pay Jevco's claims, Jevco may be adversely affected.

Jevco purchases reinsurance from third parties in order to reduce its liability on individual risks, however, reinsurance does not relieve Jevco of its primary liability to its policyholders and, as a result, Jevco bears credit risk with respect to its reinsurance. A third party reinsurer's insolvency or inability or unwillingness to make payments under the terms of a reinsurance treaty could have a material adverse effect on Jevco's financial condition or results of operations. The majority of Jevco's amounts recoverable from third party reinsurers and other insurers are unsecured.

Jevco's reinsurance arrangements are with a limited number of reinsurers. This reinsurance may cause an adverse effect on Jevco's results of operations if one or more of its reinsurers are unable to meet its financial obligations. Jevco cannot ensure that its reinsurers will pay all reinsurance claims on a timely basis or at all. Jevco evaluates each reinsurance claim based on the facts of the case, historical experience with the reinsurer on similar claims, and existing law and includes in its reserve for uncollectible reinsurance any amounts deemed uncollectible. The inability to collect amounts due to Jevco under reinsurance arrangements would reduce Jevco's net income and cash flow.

The amount and cost of reinsurance available to Jevco's insurance companies are subject, in large part, to prevailing market conditions beyond Jevco's control and may affect Jevco's level of business and profitability. Jevco's ability to provide insurance at competitive premium rates and coverage limits on a continuing basis depends in part upon the extent to which Jevco can obtain adequate reinsurance in amounts and at rates that will not adversely affect Jevco's competitive position.

In addition, there can be no assurance that developments may not occur in the future which might cause a shortage of reinsurance capacity in those classes of business which Jevco underwrites, which could result in the curtailment of issuing of policies in a certain line of business or containing limits above a certain size. Jevco cannot provide assurances that it will be able to maintain its current reinsurance facilities, which generally are subject to annual renewal. If Jevco is unable to renew any of these facilities upon their expiration or to obtain other reinsurance facilities in adequate amounts and at favourable rates, Jevco may need to modify its underwriting practices or reduce its underwriting commitments.

Jevco's business is heavily dependent on technology and Jevco is at risk of its technology being inadequate or inappropriate.

Jevco is heavily dependent on systems technology to process large volumes of transactions and there would be a risk if the technology employed is inadequate or inappropriate to support current and future business needs and objectives of Jevco. Jevco continues to implement new computer applications as part of a comprehensive approach to improve systems technology, however, in the event of a technology failure, there is no assurance that Jevco will be able to respond effectively and with minimal disruption.

Compliance Risk

Jevco's business is subject to risks related to litigation and regulatory actions.

Jevco is a defendant in a number of claims relating to its insurance and other related business operations. Jevco may from time-to-time be subject to a variety of legal and regulatory actions relating to its current and past business operations, including, but not limited to:

- disputes over coverage or claims adjudication;
- disputes regarding sales practices, disclosure, premium refunds, licensing, regulatory compliance and compensation arrangements;
- disputes with its agents, producers or network providers over compensation and termination of contracts and related claims;
- disputes relating to customers regarding the ratio of premiums to benefits in its various business lines;
- disputes with taxing authorities regarding its tax liabilities; and
- disputes relating to certain businesses acquired or disposed of by it.

10. RISKS (continued)

In addition, plaintiffs continue to bring new types of legal claims against insurance and related companies. Current and future court decisions and legislative activity may increase Jevco's exposure to these types of claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant damage award or a judicial ruling that was otherwise detrimental, could create a precedent in the insurance industry that could have a material adverse effect on Jevco's results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult to obtain. Jevco cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on its business.

Jevco may be subject to governmental or administrative investigations and proceedings in the context of its highly regulated sectors of activity. Jevco cannot predict the outcome of these investigations, proceedings and reviews, and cannot give assurances that such investigations, proceedings or reviews or related litigation or changes in operating policies and practices would not materially adversely affect its results of operations and financial condition. In addition, if Jevco were to experience difficulties with its relationship with a regulatory body in a given jurisdiction, it could have a material adverse effect on its ability to do business in that jurisdiction.

If Jevco fails to comply with applicable insurance laws or regulatory requirements, Jevco's business, results of operations and financial condition could be adversely affected.

Jevco is subject to numerous laws and regulations. These laws and regulations delegate regulatory, supervisory and administrative powers to federal and provincial agencies. Such regulation generally is designed to protect policyholders rather than shareholders, and is related to matters including:

- rate setting;
- risk-based capital and solvency standards;
- restrictions on the amount, type, nature, quality and quantity of investment securities;
- the maintenance of adequate reserves for unearned premiums and unpaid claims;
- restrictions on the types of terms that can be included in insurance policies;
- standards for accounting;
- marketing practices;
- claims settlement practices;
- the examination of insurance companies by regulatory authorities, including periodic financial and market conduct examinations;
- the licensing of insurers and their agents;
- limitations on dividends and transactions with affiliates;
- approval of certain reinsurance transactions; and
- insolvency proceedings.

In addition, these regulations typically require Jevco to periodically file financial statements and annual reports, prepared on a statutory accounting basis, and other information with insurance regulatory authorities, including information concerning its capital structure, ownership, financial condition and general business operations.

Jevco allocates considerable time and resources to comply with these requirements. Any failure to comply with applicable laws or regulations could result in the imposition of fines or significant restrictions on Jevco's ability to do business, which could adversely affect its results of operations or financial condition. In addition, any changes in laws or regulations, including the adoption of consumer initiatives regarding rates charged for automobile or other insurance coverage or claims handling procedures, could materially adversely affect Jevco's business, results of operations and financial condition.

OSFI has solvency requirements and uses the MCT ratio as its benchmark. If Jevco does not comply with these minimum capital requirements, it may be restricted or prohibited from operating. If Jevco is required to increase its reserves in the future, as a result of unexpectedly poor claims experience or otherwise, Jevco may violate these minimum capital requirements unless it is able to take actions to improve its solvency. As a result, its business, results of operations, and financial condition may be materially adversely affected.

It is not possible to predict the future impact of changing federal, state and provincial regulation on Jevco's operations, and there can be no assurance that laws and regulations enacted in the future will not be more restrictive than existing laws and regulations.

10. RISKS (continued)

Human Resources Risk

Jevco's business depends upon key employees, and if Jevco is unable to retain the services of these key employees or to attract and retain additional qualified personnel, Jevco's business may suffer.

Jevco's success has been, and will continue to be, dependent on its ability to retain the services of its existing key employees and to attract and retain additional qualified personnel in the future. The loss of the services of any of its key employees, or the inability to identify, hire and retain other highly qualified personnel in the future, could adversely affect the quality and profitability of Jevco's business operations.

Other Risk Factors Related to Westaim

A single shareholder may be able to exert significant influence over Westaim's affairs.

Her Majesty the Queen in Right of the Province of Alberta ("HMQ"), acting for and on behalf of certain Alberta public sector pension plans, endowments and government funds holds a significant number of Non-Voting Shares as well as warrants entitling it to purchase additional Non-Voting Shares. Accordingly, HMQ has significant influence over the business and affairs of Westaim and has the ability to take shareholder actions irrespective of the vote of any other shareholders, including the ability to prevent certain transactions that it does not believe are in its best interest. This significant influence may discourage transactions involving a change of control of Westaim, including transactions in which minority shareholders of Westaim might otherwise receive a premium for their shares over the then-current market price.

Furthermore, HMQ generally has the right (subject to applicable securities laws) at any time to sell Westaim Shares held by it or to sell its interest in Westaim to a third party without the approval of the minority shareholders and without providing for a purchase of such shareholders' shares. Accordingly, Westaim Shares held by minority shareholders may be less liquid and worth less than they would be if HMQ did not have the ability to influence matters affecting Westaim.

Westaim may require significant additional funding.

Westaim's future capital requirements will depend upon many factors, including the expansion of Jevco's sales and marketing efforts, the status of competition and potential acquisitions. There can be no assurance that any additional financing will be available to Westaim on acceptable terms, or at all. If additional funds are raised by issuing equity securities, further dilution to the existing shareholders will result. If adequate funds are not available, Westaim or Jevco may be required to delay, scale back or eliminate its programs. Accordingly, the inability to obtain such financing could have a material adverse effect on Westaim's business, financial condition and results of operations

11. RELATED PARTY TRANSACTIONS

In April 2009, the Company entered into a management services agreement ("MSA") with Goodwood to manage the day-to-day affairs of the Company and to present investment opportunities for the Board of Directors to consider. Under the MSA, Goodwood provides the services of two directors, one of whom is also the President and Chief Executive Officer, as well as the services of a Chief Financial Officer.

Effective April 2010, the MSA was amended so that Goodwood will earn a fixed fee to be determined annually by an independent committee of the Board of Directors based on the recommendations of an independent compensation consultant. The fixed fee compensates Goodwood 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 provided or made available by Goodwood to the Company. Goodwood will also be entitled to participate in an annual incentive bonus plan for the purpose of recognizing the contribution of Goodwood to the Company's business and affairs over the preceding year.

Goodwood earned fees from the MSA of $0.6 million for the three months ended December 31, 2010 (2009 – $1.2) and $1.9 million for the year ended December 31, 2010 (2009 – $1.7 million).

In the second quarter of 2010, Goodwood was granted 25,775,225 RSUs which vest evenly over three years and are payable when vested in cash or common shares of the Company.

12. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures (“DC&P”)

DC&P are designed to provide reasonable assurance that information required to be disclosed by the Company in reports filed with or submitted to various securities regulators is recorded, processed, summarized and reported within the time periods specified. This information is gathered and reported to the Company’s management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), so that timely decisions can be made regarding disclosure.

The Company’s management, under the supervision of, and with the participation of, the CEO and CFO, have designed and evaluated the Company’s DC&P, as required in Canada by “National Instrument – 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings”. Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2010, the Company’s DC&P were effective.

Internal Control over Financial Reporting (“ICFR”)

Designing, establishing and maintaining adequate ICFR is the responsibility of the Company’s management. ICFR is a process designed by, or under the supervision of, senior management, and effected by the Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company’s consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). Management is responsible for establishing and maintaining ICFR and has designed such controls to ensure that the required objectives of these internal controls have been met. Management uses the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company regularly reviews and enhances its systems of controls and procedures. However, because of the inherent limitations in all control systems, management acknowledges that ICFR will not prevent or detect all misstatements due to error or fraud. Prior to its release, this quarterly report to shareholders was reviewed by the Audit Committee and, on the Audit Committee’s recommendation, approved by the Company’s Board of Directors, consistent with prior quarters.

There were no changes in the Company’s ICFR that occurred during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, ICFR.

As of December 31, 2010, the CEO and the CFO of the Company have evaluated the effectiveness of the Company’s ICFR. Based on those evaluations, the CEO and CFO have concluded that at December 31, 2010, the controls and procedures were operating effectively. There are no material weaknesses that have been identified by management in this regard.

With the acquisition of Jevco on March 29, 2010, the Company’s certifying officers have limited the scope of design of DC&P and ICFR to exclude the controls, policies and procedures of Jevco, which is consolidated in the audited annual financial statements of the Company. With the work currently underway, the Company’s certifying officers expect to remove this limitation within the timeframe permitted by regulation.

13. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions, some of which relate to matters that are uncertain. As more information becomes known, these estimates and assumptions could change and thus have a material impact on the Company’s financial condition and results of operations in the future. The Company has established detailed policies and control procedures that are intended to ensure that management’s judgments and estimates are well controlled, independently reviewed and consistently applied from period to period. Management believes that its estimates for determining the valuation of the Company's assets and liabilities are appropriate.

13. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

Provision for Unpaid Claims and Adjustment Expenses
Significant judgment is required to determine amounts recorded in the audited annual consolidated financial statements for the provision for unpaid claims. The process for establishing the provision for unpaid claims reflects the uncertainties and significant judgmental factors inherent in predicting future results of both known and unknown claims. As such, the process is inherently complex and imprecise and estimates are constantly refined. The process of establishing the provision for unpaid claims relies on the judgment and opinions of a large number of individuals, including the opinions of the external independent Appointed Actuary. Further information regarding estimates used in determining the Company's provision for unpaid claims is discussed in Section 6, *Balance Sheet Analysis* of this MD&A and in Notes 17 and 18 to the audited annual consolidated financial statements for the year ended December 31, 2010.

Impairment of Investments
The establishment of an other-than-temporary impairment on an investment security requires a number of judgments and estimates. Management performs a quarterly analysis of the investment holdings to determine if declines in market value are other-than-temporary. Further information regarding analysis procedures used in determining impairment is discussed in Note 7 to the audited annual consolidated financial statements for the year ended December 31, 2010.

14. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Company's audited annual consolidated financial statements are prepared in accordance with Canadian GAAP and reported in Canadian dollars. The Company's accounting policies are disclosed in Note 3 to the audited annual consolidated financial statements for the year ended December 31, 2010 (December 31, 2009 – Note 2).

15. FUTURE ACCOUNTING PRONOUNCEMENTS

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in GAAP, as used by publicly accountable entities, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. In 2008, the AcSB confirmed January 1, 2011 as the date that Canadian publicly accountable entities will be required to start reporting under IFRS. Qualitative disclosure of the impact of the transition was required in companies' 2009 and 2010 interim and annual Management's Discussion and Analysis.

Comparative financial information for 2010 will be required to be presented when companies begin reporting 2011 results under IFRS. The Company's consolidated financial statements will be prepared in accordance with IFRS for the first time for the first quarter of the fiscal year commencing January 1, 2011 and will include comparative information for the same period of the prior year. An opening January 1, 2010 balance sheet will be presented along with a reconciliation of the adjustments determined upon conversion from Canadian GAAP to IFRS.

IFRS uses a formal conceptual framework similar to that of Canadian GAAP, but there are some significant differences in recognition, measurement and disclosures that have been identified and will be addressed in the course of the project implementation.

A formal IFRS Project Charter and a detailed IFRS Project Plan were prepared by the Company during the Initial Assessment Phase of the Project, outlining the key elements and timing of its plan, and both were approved by the IFRS Steering Committee and the Audit Committee.

The Project Charter focuses on the purpose and objectives of the project, expectations and deliverables to key stakeholders, project scope and approach, milestone plan with expected completion dates, criteria and deliverables, significant project risks and mitigation actions, roles and responsibilities of the IFRS Project Steering and Implementation Committee, project management, issue resolution, and communication plan.

15. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

IFRS Project Plan

The Company Project Plan consists of four phases:

Phase	Selected Key elements	Status
Phase 1 - Initial Assessment	• Establish project structure, including IFRS Steering and Implementation Committee;	• Completed
	• Prepare an IFRS project charter and project plan;	• Completed
	• Identify significant differences between the existing Canadian GAAP and IFRS and perform a high level impact assessment on the Company's financial statements	• Completed
Phase 2 - Detail Assessment	• Identify IFRS standards applicable to the Company and perform Canadian GAAP vs. IFRS accounting/disclosure gap analysis;	• Completed
	• Perform a detailed analysis of IFRS. Compare to the Company's accounting policies and document the results. Identify required changes and make accounting policy choices, including those under IFRS 1, "First-Time adoption of IFRS". Conduct a high-level preliminary assessment of their impact;	• Completed (See Summary of Key Expected Changes hereafter).
	• Determine process for approval of key decisions and project oversight;	• Completed - An Implementation and Steering Committee has been appointed to approve all significant policy decisions. The Audit Committee receives regular progress updates.
	• Identify required changes in internal control over financial reporting, information technology, disclosure controls and procedure and assess business impact;	• Completed
	• Comply with the regulatory reporting requirements (i.e. requirements by OSFI, FSCO and CSA)	• Completed
Phase 3 - Solution Development	• Design and develop required changes in information technology, internal control over financial reporting, disclosure controls and procedures;	• No significant change is expected to the information technology, internal controls over financial reporting, disclosure controls and procedures.
	• Identify business impact of conversion, including effect on contracts, compensation arrangement and regulatory capital;	• Insurance contracts were reviewed and no significant impacts were identified as a result of conversion to IFRS. No significant change is expected to compensation as a result of adoption of IFRS. Effect on regulatory capital is currently under review in conjunction with OSFI requirements
	• Prepare quarterly and year-end IFRS financial statement models;	• In progress
	• Design and provide training for the employees directly or indirectly associated with IFRS conversion	• In progress.
Phase 4 - Implementation	• Implement IFRS accounting policies, perform data gathering and prepare IFRS opening balance sheet and comparative financial information, including additional disclosure and information;	• Data collection for opening balance sheet is completed. Data collection for each quarter in fiscal year 2010 is in progress. A completed assessment of the impact of adopting IFRS will be performed, once data collection is completed. Process to track additional disclosure under IFRS is in progress in parallel with the preparation of the IFRS financial statement models.
	• Communicate impact of conversion to IFRS to external Stakeholders;	• Communication will continue to be made through annual and quarterly reports and through semi-annual IFRS progress report to OSFI.
	• Prepare quarterly and year-end IFRS financial statements	• To be prepared during fiscal year 2011.

15. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

Summary of Key Expected Changes on Conversion to IFRS

The International Accounting Standards Board ("IASB") has a number of on-going projects on its agenda. The Company continues to monitor standards issued by the IASB, but does not expect these standards to be mandatory for its 2011 financial statements.

The following summary of key expected changes was completed with the expectation that the Company will apply IFRS as currently written at its transition date.

IFRS 1 applies when an entity adopts IFRS for the first time. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. IFRS 1 also provides certain mandatory and optional exemptions to full retrospective application.

The significant optional exemptions that the Company expects to apply as well as the key changes in accounting policy which are expected to have significant impact with respect to the recognition and measurement of certain balance sheet and statement of operations items are explained within the relevant subject below.

Accounting policy	Key difference in accounting treatment	Potential key impacts
Insurance Contracts (IFRS 4) • Transitional provision (IFRS 1 optional exception)	Under the exemption allowed by IFRS 1, the Company decided to apply the transitional provisions in IFRS 4 -*Insurance Contracts* which in effect will leave existing accounting policies for insurance contracts unchanged.	<u>Opening balance sheet</u> : No impact <u>Subsequent to transition</u>: No impact is expected.
Property, Plant and Equipment (IAS 16) • Componentization	IFRS requires separate amortization of major components of assets. As this requirement is less explicit under Canadian GAAP, the Company has identified a greater number of major components that will be amortized separately under IFRS. The Company also reviewed the useful life of major components of its property.	<u>Opening balance sheet</u>: No impact <u>Subsequent to transition</u>: As a result of the identification of major components for certain properties and revision of their useful life, subsequent amortization expense under IFRS will be lower by a nominal amount in 2010.
Property, Plant and Equipment (IAS 16), Intangible Assets (IAS 38) • "Historic cost model" or "Revaluation model" (IFRS 1 optional exception)	IFRS allows that property, plant and equipment and intangible assets may be subsequently measured using a "historical cost model" (similar to Canadian GAAP) or at a revalued "fair value". The Company elected to subsequently measure its property and equipment using a "historical cost model".	<u>Opening balance sheet</u>: No impact. <u>Subsequent to transition</u>: No impact is expected.
Business Combinations (IFRS 3) • Transitional provision (IFRS 1 optional exception)	The Company will apply the business combinations exemption in IFRS 1 to all business combinations taking place prior to the transition date. Accordingly, the Company does not plan to restate its accounting for business combinations that took place prior to January 1, 2010.	<u>Opening balance sheet</u>: No impact.
Shared-Based Payment (IFRS 2) • Transitional provision (IFRS 1 optional exception)	The Company has elected to apply IFRS 2 – Share-based Payment requirements for equity settled share based payments to awards which vest after the transition date.	<u>Opening balance sheet</u>: No impact.

15. FUTURE ACCOUNTING PRONOUNCEMENTS (continued)

Accounting policy	Key difference in accounting treatment	Potential key impacts
Financial Instruments (IAS 39)		
• Designation of financial assets and financial liabilities (IFRS 1 optional exception)	The Company will not apply this exemption to modify its investment designations at the transition date. Accordingly, existing financial instrument classifications under Canadian GAAP will be the same as those chosen for IFRS unless a change for IFRS is considered mandatory.	Opening balance sheet: No impact.
Effect of changes in foreign exchange rates (IAS 21)		
• Foreign exchange ("FX") gains or losses on AFS Investments	Unrealized FX Gains or losses on investments designated as Available-For-Sale (AFS) should be recorded directly in net earnings under IFRS rather than in Other Comprehensive Income (OCI) as prescribed by Canadian GAAP	Opening balance sheet: No impact. Subsequent to transition: Higher net earnings volatility is expected throughout the life of foreign currency AFS Investments under IFRS.
Provision, Contingent liabilities and Contingent Assets (IAS 37)		
• Provision for site restoration	The provision for site restoration was recognized as an environmental provision under Canadian GAAP. Previously, the provision was not subject to present valuation. According to IFRS, the expected cash outflow should be discounted for the time value of money.	Opening balance sheet: There will be a reduction of provision for site restoration upon transition to IFRS as at January 1, 2010, due to the effect of discounting for the time value of money amounting to approximately $2.5 million. Subsequent to transition: An increase in the obligation from the passage of time amounting to less than $0.1 million annually will be charged to interest expense.
• Contingent liabilities	IFRS requires a contingent liability to be recognized on the balance sheet when it is probable (more likely than not) that an outflow or resource will be required to settle the obligation, while a higher threshold of 'likely' is used under Canadian GAAP.	Opening balance sheet and subsequent to transition: No additional provisions will be recognized under IFRS.

International Financial Reporting Standards that are mandatory at the changeover date have been finalized; however, the IASB's work plan currently has projects underway that are expected to result in new pronouncements that continue to evolve IFRS. The IASB is reviewing the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, with the intention of replacing it with a new standard expected to be applicable no sooner than 2013. The IASB is also expected to review the IAS 12 standard for income taxes and develop proposals for changes. The existing IAS 12 standard is applicable to the Company's transition.

The IASB and U.S. Financial Accounting Standards Board (FASB) are undertaking a comprehensive project on the accounting for insurance contracts. The IASB and FASB joint objective is to develop a common, high-quality standard that will address recognition, measurement, presentation, and disclosure requirements for insurance contracts. The IASB issued the Discussion Paper Preliminary Views on Insurance Contracts in May 2007. On 31 July 2010 the IASB issued ED/2010/08 Insurance Contracts with a comment period ending 30 November 2010.

In June 2010, the IASB issued an exposure draft pertaining to revenue recognition as part of the joint revenue project with the FASB. In August 2010, the IASB issued an exposure draft pertaining to leases as part of the joint leasing project with FASB. The leasing exposure draft proposes that the elimination of the distinction between operating leases and finance leases and would introduce a new model for lessees and lessors.

The Company continues to evaluate the possible effects of new standards and exposure drafts, and will monitor the near-term projects that the IASB initiates for income taxes. The ultimate impacts cannot be determined at this time.

16. QUARTERLY FINANCIAL INFORMATION

	2010				2009			
(millions)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Direct premiums written	$ 72.1	$ 83.6	$ 117.7	$ -	$ -	$ -	$ -	$ -
Net premiums earned	69.2	88.5	78.6	-	-	-	-	-
Net premiums and investment returns	79.7	101.0	85.7	3.9	0.7	0.1	0.2	-
Net underwriting income	0.6	2.1	2.9	-	-	-	-	-
Income (loss)								
- from continuing operations	3.8	21.2	5.5	24.7	(1.0)	(0.4)	(0.6)	(1.3)
- from discontinued operations	(0.1)	(0.2)	(0.2)	(0.5)	5.7	0.2	(0.7)	(1.4)
Net income (loss)	3.7	21.0	5.3	24.2	4.7	(0.2)	(1.3)	(2.7)
Combined ratio	99.1%	97.5%	96.2%					

Gross premium written recorded in the final three quarters of 2010 reflects the premium written by Jevco following the acquisition by the Company at the end of the first quarter. Due to the cyclical nature of certain lines of business such as motorcycle insurance, non-standard automobile insurance and surety, a significant portion of premium is written in the early summer months. As a result, premium is typically highest in the second quarter. Net premium earned tends to be highest over the second and third quarters when motorcycle insurance premiums are in force.

The first quarter of 2010 includes a gain on business acquisition, net of business acquisition costs, of $22.3 million. Further adjustments were made to the gain on business acquisition, net of business acquisition costs in the second ($1.0 million increase) and third ($1.1 million reduction) quarters of 2010. In addition, in the first quarter, there were non-recurring investment gains at the holding company of $4.0 million. Jevco's operating results were consolidated beginning in the second quarter of 2010. The last three quarters of continuing operations reflect Jevco results, offset by the holding company expenses. During the third quarter, additional contingent expenses related to the Jevco acquisition of $1.1 million were determined, based on Jevco results, to be appropriately accrued and expensed. This contingent expense had previously been reported in the Company's contingency note to the interim consolidated financial statements for the first and second quarters of 2010. The third quarter includes income of $15.3 million resulting from the release of the valuation allowance previously provided against non capital tax loss benefits which, due to the third quarter corporate reorganization, are now expected to be realized.

In the fourth quarter of 2009, income from discontinued operations included a gain on the sale of the assets and business of Nucryst of $10.9 million before minority interest of $2.7 million. The losses from discontinued operations in 2010 included the wind up costs of subsidiary companies, Nucryst and iFire, whereas the losses from discontinued operations in 2009 included the operations of Nucryst to the date of sale in December 2009 and the wind up costs of iFire.

17. THREE YEAR HISTORIC INFORMATION

Highlights	Year ended December 31		
(millions except per share data)	2010	2009	2008
Direct premiums written	$ 273.4	$ -	$ -
Net premiums written	$ 254.9	$ -	$ -
Net premiums earned	$ 236.3	$ -	$ -
Underwriting expenses	230.8	-	-
Underwriting income	5.5	-	-
Investment results (income and net realized gains and losses)	34.1	1.0	(0.5)
Corporate costs and other	(5.1)	(4.4)	(4.4)
Site restoration provision adjustment	0.5	0.8	-
Stock-based compensation expense	(6.6)	(0.8)	(0.6)
Other income, net	22.2	-	6.0
Income (loss) from continuing operations before income taxes	50.6	(3.4)	0.5
Income tax recovery	4.5	-	-
Net income (loss) from continuing operations	55.1	(3.4)	0.5
(Loss) income from discontinued operations, net of Income taxes	(1.0)	3.9	(10.7)
Net income (loss)	54.1	0.5	(10.2)
Other comprehensive income (loss)	4.2	(1.1)	2.9
Comprehensive income (loss)	$ 58.3	$ (0.6)	$ (7.3)
Net income (loss) per common share			
– Continuing operations - basic and diluted	$ 0.11	$ (0.04)	$ 0.01
– Net income (loss) - basic	$ 0.11	$ 0.01	$ (0.11)
– Net income (loss) - diluted	$ 0.10	$ 0.01	$ (0.11)
Total assets	$ 1,270.4	$ 72.5	$ 77.3

The Company did not declare dividends during its 2010, 2009 or 2008 financial years.

Jevco's operating results prior to the date of acquisition are not included in the Company's audited annual consolidated financial statements. The audited annual consolidated financial statements for the year ended December 31, 2010 include Jevco's operating results from the date of acquisition on March 29, 2010 to December 31, 2010. See Section 2, *Overview of Performance* of this MD&A for further discussion of 2010 and 2009.

The losses from discontinued operations in 2010 included the wind up costs of subsidiary companies, Nucryst and iFire, whereas the losses from discontinued operations in 2009 included the operations of Nucryst to the date of sale in December 2009 and the wind up costs of iFire which underwent a write down of its capital assets in 2008. In 2009, income from discontinued operations included a gain on the sale of the assets and business of Nucryst of $10.9 million before minority interest of $2.7 million. The losses from discontinued operations in 2008 included the operations of Nucryst and iFire as well as a net loss on the sale of capital assets and write down of intangible assets of $2.1 million related to iFire. Other income of $6.0 million in 2008 related to a gain upon disposition of a subsidiary company.

18. 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 effect of adverse changes in equity markets or the Company’s operations; the Company’s ability to compete successfully in the insurance industry; expectations that the Company can continue to set its premiums at a level which produces an acceptable return compared to the risk assumed; the Company’s ability to realize its investment objectives; the adequacy of the Company’s provision for unpaid claims; the Company’s ability to maintain its claims paying ratings; the Company’s ability to obtain reinsurance with reliable carriers at acceptable rates; expectations regarding the Company’s assets and liabilities; the Company’s ability to retain key employees, customers and broker relationships; 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.

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) difficult economic conditions or a prolonged economic downturn may adversely affect the Company’s business; (ii) the Company may not be able to realize its investment objectives or its liquid assets may prove to be insufficient to meet future obligations; (iii) the Company or the insurance industry generally may be subject to negative publicity; (iv) the highly competitive nature of the insurance industry; (v) the Company may be unable to maintain its claims paying ratings; (vi) the Company’s business could be affected by political, regulatory, economic or other influences; (vii) the Company’s provision for unpaid claims may be inadequate; (viii) the Company relies on independent brokers for much of its business; (ix) a majority of the Company’s direct premiums written are concentrated in the non-standard automobile and recreational vehicle insurance markets; (x) rising reinsurance rates or a lack of available reinsurance may adversely affect the Company’s business; (xi) risks related to litigation and regulatory actions; (xii) failure to comply with applicable insurance laws or regulatory requirements may adversely affect the Company’s business; (xiii) the Company’s business depends upon certain key employees; (xiv) the Company may have undisclosed liabilities; (xv) the Company may require significant additional funding; and (xvi) other risk factors set forth in the Company's Annual Report or Annual Information Form. Except as required by law, the Company disclaims any intention or obligation to revise forward-looking statements, whether as a result of new information, future developments, or otherwise. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

The Westaim Corporation
Consolidated Balance Sheets

(thousands of Canadian dollars)	December 31 2010	December 31 2009
ASSETS		
Cash and cash equivalents	$ 32,897	$ 62,423
Investments (notes 7 and 14)	993,279	9,231
Accrued investment income	5,327	-
Financed premiums	65,104	-
Income taxes recoverable	472	-
Claims recoverable from other insurers (note 16)	40,246	-
Accounts receivable and other assets	26,505	913
Recoverable from reinsurers (notes 17 and 18)	29,684	-
Deferred policy acquisition costs	29,802	-
Future income taxes (note 10)	22,477	-
Capital assets (note 8)	22,658	-
Intangible assets (note 9)	1,975	-
	$ 1,270,426	$ 72,567
LIABILITIES		
Accounts payable and accrued liabilities	$ 25,750	$ 8,189
Income taxes payable	-	850
Leasehold inducements (note 8)	2,779	-
Unearned premiums	157,007	-
Unpaid claims and adjustment expenses (notes 17 and 18)	705,071	-
Provision for site restoration (note 19)	5,000	5,525
	895,607	14,564
Commitments and contingencies (note 20)		
EQUITY		
SHAREHOLDERS' EQUITY		
Capital stock (note 11)	691,435	426,282
Warrants (note 11)	1,900	-
Contributed surplus	8,734	8,734
Accumulated other comprehensive income	4,177	-
Deficit	(331,427)	(385,597)
	374,819	49,419
Equity held by non-controlling interest	-	8,584
	374,819	58,003
	$ 1,270,426	$ 72,567

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 Operations and Comprehensive Income (Loss)

(thousands of Canadian dollars except share and per share data)		Year Ended December 31 2010		2009
Direct premiums written	$	273,382	$	-
Net premiums written	$	254,872	$	-
Revenue				
Net premiums earned	$	236,304	$	-
Net investment income (note 7)		24,106		293
Net realized gains on sale of securities		9,999		732
		270,409		1,025
Expenses				
Net claims and adjustment expenses		162,033		-
Commissions and premium taxes		47,142		-
General and administrative expenses		21,503		-
		230,678		-
Operating income		39,731		1,025
Corporate costs and other		(4,926)		(4,389)
Site restoration provision recovery (note 19)		525		805
Stock-based compensation expense (note 12)		(6,586)		(791)
Foreign exchange loss		(270)		(29)
Gain on business acquisition (note 5)		25,084		-
Costs of business acquisition (note 5)		(2,936)		-
		10,891		(4,404)
Income (loss) from continuing operations, before income taxes		50,622		(3,379)
Income taxes (note 10)				
Current		9,466		-
Future		(14,004)		-
		(4,538)		-
Income (loss) from continuing operations		55,160		(3,379)
(Loss) income from discontinued operations, net of income taxes (note 6)		(990)		3,898
Net income	$	54,170	$	519

Consolidated Statements of Comprehensive Income (Loss)				
Net income	$	54,170	$	519
Other comprehensive income (loss)				
Unrealized gains, net of income taxes		4,177		-
Reclassification of realized gains to net income		-		(963)
Unrealized loss on translation of net foreign operations		-		(157)
Total other comprehensive income (loss)		4,177		(1,120)
Comprehensive income (loss)	$	58,347	$	(601)
Earnings (loss) per common share (note 13)				
Income (loss) from continuing operations - basic and diluted	$	0.11	$	(0.04)
Net income - basic		0.11		0.01
Net income - diluted		0.10		0.01
Weighted average number of common shares outstanding (in thousands)				
Basic		511,762		94,220
Diluted		517,786		94,487

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

The Westaim Corporation
Consolidated Statements of Accumulated Other Comprehensive Income and Deficit

(thousands of Canadian dollars)		Year Ended December 31 2010		2009
Consolidated Statements of Accumulated Other Comprehensive Income				
Balance at beginning of year	$	-	$	1,120
Unrealized gains (losses), net of income taxes, on available-for-sale investments [1]		4,177		(963)
Foreign currency [2]		-		(157)
Balance at end of year	$	4,177	$	-
Consolidated Statements of Deficit				
Balance at beginning of year	$	(385,597)	$	(386,116)
Net income		54,170		519
Balance at end of year	$	(331,427)	$	(385,597)

(1) Net of income tax of $1,709 (2009 - $nil)
(2) Net of income tax of $nil (2009 - $nil)

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 2010	2009
Operating activities		
Income (loss) from continuing operations	$ 55,160	$ (3,379)
Items not affecting cash		
Net realized gains on sale of securities	(9,999)	(732)
Future income taxes	(14,004)	-
Amortization of bond premiums	5,206	-
Amortization of capital and intangible assets	2,011	-
Site restoration provision recovery	(525)	(805)
Gain on business acquisition	(25,084)	-
Changes in non-cash balances		
Recoverable from reinsurers	17,642	-
Deferred policy acquisition costs	(296)	-
Unearned premiums	18,929	-
Unpaid claims and adjustment expenses	(59,904)	-
Net change in other non-cash balances	(7,271)	(820)
Cash used in continuing operations	(18,135)	(5,736)
Cash used in discontinued operations	(6,511)	(654)
Cash used in operating activities	(24,646)	(6,390)
Investing activities		
Purchase of investments	(1,838,497)	(6,138)
Proceeds from sale and redemption of investments	1,789,887	1,901
Purchase of capital assets	(3,650)	(618)
Proceeds from sale of capital assets	34,808	-
Business acquisition, net of cash acquired	(245,713)	-
Proceeds from sale of discontinued operations	-	31,544
Cash (used in) provided from investing activities	(263,165)	26,689
Financing activities		
Issuance of capital stock, net of issuance cash costs	267,054	-
Repurchase of shares from non-controlling interest	(8,769)	-
Return of capital of subsidiary	-	(4,644)
Cash provided from (used in) financing activities	258,285	(4,644)
Net (decrease) increase in cash and cash equivalents	(29,526)	15,655
Cash and cash equivalents at beginning of year	62,423	46,768
Cash and cash equivalents at end of year	$ 32,897	$ 62,423
Cash and cash equivalents is comprised of:		
Cash	$ 32,897	$ 39,546
Cash equivalents	-	22,877
	$ 32,897	$ 62,423
Supplemental disclosure of cash flow information:		
Interest paid	$ 25	$ -
Income taxes paid	16,981	-

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

1 Nature of Operations and Basis of Presentation

The Westaim Corporation (the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company trades on the Toronto Stock Exchange under the symbol WED.

The Company, through its wholly-owned subsidiary, Jevco Insurance Company ("Jevco"), operates in the insurance industry in Canada. Jevco is licensed in all provinces and territories in Canada to write all classes of insurance, other than life.

These consolidated financial statements also include the accounts of wholly-owned subsidiaries, Westaim Holdings Limited (formerly Nucryst Pharmaceuticals Corp., "Nucryst") and iFire Technology Ltd. ("iFire").

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and the accounting requirements of the Office of the Superintendent of Financial Institutions, Canada ("OSFI").

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

2 Adoption of New Accounting Policies

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued new Handbook Section 1582 "Business Combinations" replacing Handbook Section 1581 "Business Combinations". It provides the Canadian equivalent to International Financial Reporting Standards IFRS 3 "Business Combinations" (January 2008). The Section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. If an entity applies this Section before January 1, 2011, it shall disclose that fact and apply Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests" at the same time. The Company adopted this new Section for its fiscal year beginning January 1, 2010.

In January 2009, the CICA issued new Handbook Section 1601 "Consolidated Financial Statements". This Section, together with new Handbook Section 1602 "Non-Controlling Interests", replaces Section 1600 "Consolidated Financial Statements" and establishes standards for the preparation of consolidated financial statements. The Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582 "Business Combinations" and Section 1602 "Non-Controlling Interests". The Company adopted this new Section for its fiscal year beginning January 1, 2010.

In January 2009, the CICA issued new Handbook Section 1602 "Non-Controlling Interests". This new Section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Accounting Standard IAS 27 "Consolidated and Separate Financial Statements" (January 2008). This Section applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. An entity adopting this Section for a fiscal year beginning before January 1, 2011 also adopts Section 1582 "Business Combinations" and Section 1601 "Consolidated Financial Statements". The Company adopted this new Section for its fiscal year beginning January 1, 2010.

3 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. Intercompany balances and transactions are eliminated upon consolidation.

3 Significant Accounting Policies (continued)

(b) 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, with the exception of cash equivalents designated as a component of the investment portfolio which are classified as investments.

(c) Investments

Investments are classified according to accounting models: available-for-sale, held-for-trading, held-to-maturity and cost. Available-for-sale investments are carried at their fair value whereby the unrealized gains and losses are included in accumulated other comprehensive income ("AOCI") until sale or other-than-temporary impairment is recognized, at which point cumulative unrealized gains or losses are transferred to the Statement of Operations. Realized gains and losses on sale, determined on an average cost basis, and write-downs to reflect other-than-temporary impairments in value are included in 'net realized gains and losses on sale of securities'. Changes in the fair value of investments designated as held-for-trading are charged or credited to net income for the current period. Held-to-maturity investments are carried at amortized cost using the effective interest method. Equity investments that do not have a quoted market price in an active market are reported at cost.

The Company accounts for investments using settlement date accounting. Transaction costs are capitalized and, when applicable, amortized over the expected life of the instrument using the effective interest method. Interest income is included in investment income on an accrual basis. Dividend income on common and preferred shares is included in investment income on the ex-dividend date.

The Company conducts quarterly reviews to identify and evaluate securities (both debt and equity) that show objective indications of possible impairment. Impairment is charged to income if the fair value of a security falls below its cost/amortized cost, and the decline is considered other-than-temporary. Factors considered in determining whether a loss is other-than-temporary include length of time and extent to which fair values have been below cost; financial condition and near-term prospects of the issuer; and the Company's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

(d) Deferred policy acquisition costs

The Company defers brokers' commissions, premium taxes and other underwriting and marketing costs relating to the acquisition of premiums written to the extent they are considered recoverable. These costs are then expensed as the related premiums are earned. Changes in estimates are reported as expenses in the accounting period in which they are determined. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs.

(e) Income taxes

Income taxes are accounted for using the liability method of income tax allocation. Under the liability method, income tax assets and liabilities are recorded to recognize future income tax inflows and outflows arising from the settlement or recovery of assets and liabilities at their carrying values.

Valuation allowances are established when necessary to reduce future tax assets to the amount that, in the opinion of management, is more likely than not to be realized. Future income tax assets and liabilities are determined based on the substantively enacted tax laws and rates that are anticipated to apply in the period of realization.

(f) Capital assets

Capital assets are reported at cost less accumulated amortization. Amortization of capital assets is provided using the straight-line method over the estimated useful lives of such assets. The useful lives are 30 years for buildings, 15 years for leasehold improvements, 5 to 7 years for furniture and equipment, and 3 to 5 years for computers and automobiles.

3 Significant Accounting Policies (continued)

(g) Intangible assets

Intangible assets are comprised of purchased software and internally developed software. Amortization of the intangible assets is provided using the straight-line method over the estimated useful lives of 3 to 5 years.

(h) Leasehold inducements

Leasehold inducements are benefits related to the rental of premises by the Company. They are amortized over the term of the lease and applied against the rent expense.

(i) Net premiums earned and unearned premiums

The Company earns motorcycle premiums over the period of risk covered by the policy based on its experience. The Company earns premium revenue on all other lines evenly over the period covered by each individual insurance contract. Unearned premiums reported on the consolidated balance sheets represent the portion of premiums written related to the unexpired risk portion of the policy at the end of the period.

The reinsurers' share of unearned premiums is recognized as amounts recoverable using principles consistent with the Company's method for determining the unearned premium liability.

In Canada, automobile insurance premium rates, other than for fleet automobiles are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. A significant portion of the Company's revenue is subject to regulatory approvals.

(j) Automobile insurance industry pools

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured via the Facility Association ('FA"). In addition, entities can choose to cede certain risks to FA administered risk sharing pools ("RSP"). The related risks associated with FA insurance policies and policies ceded by companies to the RSP are aggregated and shared by the entities in the P&C insurance industry, generally in proportion to market share. The Company applies the same accounting policies to FA and RSP insurance it assumes as it does to insurance policies issued by the Company directly to its policyholders. In accordance with OSFI guidelines, ceded and assumed RSP and FA premiums are reported in direct written premiums on the statement of operations.

(k) Unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses includes an estimate of the projected final settlements of claims incurred on or before the balance sheet date, including claims incurred but not reported by policy holders ("IBNR") and an estimate of the full amount of all expected costs The provision takes into consideration the time value of money using discount rates based on projected investment income from the assets supporting the provisions and includes an explicit provision for adverse development. Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as amounts recoverable at the same time using principles consistent with the Company's method for establishing the related liability.

These estimates of future claims payments and adjustment expenses are subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in light of emerging claims experience and changing circumstances. The resulting changes in estimates of the ultimate liability are reported as net claims and adjustment expenses in the accounting period in which they are determined.

(l) Provision for site restoration

Future site restoration costs relating to tangible long-lived assets, previously owned by the Company, are estimated, taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and the possible uses of the site. The estimated amount of future restoration costs is reviewed periodically based on available information.

3 Significant Accounting Policies (continued)

Potential recoveries of costs resulting from indemnifications provided by previous owners of the Company's industrial sites have not been recognized in these consolidated financial statements as the amount of recovery cannot be reasonably determined. Any future recoveries will be recorded when received.

(m) Claims recoverable from other insurers

The expected recoveries from other insurers on claims are recognized as amounts recoverable at the same time as the related liability, using principles consistent with the Company's method for establishing the related liability.

(n) Recoverable from reinsurers

Premiums earned and claims and adjustment expenses are reported net of amounts ceded to and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses are reported separately from related estimated amounts payable to policyholders. Unearned premiums and deferred policy acquisition costs are also reported before reduction for business ceded to reinsurers and the reinsurer's portion is classified with amounts recoverable from reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with liabilities associated with the reinsured policy.

(o) Employee future benefits

The Company provides employees with future benefits under defined contribution plans. Costs for these benefit plans reported in the year ended December 31, 2010 were $280, representing a decrease of $128 from costs of $408 for the year ended December 31, 2009. The 2010 expense resulted from the acquisition of Jevco whereas the 2009 expense related to the discontinued Nucryst operations.

(p) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 12. Compensation expense for stock options is accounted for using the fair value method whereby compensation expense for awards that call for settlement in cash or other assets is measured on an ongoing basis as the amount by which the quoted market price exceeds the exercise price at each measurement date. Any consideration paid by stock option holders for the purchase of stock is credited to capital stock. If plan entitlements are repurchased from the holder, the consideration paid is charged to deficit.

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

(q) Discontinued operations

The results of discontinued operations are reported as a separate component in the consolidated statements of operations and consolidated cash flow statements. Costs associated with an exit or disposal activity are recognized in the period in which the liability is incurred.

(r) Disposal of long-lived assets

Long-lived assets to be disposed of by sale are classified as held for sale in the period in which a formal plan of disposal has been approved, the assets are available for immediate sale and are actively being marketed and the sale is expected to occur within one year. Long-lived assets to be abandoned are classified as held and used until they are disposed of. Long-lived assets classified as held for sale are carried at the lower of their carrying amount and fair value, net of estimated disposition costs. Losses are recognized immediately where carrying value exceeds fair value and gains are recognized at the time of sale.

3 Significant Accounting Policies (continued)

(s) Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates of exchange at the time of such transactions. Monetary assets and liabilities are translated at current rates of exchange. The resulting gains and losses are included in the consolidated statement of operations.

The former foreign operations of Nucryst were considered financially and operationally self-sustaining and translated into Canadian dollars using the current rate method of translation. Under this method, assets and liabilities were translated at the year-end exchange rates. Unrealized gains and losses arising from translating net investments in foreign operations were included in shareholders' equity as a component of AOCI. Following the sale of the assets and operations of Nucryst effective December 22, 2009 (note 6), the Company no longer has any foreign operations, and the accumulated unrealized gains and losses arising on translation of Nucryst's former foreign operations were recognized in the year ended December 31, 2009 as a component of the gain on sale and removed from AOCI (note 6).

(t) Accumulated other comprehensive income (loss)

Certain gains and losses arising from changes in fair value are temporarily recorded outside the consolidated statement of operations in accumulated other comprehensive income (loss) as a separate component of shareholders' equity. Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) may include any unrealized gains and losses on available-for-sale securities, foreign currency translation gains (losses) on net investments in self-sustaining foreign operations and changes in the fair market value of derivative instruments designated as cash flow hedges.

(u) Earnings per share

Basic earnings per common share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated on the basis of the weighted average number of shares outstanding during the 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.

(v) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions 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 period. Key areas where management has made difficult, complex or subjective judgments, often as a result of matters inherently uncertain include income taxes, unpaid claims and adjustment expenses and investment impairment. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

4 Recent and Future Accounting Pronouncements

The CICA has announced that Canadian GAAP for publicly accountable enterprise companies will be replaced with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company will begin reporting its financial statements in accordance with IFRS for the fiscal year commencing on January 1, 2011.

Commencing in the first quarter of 2011, the Company's consolidated financial statements will be prepared in accordance with IFRS, with 2010 comparative figures and the January 1, 2010 opening balance sheet restated to conform to IFRS, along with reconciliations from GAAP to IFRS, as per the guidance provided in IFRS 1 "First-Time Adoption of International Financial Reporting Standards".

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

5 Business Acquisition

On January 25, 2010, the Company announced that it had agreed to acquire all of the issued and outstanding shares of Jevco from Kingsway Financial Services Inc. (the "Acquisition") and had arranged equity financing of $275,000 for the purpose of completing the Acquisition (the "Financing").

Jevco, a federal property and casualty insurance company, was incorporated under the Insurance Companies Act on April 10, 1980, and is licensed in all provinces and territories in Canada to write all classes of insurance, other than life. Jevco specializes in providing insurance products covering non-standard auto, recreational vehicles, commercial auto, property and liability. Jevco also provides surety insurance primarily to participants in the Canadian construction industry.

At closings held on February 9, 2010 and February 19, 2010 in connection with the Financing, the Company issued and sold, on a private placement basis, an aggregate of 550,000,000 subscription receipts at a purchase price of $0.50 each for aggregate gross proceeds of $275,000. Following the approval of shareholders at a special meeting on March 25, 2010 and the receipt of the necessary regulatory approvals, the Acquisition was completed on March 29, 2010 for a purchase price of $261,408. Immediately prior to the closing of the Acquisition on March 29, 2010, the subscription receipts were automatically converted into 486,147,088 common shares and 63,852,912 Series 1 Class A non-voting, convertible participating preferred shares of the Company. In connection with the Financing, the Company also issued 10,000,000 warrants to purchase an equal number of Series 1 Class A non-voting, convertible participating shares of the Company at an exercise price of $0.50 per share. The warrants expire on February 9, 2013 (note 11).

Proceeds of the Financing to the Company were $265,103, net of transaction costs of $9,897, of which $1,900 was non-cash and related to the valuation of the warrants issued. The future income tax asset relating to the transaction costs has been fully offset by a valuation allowance.

In accordance with CICA Handbook Section 1582, the difference between the purchase price of $261,408 and the fair value of net assets of Jevco has been reported as a gain on business acquisition in these consolidated financial statements, as follows:

Net assets acquired at estimated fair value		
Cash	$	15,695
Investments		924,853
Accrued investment income		9,943
Financed premiums		52,243
Claims recoverable from other insurers		27,151
Accounts receivable and other assets		32,131
Recoverable from reinsurers		47,326
Deferred policy acquisition costs		29,506
Future income taxes		8,609
Capital assets		19,882
Capital assets held for sale		34,650
Intangible assets		1,312
Accounts payable and accrued liabilities		(9,644)
Income taxes payable		(4,112)
Unearned premiums		(138,078)
Unpaid claims and adjustment expenses		(764,975)
	$	286,492

Purchase price paid - cash	$	261,408
Gain on business acquisition – excess of fair value over purchase price		25,084
	$	286,492

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

5 Business Acquisition (continued)

Management has used its best estimates in determining the fair values of the net assets acquired. The gain on business acquisition of $25,084 resulted from the shares of Jevco being acquired at a discount to the acquisition-date fair value of its net assets.

At closing of the Acquisition, the Company paid an amount of $20,000 to be held in escrow in respect of some of the claims reserve for Jevco's insurance business existing at the time of closing. In the event that the related claims reserve development from December 31, 2009 until December 31, 2012 is adverse to Jevco, the purchase price will be reduced, to a maximum amount of $20,000. No amount has been recognized by the Company with respect to these funds held in escrow.

The transaction costs in connection with the acquisition of Jevco amounted to $2,936, consisting of consulting, legal, accounting, and investment advisory fees, and were expensed in these consolidated financial statements, in accordance with CICA Handbook Section 1582.

In addition to the gain on business acquisition of $25,084, the consolidated statement of operations for the year ended December 31, 2010 included net income of $22,898 and revenue of $266,294 attributable to Jevco. Had the acquisition of Jevco been effected at January 1, 2010, the consolidated net income would have been $60,667 and the consolidated revenue would have been $350,836 for the year ended December 31, 2010. These pro-forma amounts represent an approximate measure of the performance of the Company on an annualized basis and may provide a reference point for comparison in future periods. In estimating this annualized pro-forma consolidated net income and consolidated revenue of the Company, it was assumed that the Financing took place on January 1, 2010 at no additional transaction costs, and that the amortization and depreciation of fair value adjustments for investments and capital assets were determined as if the assets were acquired at the fair values arising in the initial accounting for the business combination.

6 Discontinued Operations

Westaim Holdings Limited, formerly Nucryst Pharmaceuticals Corp.

In November 2009, Nucryst entered into a purchase and sale agreement with Smith & Nephew plc ("Smith & Nephew") under which Nucryst agreed to sell all of its operations and assets including all rights to its proprietary nanocrystalline silver technology to Smith & Nephew. The sale transaction was completed effective December 22, 2009. Nucryst sold its assets and business for net proceeds of $29,307, after transaction costs, taxes and termination amounts, resulting in a gain on sale of $10,899.

Nucryst's operating results and cash flows for the years ended December 31, 2010 and 2009 are presented as discontinued operations in these consolidated financial statements.

The results of discontinued operations of Nucryst are as follows:

	Year ended December 31	
	2010	2009
Revenue	$ –	$ 24,051
Loss related to operations	$ (848)	$ (3,704)
Gain on sale of Nucryst assets and business	–	10,899
Gain on issuance of Nucryst shares	–	11
Non-controlling interest in discontinued operations	–	(2,364)
(Loss) income from discontinued operations, net of income taxes	$ (848)	$ 4,842

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

6 Discontinued Operations (continued)

Loss from discontinued operations for the year ended December 31, 2010 was net of depreciation and amortization expense of $nil (2009 - $1,790). Current income tax expense included in loss from discontinued operations for the year ended December 31, 2010 was $nil (2009 - $850). The non-controlling interest for the year ended December 31, 2010 amounted to a charge of $nil (2009 - $2,364). The Company reported a gain on the issuance of shares for the year ended December 31, 2010 of $nil (2009 - $11) for shares issued by Nucryst in relation to its stock-based compensation plans. At December 31, 2010, accounts payable and accrued liabilities included $35 (2009 - $5,287) related to Nucryst discontinued operations.

In November 2009, the Company entered into an agreement with Nucryst under which Nucryst agreed to amalgamate with a newly-formed, wholly-owned subsidiary of the Company. Under the terms of the amalgamation, non-controlling common shareholders of Nucryst received redeemable preferred shares of the amalgamated company, Westaim Holdings Limited. These preferred shares were subsequently redeemed. At December 31, 2009, the Company's ownership in Nucryst was 74.7%. Following this capital restructuring completed on February 8, 2010, Nucryst became wholly-owned by the Company.

iFire Technology Ltd.

iFire's operating results and cash flows for the years ended December 31, 2010 and 2009 are presented as discontinued operations in these consolidated financial statements.

Loss from discontinued operations of iFire for the year ended December 31, 2010 was $142 (2009 - $944). During the year, iFire incurred expenses of $142 (2009 - $1,215) related to the ongoing maintenance of a leased building. In the year ended December 31, 2009, iFire sold its remaining assets, including intellectual property and other capital and intangible assets for net proceeds of $1,374, reporting a gain of $206 on the sale. iFire restructuring costs relating to employee severances had been accrued in the year ended December 31, 2008. Also, in the year ended December 31, 2009, the Company sold land and building previously used by iFire in its operations, with related site restoration provision, for net proceeds of $746 and recorded a gain of $65. At December 31, 2010, accounts payable and accrued liabilities included $344 (2009 - $416) related to iFire discontinued operations.

There was no revenue, depreciation, amortization or income tax expense related to iFire discontinued operations in the years ended December 31, 2010 or 2009.

In the first half of 2010, the rental building lease and corresponding liability were transferred to Westaim Holdings Limited and during the fourth quarter of 2010, iFire was formally dissolved.

Income per common share from Nucryst and iFire discontinued operations for the year ended December 31, 2010 was $nil (2009 - $0.05).

7 Investments

The table below provides details of the investments classified by the accounting measurement model applied:

Accounting model applied:	December 31, 2010	December 31, 2009
Available-for-sale investments carried at fair value	$ 894,482	$ –
Held-to-maturity investments carried at amortized cost	98,297	–
Held-for-trading investments carried at fair value	–	9,231
Available-for-sale investments carried at cost	500	–
	$ 993,279	$ 9,231

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

7 Investments (continued)

The following table provides details of the amortized cost and fair value of available-for-sale investments, carried at fair value:

				December 31, 2010
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair Value
Short-term investments	$ 246,316	$ 3	$ 5	$ 246,314
Canadian bonds:				
- Government	103,421	290	14	103,697
- Corporate	392,200	5,218	885	396,533
- Mortgage backed	16,099	295	–	16,394
- Other asset backed	72,177	192	97	72,272
U.S. bonds - Corporate	39,097	501	93	39,505
Other bonds - Corporate	13,187	4	–	13,191
	882,497	6,503	1,094	887,906
Preferred shares - Canadian	6,099	477	–	6,576
	$ 888,596	$ 6,980	$ 1,094	$ 894,482

The following table shows the amortized cost and fair value of held-to-maturity investments, carried at amortized cost:

				December 31, 2010
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Canadian bonds:				
- Government	$ 73,623	$ 2,826	$ –	$ 76,449
- Corporate	24,674	505	–	25,179
	$ 98,297	$ 3,331	$ –	$ 101,628

The following table shows the amortized cost and fair value of held-for-trading investments, carried at fair value:

				December 31, 2009
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Short-term investments	$ 5,264	$ –	$ –	$ 5,264
MAV Notes	7,902	–	4,165	3,737
Credit facility repayment option	230	–	–	230
	$ 13,396	$ –	$ 4,165	$ 9,231

Fair values of short-term investments, bonds and preferred shares are considered to approximate quoted market values based on the latest bid prices in active markets.

Management performs a quarterly analysis of investment holdings to determine if declines in market value are other-than-temporary. The analysis includes some or all of the following procedures as deemed appropriate by management:

- assessing intent to sell those investments;
- assessing whether it is more likely than not that the Company will be required to sell those investments before the recovery of its amortized cost basis;

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

7 Investments (continued)

- assessing if any credit losses are expected for those investments. This assessment includes consideration of, among other things, all available information and factors having a bearing upon collectability such as changes to credit rating by rating agencies, financial condition of the issuer, expected cash flows and value of any underlying collateral;
- identifying all security holdings in unrealized loss positions that have existed for at least six months or other circumstances that management believes may impact the recoverability of the investment;
- obtaining a valuation analysis from third party investment managers regarding the intrinsic value of these holdings based on their knowledge, experience and other market based valuation techniques;
- reviewing the trading range of certain investments over the preceding calendar period;
- assessing if declines in market value are other-than-temporary for debt investment holdings based on their investment grade credit ratings from third party security rating agencies;
- assessing if declines in market value are other-than-temporary for any debt investment holdings with non-investment grade credit rating based on the continuity of its debt service record; and
- determining the necessary provision for declines in market value that are considered other-than-temporary based on the analyses performed.

The risks and uncertainties inherent in the assessment methodology utilized to determine declines in market value that are other-than-temporary include, but may not be limited to, the following:

- the opinion of professional investment managers could be incorrect;
- the past trading patterns of individual investments may not reflect future valuation trends;
- the credit ratings assigned by independent credit rating agencies may be incorrect due to unforeseen or unknown facts related to a company's financial situation; and
- the debt service pattern of non-investment grade investments may not reflect future debt service capabilities and may not reflect unknown underlying financial problems.

As a result of the above analysis performed by management to determine declines in market value that are other-than-temporary, no write-downs were required.

The Master Asset Vehicle Notes (formerly Canadian asset backed commercial paper, "MAV Notes") and credit facility repayment option had a fair value of $3,967 at December 31, 2009. These MAV Notes were redeemed and sold in 2010 resulting in a gain of $808 (2009 - $183) and the corresponding revolving credit facility agreement with a financial institution was terminated.

The Company reported a gain on sale of Savvion, Inc. of $2,185 in the first quarter of 2010 which is included in net realized gains on sale of securities. This investment was previously written off for accounting purposes. An additional amount of US$530 is being held in escrow for a period of 15 months from January, 2010 as security for the satisfaction of any indemnification claims. A further gain will be recorded by the Company upon receipt of this amount held in escrow.

The available-for-sale investments carried at cost consist of an investment in a private company. This equity investment is carried at cost as a quoted price in an active market does not exist. When there is objective evidence that the investment is impaired, and there is a decline in the recoverable amount below cost that is other-than-temporary, an impairment loss will be recorded.

The following table provides details of the investment income:

	Year ended December 31	
	2010	2009
Interest income	$ 23,164	$ 293
Dividend income	300	–
Premium finance income	3,638	–
Gross investment income	27,102	293
Investment expenses	(2,996)	–
Net investment income	$ 24,106	$ 293

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

8 Capital Assets

		December 31, 2010		December 31, 2009
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 1,054	$ –	$ 1,054	$ –
Building	16,774	318	16,456	–
Leasehold improvements	2,779	–	2,779	–
Furniture and equipment	2,024	55	1,969	–
Computers	762	521	241	–
Automobiles	183	24	159	–
	$ 23,576	$ 918	$ 22,658	$ –

Amortization expense related to capital assets during the year ended December 31, 2010 was $918 (2009 - $nil). In December 2010, the Company entered into a new lease agreement whereby the lessor assumed $2,779 of leasehold improvements. A corresponding leasehold inducements amount of $2,779 has been included in liabilities in the consolidated balance sheet and is being amortized over the term of the lease.

9 Intangible Assets

		December 31, 2010		December 31, 2009
	Cost	Accumulated amortization	Net book value	Net book value
Software development	$ 3,068	$ 1,093	$ 1,975	$ –

Amortization expense related to intangible assets during the year ended December 31, 2010 was $1,093 (2009 - $nil).

10 Income Taxes

The following is a reconciliation of income taxes, calculated at the statutory income tax rate, to the income tax provision included in the consolidated statement of operations.

	Year ended December 31	
	2010	2009
Income (loss) from continuing operations before income taxes	$ 50,622	$ (3,379)
Statutory income tax rate	30.8%	30.7%
Expected income tax expense (recovery)	15,577	(1,037)
Variations due to:		
Gain on acquisition of Jevco, net of expenses (note 5)	(6,764)	–
Future benefit of tax losses recognized	(15,288)	–
Increase in valuation allowance	1,551	1,037
Other	386	–
Income tax recovery	$ (4,538)	$ –

Comprised of:		
Current	$ 9,466	$ –
Future	(14,004)	–
Income tax recovery	$ (4,538)	$ –

Income taxes are recognized for future income taxes attributed to estimated differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. The Company's net future income tax asset is comprised of:

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

10 Income Taxes (continued)

		December 31, 2010		December 31, 2009
Future income tax assets related to:				
Loss carry-forwards	$	40,175	$	45,397
Investment tax credits		6,395		7,458
Unpaid claims and adjustment expenses		8,616		–
Provisions and reserves		3,333		3,151
Other		4,615		171
Less valuation allowance		(39,090)		(56,177)
		24,044		–
Future income tax liabilities related to:				
Investments		(316)		–
Capital, intangible and other assets		(1,251)		–
		(1,567)		–
Future income tax assets, net	$	22,477	$	–

At December 31, 2010, the Company has consolidated non-capital losses for income tax purposes of $93,914 (2009 - $121,066) and unclaimed scientific research and experimental development expenditures of $6,280 (2009 - $6,280) which can be used to offset taxable income, if any, in future periods. The reduction in consolidated non-capital losses was primarily due to the dissolution of a foreign subsidiary formerly operated by Nucryst. The Company also has consolidated capital losses of $100,953 (2009 - $46,715) as well as investment tax credits of $8,672 (2009 - $9,933). Consolidated capital losses increased in the year as a result of the sale of Savvion, Inc. (note 7) and the dissolution of the former Nucryst foreign subsidiary.

The non-capital losses and investment tax credits will expire at various times to the end of 2030, as follows:

Non-capital losses by year of expiry:		
2011	$	9
2012		5
2014		14,998
2015		452
2025		46,895
2027		15,494
2028		6,151
2029		9,048
2030		862
	$	93,914

Investment tax credits by year of expiry:		
2018	$	3,241
2019		888
2020		961
2021		823
2022		643
2023		324
2024		175
2025		397
2026		336
2027		662
2028		222
	$	8,672

In August 2010, Jevco acquired and amalgamated iFire and as a result, the income tax losses of iFire, in the amount of $55,027, are expected to be available to offset Jevco's income for income tax purposes in future periods. A corresponding future income tax benefit of $15,288 has been recognized in the Company's consolidated financial statements for the year ended December 31, 2010.

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

11 Capital Stock

The Company's authorized share capital consists of an unlimited number of common shares, Class A preferred shares and Class B preferred shares. For purposes of the Financing, on February 26, 2010, the Company amended its articles for the issuance of Series 1 Class A non-voting, convertible participating preferred shares ("Series 1 Class A preferred shares"). 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 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, provided that the conversion does not result in the holder owning common shares exceeding an ownership limit of 40%.

The Company's share capital as at December 31, 2010 and December 31, 2009 is as follows:

	December 31, 2010	December 31, 2009
Common shares	$ 660,651	$ 426,282
Series 1 Class A preferred shares	30,784	–
	$ 691,435	$ 426,282

Changes in the Company's common shares and Series 1 Class A preferred shares outstanding during the years ended December 31, 2010 and 2009 are as follows:

	Year ended December 31			
	2010	2009	2010	2009
Common shares (thousands)	Number		Stated Capital	
Balance at beginning of year	94,221	94,215	$ 426,282	$ 426,280
Issued upon private placement (note 5)	486,147	–	234,319	–
Options exercised	197	–	50	–
RSUs exercised	–	6	–	2
Balance at end of year	580,565	94,221	$ 660,651	$ 426,282

	Year ended December 31			
	2010	2009	2010	2009
Series 1 Class A preferred shares (thousands)	Number		Stated Capital	
Balance at beginning of year	–	–	$ –	$ –
Issued upon private placement (note 5)	63,853	–	30,784	–
Balance at end of year	63,853	–	$ 30,784	$ –

To finance the Acquisition, the Company issued and sold, on a private placement basis, an aggregate of 550,000,000 subscription receipts for aggregate gross proceeds of $275,000. Following the approval of shareholders at a special meeting on March 25, 2010 and the receipt of the necessary regulatory approvals, the Acquisition was completed on March 29, 2010. Immediately prior to the closing of the Acquisition on March 29, 2010, the subscription receipts were automatically converted into 486,147,088 common shares and 63,852,912 Series 1 Class A preferred shares. The proceeds of the Financing to the Company were $265,103, net of transaction costs of $9,897, of which $1,900 was non-cash and related to the valuation of the warrants issued.

In connection with the Financing, 10,000,000 warrants were issued to purchase an equal number of Series 1 Class A preferred shares of the Company at an exercise price of $0.50 per share. The fair value of the warrants at the time of issuance on February 9, 2010 was $1,900 and was reported as a separate component of shareholders' equity. The fair value of the warrants was estimated using the Black-Scholes option pricing model assuming a risk-free interest rate of 1.59% and a volatility of 30.0%. The warrants expire on February 9, 2013.

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

11 Capital Stock (continued)

In the year ended December 31, 2010, 196,667 common shares were issued upon the exercise of 196,667 stock options. In the year ended December 31, 2009, 101,876 RSUs with a value of $27 were settled with the issuance of 6,000 common shares and cash payments of $25.

12 Stock-based Compensation

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. Under the Incentive Plan, the Company may grant share-based awards for an initial number of 63,858,049 common shares of the Company.

Stock Options – Changes to stock options for the years ended December 31, 2010 and 2009 are as follows:

	Year ended December 31	
Common share stock options (thousands)	2010	2009
Outstanding at beginning of year	2,292	4,099
Exercised	(197)	–
Expired and forfeited	(1,023)	(1,807)
Outstanding at end of year	1,072	2,292

No stock options were granted in the years ended December 31, 2010 or 2009.

In the year ended December 31, 2010, 196,667 options with exercise prices ranging from $0.22 to $0.45 per share were exercised for 196,667 common shares. No stock options were exercised in the year ended December 31, 2009.

The following table summarizes information about stock options outstanding as at December 31, 2010.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number (thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number (thousands)	Weighted Average Exercise Price
$0.22 - $2.00	432	5.1 years	$ 1.20	432	$ 1.20
$2.00 - $6.00	404	3.4 years	$ 5.04	404	$ 5.04
$6.00 - $15.00	236	2.2 years	$ 8.85	236	$ 8.85
Total	1,072	3.6 years	$ 4.03	1,072	$ 4.03

Deferred Share Units – DSUs are granted to non-executive Directors of the Company as well as 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. Directors may elect to receive DSUs in lieu of fees, which are issued at the market value of the Company's shares at the date of grant (prior to June 30, 2010 were issued at 90% of the market value). DSUs issued to officers and employees of Jevco vest as to one-third on the first anniversary, one-third on the second anniversary and one-third on the third anniversary of their date of grant. Vested DSUs are paid out when the participant ceases to be a director, officer or employee.

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

12 Stock-based Compensation (continued)

Changes to DSUs for the years ended December 31, 2010 and 2009 are as follows:

	Year ended December 31	
DSUs (thousands)	2010	2009
Outstanding at beginning of year	2,633	2,861
Granted	1,976	1,062
Exercised	–	(1,290)
Outstanding at end of year	4,609	2,633

Compensation expense relating to DSUs for the year ended December 31, 2010 amounted to $1,056 (2009 - $734), and at December 31, 2010, a liability of $2,122 (2009 - $1,066) has been accrued with respect to issued DSUs. No DSUs were exercised in the year ended December 31, 2010. In the year ended December 31, 2009, 1,290,128 DSUs were exercised and settled with a cash payment of $355.

Restricted Share Units – RSUs vest over three years and are payable when vested, at the holders option, with either cash or common shares of the Company. Compensation expense with respect to RSUs for the year ended December 31, 2010 amounted to $5,530 (2009 - $2). No RSUs were exercised in the year ended December 31, 2010. In the year ended December 31, 2009, 101,876 RSUs with a value of $27 were settled with the issuance of 6,000 common shares of the Company and cash payments of $25.

Changes to RSUs for the years ended December 31, 2010 and 2009 are as follows:

	Year ended December 31	
RSUs (thousands)	2010	2009
Outstanding at beginning of year	–	102
Granted	25,775	–
Exercised	–	(102)
Outstanding at end of year	25,775	–

Subsidiary stock-based compensation plans **–** The Company's subsidiary, Nucryst, maintained equity incentive plans for certain directors and employees under which stock options were granted. The related compensation expense is included with results from discontinued operations. The stock options generally vested evenly over a three-year period and expired after 10 years from the date of grant. The exercise prices of stock options granted were not less than the fair value of Nucryst's stock at the time of the grant.

On December 22, 2009, in conjunction with the asset purchase agreement with Smith & Nephew and the amalgamation agreement with the Company (note 6), Nucryst accelerated the vesting of all outstanding stock options and agreed to pay a cash settlement to the holders of the stock options for the difference between the redemption price of US$1.77 and the exercise price for any stock option that was in-the-money using a market price of US$1.77 on that date. In the year ended December 31, 2009, stock-based compensation expense of $577 was recorded in discontinued operations.

Nucryst Directors and certain Executives were granted RSUs. These units were issued at the market value of a Nucryst share at the date of grant, vest over two to three years and were payable in common shares of Nucryst. Net changes in the value of these RSUs were recognized as compensation expense over the vesting period with an offset to contributed surplus. In the year ended December 31, 2009, Nucryst RSUs with a value of $19 were exercised for Nucryst shares, with a corresponding reduction in contributed surplus.

There were no subsidiary stock-based incentives outstanding at December 31, 2010.

13 Earnings per Share

The Company uses the treasury stock method to calculate diluted earnings per share. Under the treasury stock method, the numerator remains unchanged from the basic earnings per share calculation, as the assumed exercise of the Company's stock options and warrants does not result in an adjustment to income. The reconciliation of the denominator in calculating diluted earnings per share is as follows:

	Year ended December 31	
(number of shares in thousands)	2010	2009
Weighted average number of common shares and Series 1 Class A preferred shares outstanding - basic earnings per share	511,762	94,220
Effect of dilutive securities		
- restricted share units	4,717	–
- warrants	1,206	–
- stock options	101	267
Weighted average number of common shares and Series 1 Class A preferred shares outstanding - diluted earnings per share	517,786	94,487

The Series 1 Class A preferred shares are considered in-substance common shares and have been included in the calculation of the weighted average number of common shares and Series 1 Class A preferred shares outstanding for purposes of the basic and diluted earnings per share computation.

Options to purchase 1,072,500 common shares were outstanding at December 31, 2010 (2009 - 2,291,999) and warrants to purchase 10,000,000 Series 1 Class A preferred shares were outstanding at December 31, 2010 (2009 - nil). Of the options outstanding at December 31, 2010, 975,300 (2009 - 2,024,799) were excluded in the calculation of diluted earnings per share because the exercise price of the options was greater than the weighted average market value of the common shares in the year.

14 Financial Instruments and Financial Risk Management

(a) Financial risk management objectives and policies

By virtue of the nature of insurance company business, financial instruments comprise the majority of the Company's consolidated balance sheet at December 31, 2010. Risks which arise from holding financial instruments include credit risk, market risk, liquidity risk and cash flow risk. Market risk exposure of the Company is primarily related to changes in interest rates, equity prices and foreign currency. These risks may be caused by factors specific to an individual instrument or factors affecting all instruments traded in the market. The Investment Committee of the Board of Jevco and senior management monitor the Company's risk exposures and activities that give rise to these exposures. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

Further details are provided below (and in note 17) on the risk management objectives and policies as they relate to specific financial risks:

Credit risk:

The Company is exposed to credit risk principally through its investments and balances recoverable from reinsurers. The Company monitors concentration and credit quality risk through policies to limit and monitor its exposure to individual issuers or related groups (with the exception of Canadian government bonds) as well as through ongoing review of the credit ratings of issuers held in the securities portfolio. The Company's credit exposure to any one individual policyholder is not material. The Company has policies to evaluate the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer's insolvency.

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

14 Financial Instruments and Financial Risk Management (continued)

The tables below summarize the Company's credit exposure from its investments in fixed income securities by rating.

Available-for-sale fixed income portfolio (measured at fair value)

DBRS Limited rating		December 31, 2010	
AAA	$	366,877	41.3%
AA		225,105	25.4%
A		245,801	27.7%
BBB		48,821	5.5%
Not rated		1,302	0.1%
	$	887,906	100.0%

Held-to-maturity fixed income portfolio (measured at amortized cost)

DBRS Limited rating		December 31, 2010	
AAA	$	18,950	19.3%
AA		65,768	66.9%
A		13,579	13.8%
	$	98,297	100.0%

At December 31, 2010, 94.4% of the Company's available-for-sale fixed income portfolio and 100.0% of the held-to-maturity fixed income portfolio was rated "A" or better.

The table below summarizes the Company's credit exposure for amounts recoverable from reinsurers, by rating, as assigned by A.M. Best to the applicable reinsurers.

A.M. Best rating		December 31, 2010	
A++	$	1,883	6.3%
A+		5,915	19.9%
A		21,781	73.4%
B++		47	0.2%
Not rated		58	0.2%
	$	29,684	100.0%

Interest rate risk:

The Company is subject to risk exposure due to changes in interest rates. Because substantially all of the investments are comprised of fixed income securities, periodic changes in interest levels generally impact the financial results to the extent that reinvestment yields are different than the original yields on maturing securities. Also, during periods of rising interest rates, the market value of the existing fixed income securities will generally decrease and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that:

(i) An immediate hypothetical 100 basis point or 1 percent parallel increase in interest rates would decrease the market value of the available-for-sale fixed income securities by approximately $21,500 at December 31, 2010, representing 2.4% of the $887,906 fair value of the available-for-sale fixed income securities portfolio.

(ii) An immediate hypothetical 100 basis point or 1 percent parallel decrease in interest rates would increase the market value of the unpaid claims liabilities by approximately $13,800 at December 31, 2010, representing 2.2% of the $636,653 of net unpaid claims liabilities carried on the consolidated balance sheet.

14 Financial Instruments and Financial Risk Management (continued)

Computation of the prospective effect of hypothetical interest rate changes is based on numerous assumptions, including maintenance of the existing level and composition of fixed income security assets at the indicated date, and should not be relied on as indicative of expected future results. The computation is based on the following assumptions:

- the securities in the Company's portfolio are not impaired;
- credit and liquidity risks have not been considered;
- interest rates and equity prices move independently; and
- shifts in the yield curve are parallel.

Foreign currency risk:

The Company holds United States dollar denominated provincial government bonds with a market value of $16,100 at December 31, 2010. The Company is exposed to changes in the Canadian dollar value of its U.S. dollar denominated securities to the extent that the Canadian to U.S. dollar exchange rate changes. A one cent increase in the value of the U.S. dollar increases the market value of these holdings by approximately $200. The reverse is true during periods of a weakening U.S dollar.

Equity price risk:

The Company is exposed to changes in the value of equity securities as a result of market conditions. This is the risk of loss due to adverse movement in equity prices and is comprised of general equity risk, which refers to fluctuations in value of the equity securities due to changes in general economic or stock market conditions, and specific equity risk, which refers to equity price volatility that is determined by entity specific characteristics.

At December 31, 2010, management estimates that a 10% increase in prices of equity securities held as available-for-sale, with all other variables held constant, would increase comprehensive income before tax by approximately $700. A 10% decrease in equity prices would have the corresponding opposite effect on comprehensive income. Equities comprise 0.7% of the fair value of the Company's available-for-sale investments portfolio at December 31, 2010.

Liquidity risk and cash flow risk:

Liquidity risk is the risk of having insufficient cash resources to meet current financial obligations without raising funds at unfavorable rates or selling assets on a forced basis. Liquidity risk arises from the general business activities and in the course of managing the assets and liabilities. There is risk of loss to the extent that the sale of a security prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows. Cash flow risk arises from risk that future inflation of policyholder cash flows exceeds returns on long-dated investment securities. The purpose of liquidity and cash flow management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. The liquidity and cash flow requirements are met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements. To meet these cash requirements, the Company has policies to limit and monitor its exposure to individual issuers or related groups and to ensure that assets and liabilities are broadly matched in terms of their duration and currency. Management believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill the cash requirements, including claims and claims adjustment expenses and operating expenses, during the current financial year and also to satisfy regulatory capital requirements.

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

14 Financial Instruments and Financial Risk Management (continued)

The following table summarizes the carrying amounts of financial instruments by contractual maturity or expected cash flow dates (the actual dates may differ from contractual maturity because certain securities and debentures have the right to call or prepay obligations with or without call or prepayment penalties):

At December 31, 2010	One year or less	One to five years	Five to ten years	More than ten years	No Specific Date	Total
Assets:						
Cash and cash equivalents	$ 32,897	$ –	$ –	$ –	$ –	$ 32,897
Investments available-for-sale	371,419	337,934	178,553	–	7,076	894,982
Investments held-to-maturity	–	–	98,297	–	–	98,297
Accrued investment income	5,327	–	–	–	–	5,327
Financed premiums	65,104	–	–	–	–	65,104
Claims recoverable	13,406	22,457	4,178	205	–	40,246
Accounts receivable and other assets	26,505	–	–	–	–	26,505
Recoverable from reinsurers	9,888	16,564	3,081	151	–	29,684
	$ 524,546	$ 376,955	$ 284,109	$ 356	$ 7,076	$ 1,193,042
Liabilities:						
Accounts payable and accrued liabilities	$ 25,750	$ –	$ –	$ –	$ –	$ 25,750
Unpaid claims and adjustment expenses	234,859	393,430	73,186	3,596	–	705,071
	$ 260,609	$ 393,430	$ 73,186	$ 3,596	$ –	$ 730,821

The liquidity of the Company's investment portfolio is sufficient to generate cash to meet short term operational needs that are not met through cash flows from operations.

The coupon rates for the fixed term investments range from 1.1% to 12.2% at December 31, 2010. The average effective yield (using amortized cost and the contractual interest rates, adjusted for any amortization of premiums and discounts) is 2.9%.

(b) Fair value

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and are best evidenced by quoted market prices, if they exist. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. For the Company's financial instruments carried at cost or amortized cost, the book value is not adjusted to reflect increases or decreases in fair value due to market fluctuations, including those due to interest rate changes as it is the Company's intention to hold them until there is a recovery of fair value, which may be to maturity.

The Company uses fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. The extent of the Company's use of quoted market prices (Level 1), internal models using observable market information as inputs (Level 2) and internal models without observable market information (Level 3) in the valuation of the Company's investments at December 31, 2010 is as follows:

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

14 Financial Instruments and Financial Risk Management (continued)

December 31, 2010	Fair value	Level 1	Level 2	Level 3
Available-for-sale investments:				
Short-term investments	$ 246,314	$ –	$ 246,314	$ –
Canadian bonds:				
- Government	103,698	–	103,698	–
- Corporate	396,533	–	395,633	900
- Mortgage backed	16,394	–	16,394	–
- Other asset backed	72,272	–	72,272	–
U.S. bonds - Corporate	39,505	–	39,505	–
Other bonds - Corporate	13,190	–	13,190	–
Preferred shares - Canadian	6,576	6,576	–	–
	$ 894,482	$ 6,576	$ 887,006	$ 900
Held-to-maturity investments:				
Canadian bonds:				
-Government	76,449	–	76,449	–
-Corporate	25,179	–	25,179	–
	$ 996,110	$ 6,576	$ 988,634	$ 900

December 31, 2009	Fair value	Level 1	Level 2	Level 3
Available-for-sale investments:				
Short-term investments	$ 5,264	$ –	$ 5,264	$ –
MAV Notes	3,737	–	–	3,737
Credit facility repayment option	230	–	–	230
	$ 9,231	$ –	$ 5,264	$ 3,967

The investments held at December 31, 2010, valued at level 3 with a value of $900, were acquired upon the Acquisition for $900 and no change in fair valuation was determined to be required between the acquisition date of March 29, 2010 and December 31, 2010. The investments held at December 31, 2009, valued at level 3 with a value of $3,967, were sold during the year ended December 31, 2010 (note 7).

The provision for unpaid claims and adjustment expenses is based on the present value of future cash flows and provisions for adverse development and is considered to be an indicator of fair value as there is no ready market for the trading of insurance policy liabilities. The carrying value of all other financial instruments approximates their fair value due to the short term to maturity of those financial instruments.

15 Capital Management

The Company's objectives when managing capital are:

- meeting regulatory requirements;
- maintaining a strong credit rating; and
- maximizing 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 both regulatory capital measures and internal metrics.

The Company's capital consists of its shareholders' equity. These funds are mainly invested in the equity of Jevco. Jevco is regulated by OSFI and is required to maintain a level of capital sufficient to support the volume and risk profile of Jevco's business. Generally, OSFI requires insurers to achieve a ratio of at least 150% of a minimum capital test ("MCT") formula.

15 Capital Management (continued)

In connection with the Acquisition, the Company agreed with OSFI that it would maintain liquid and unencumbered assets within the holding company up to a maximum of $20,000 and depending on Jevco's MCT ratio, this amount may not be required at all. On April 9, 2010, the Company injected $48,000 of additional cash into Jevco in exchange for additional common shares and at December 31, 2010, the MCT ratio of Jevco was 320% which eliminates the requirement to maintain the $20,000 liquid and unencumbered assets within the holding company.

16 Claims Recoverable from Other Insurers

In accordance with the Insurance Act of Ontario (the "Act"), Jevco has a right of indemnification for certain benefits paid to its own insured from the insurer of a third party at fault. The Act also provides for an arbitration process when the two insurers are not in agreement as to the amount of losses to be transferred. Failure of other insurers to honor their obligations could result in losses to the Company.

17 Underwriting Policy and Reinsurance Ceded

In the normal course of business, the Company seeks to reduce the loss that may arise from a catastrophe or other events that cause unfavorable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers.

Underwriting risk:

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk, catastrophic risk, catastrophic loss risk and reinsurance risk.

The Company's underwriting objective is to develop business within its target market on a prudent and diversified basis and to achieve profitable underwriting results.

Pricing risk:

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market. The market cycle is affected by the frequency and severity of losses, levels of capacity and demand, general economic conditions and price competition. The Company focuses on profitable underwriting using a combination of experienced underwriting staff, pricing models and price adequacy monitoring tools. The Company prices its products taking into account numerous factors including claims frequency and severity trends, product line expense ratios, special risk factors associated with the capital required to support the product line, and the investment income earned on that capital. The Company's pricing is designed to ensure an appropriate return on capital while also providing long-term rate stability. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Reinsurance risk:

The Company relies on reinsurance to manage the underwriting risk; however, reinsurance does not release it from its primary commitments to its policyholders. Therefore, the Company is exposed to the credit risk associated with amounts ceded to reinsurers. The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. The Company tenders reinsurance requirements on a regular basis to ensure that the best price possible is obtained. The Company works with well established reinsurers that have expertise in their field as well as an understanding of the business. Management reviews reinsurance programs to manage cost-efficiency and reduce the likelihood of coverage gaps. Failure of reinsurers to honor their obligations could result in losses to the Company.

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

17 Underwriting Policy and Reinsurance Ceded (continued)

The amount recoverable from reinsurers is detailed as follows:

	December 31, 2010
Unearned premiums	$ 1,512
Unpaid claims and adjustment expenses	28,172
	$ 29,684

The Company follows the policy of underwriting and reinsuring contracts of insurance, which limits its net exposure to a maximum amount on any one loss. The Company has reinsurance protection which limits the maximum amount on any one loss to $2,000 in the event of a liability claim, to a maximum of $20,000 and $750 in the event of a property claim, to a maximum of $10,000. In addition, the Company has property catastrophe reinsurance which provides coverage in the event of a series of claims arising out of a single occurrence. The reinsurance limits this exposure to $2,500 per occurrence, to a maximum of $25,000.

18 Unpaid Claims and Adjustment Expenses

(a) Nature of unpaid claims and adjustment expenses

The establishment of the provision for unpaid claims and adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's own experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims and adjustment expenses, product mix or concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim departments' personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of return, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property claims, tend to be more reasonably predictable than long-tailed claims, such as general liability and automobile accident benefit claims.

The process of establishing the provision relies on the judgment and opinions of a large number of individuals, on historical precedents and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The provision reflects expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known together with a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

Variables in affecting the determination of the provision are the receipt of additional claim information and other internal and external factors, such as changes in claims handling procedures, economic inflation, legal and judicial trends, legislative changes, and inclusion of exposures not contemplated at the time of policy inception. The provision for claims and adjustment expenses is reviewed separately by, and must be acceptable to, management of the Company, the independent appointed actuary and an external valuation actuary during the Company's triennial actuarial examination.

(b) Provision for unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses is discounted using a rate based on the Company's projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The discount rate used is 3.70%. Reinsurance recoverable estimates are discounted in a manner consistent with the method used to establish the related liability.

Provisions for adverse development are included within the provision for unpaid claims and adjustment expenses and in the reinsurance recoverable estimates to allow for possible deterioration of experience relating to asset default, reinvestment risk, claims development and recoverability of reinsurance balances.

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

18 Unpaid Claims and Adjustment Expenses (continued)

The gross provision and estimates of amounts recoverable are as follows:

	December 31, 2010	
	Undiscounted	Discounted
Gross provision	$ 691,246	$ 705,071
Reinsurance recoverable and claims recoverable from other insurers	(71,351)	(68,418)

An evaluation of the adequacy of policy liabilities is completed at the end of each financial quarter. This evaluation includes a re-estimation of the liability for unpaid claims and adjustment expenses relating to each preceding financial year compared to the liability that was originally established.

The change in the provision for unpaid claims and adjustment expenses is as follows:

	Year ended December 31, 2010
Beginning of year, net	$ –
Balance at date of acquisition – March 29, 2010	691,649
Change in provision relating to:	
- current period	201,607
- periods prior to acquisition	(39,573)
Paid during the period	(217,030)
End of year, net	636,653
Reinsurers' share	28,172
Other insurers' share	40,246
Unpaid claims and adjustment expenses at end of year	$ 705,071

The provision for unpaid claims and adjustment expenses by major lines of business is as follows:

	December 31, 2010
Personal lines	$ 468,691
Commercial lines	236,380
	$ 705,071

Direct written premiums are derived from the following business lines:

	December 31, 2010
Personal lines	74%
Commercial lines	26%
	100%

19 Site restoration provision

The provision for site restoration, which relates to site restoration costs associated with soil and groundwater reclamation and remediation on industrial sites formerly owned by the Company, is based on periodic independent estimates of these costs. At December 31, 2010, the provision for site restoration amounted to $5,000 (2009 - $5,525). During the year ended December 31, 2010, no remediation costs were incurred. In the year ended December 31, 2009, remediation costs of $805 were paid. This indemnified outlay was fully reimbursed by the previous owner of the industrial sites and, as a result, the Company recorded a site restoration provision recovery of $805.

The Company conducts periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements. As a result, during the year ended December 31, 2010, a $525 (2009 - $nil) reduction to the provision was recorded.

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

19 Site restoration provision (continued)

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

20 Commitments and Contingent Liabilities

(a) In connection with the Acquisition, the Company agreed with OSFI that it would maintain liquid and unencumbered assets within the holding company up to a maximum of $20,000 and depending on Jevco's MCT ratio, this amount may not be required at all. On April 9, 2010, the Company injected $48,000 of additional cash into Jevco in exchange for additional common shares and at December 31, 2010, the MCT ratio of Jevco was 320% which eliminates the requirement to maintain the $20,000 liquid and unencumbered assets within the holding company.

(b) 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.

(c) Future minimum annual lease payments under operating leases for premises and equipment for the next five years and thereafter are:

2011	$	2,219
2012	$	2,856
2013	$	2,668
2014	$	2,700
2015	$	2,639
Thereafter	$	27,502

(d) The Company agreed to pay a third party a transaction fee related to the Acquisition contingent upon the future financial performance of Jevco, to a maximum of $1,121 over three years. The full amount of $1,121 in respect of this agreement was accrued and reported as a cost of business acquisition in the consolidated statement of operations for the year ended December 31, 2010.

(e) The Company has purchased a number of annuities in settlement of claims which at the time of purchase, resulted in derecognition of the related liability from the consolidated balance sheet. These annuities have been purchased from registered Canadian life insurers with high claims paying ability ratings as determined by outside rating organizations. The total value of the annuities purchased by the Company at December 31, 2010 is $50,225. The Company has a contingent credit risk with respect to the failure of these life insurers which management has assessed as not being material. The Company has assessed the fair value of this credit risk as insignificant based on the claims paying ability of the life insurers and historical experience.

(f) In connection with the sale of the operations and assets of Nucryst to Smith & Nephew, Nucryst agreed to indemnify Smith & Nephew 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 Smith & Nephew and its 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 amounts have been accrued related to these indemnities.

(g) 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 limits its exposure and enables the Company to recover a portion of any future amounts paid.

20 Commitments and Contingent Liabilities (continued)

(h) The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on properties previously owned by the Company. These estimated costs have been included in the provision for site restoration (note 19).

(i) From time to time, the Company pledges assets to third parties to collateralize liabilities incurred under its insurance policies or for services provided by the third parties. At December 31, 2010, the amount of pledged assets was $500 (2009 – nil). Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to the Company's risk management controls.

21 Related Party Transactions

In April 2009, the Company entered into a management services agreement ("MSA") with Goodwood Management Inc. ("Goodwood") to manage the day-to-day affairs of the Company and to present strategic investment opportunities for the Board of Directors to consider. Goodwood is required to provide certain services to the Company including the services of two directors, one of whom is also President and Chief Executive Officer, and a Chief Financial Officer. Effective April 2010, the MSA was amended so that Goodwood will earn a fixed fee to be determined annually by an independent committee of the Board of Directors based on the recommendations of an independent compensation consultant. The amount of the fixed fee will be designed to compensate Goodwood 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 provided or made available by Goodwood to the Company. Goodwood will also be entitled to participate in an annual incentive bonus plan for the purpose of recognizing the contribution of Goodwood to the Company's business.

For the year ended December 31, 2010, Goodwood earned fees of $1,920 (2009 - $1,706). At December 31, 2010, fees of $212 (2009 - $1,093) were included in accounts payable and accrued liabilities.

All RSUs of the Company granted during the year ended December 31, 2010 and all RSUs outstanding at December 31, 2010 are held by Goodwood.

(Dollar amounts in thousands of Canadian dollars unless otherwise indicated)

22 Operating Segment

The Company has one reportable segment which comprises the Company's property and casualty insurance business. All other includes corporate activities and the Company's discontinued operations.

	Year Ended December 31, 2010		
	Insurance segment	All other	Total
Direct premiums written	$ 273,382	$ -	$ 273,382
Net premiums written	$ 254,872	$ -	$ 254,872
Revenue			
Net premiums earned	$ 236,304	$ -	$ 236,304
Net investment income	23,957	149	24,106
Net realized gains on sale of securities	6,033	3,966	9,999
	266,294	4,115	270,409
Expenses			
Net claims and adjustment expenses	162,033	-	162,033
Commissions and premium taxes	47,142	-	47,142
General and administrative expenses	21,503	-	21,503
	230,678	-	230,678
Operating income	35,616	4,115	39,731
Corporate costs and other	(1,674)	(3,252)	(4,926)
Site restoration provision recovery	-	525	525
Stock-based compensation expense	(288)	(6,298)	(6,586)
Foreign exchange loss	(6)	(264)	(270)
Gain on business acquisition	-	25,084	25,084
Costs of business acquisition	-	(2,936)	(2,936)
	(1,968)	12,859	10,891
Income from continuing operations, before income taxes	33,648	16,974	50,622
Income taxes			
Current	9,466	-	9,466
Future	1,284	(15,288)	(14,004)
	10,750	(15,288)	(4,538)
Income from continuing operations	22,898	32,262	55,160
Loss from discontinued operations, net of income taxes	-	(990)	(990)
Net income	$ 22,898	$ 31,272	$ 54,170
Other comprehensive income			
Unrealized gains, net of income taxes	4,177	-	4,177
Comprehensive income	$ 27,075	$ 31,272	$ 58,347
Total assets	$ 1,257,460	$ 12,966	$ 1,270,426