THE WESTAIM CORPORATION

ANNUAL INFORMATION FORM

For the Fiscal Year Ended December 31, 2010

MARCH 2, 2011

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INTERPRETATION

As used in this annual information form (the "**AIF**"), unless the context indicates or requires otherwise, the terms "**Company**" or "**Westaim**" refer to The Westaim Corporation.

Unless otherwise stated, the information contained in this AIF is as of March 2, 2011.

The Company's accounts are maintained in Canadian dollars and all dollar amounts herein are expressed in Canadian dollars unless otherwise indicated.

All financial information in this AIF has been prepared in accordance with Canadian generally accepted accounting principles using Canadian dollars.

FORWARD-LOOKING STATEMENTS

This AIF contains certain "forward-looking statements" and "forward-looking information" which reflect the current expectations of management regarding our future growth, results of operations, performance and business prospects and opportunities. Except for statements of historical fact, certain information contained herein constitutes forward-looking statements. The words "may", "could", "would", "will", "believes", "intends", "anticipates", "projected", "estimated", "exploring", "likely", "expected", "continuous", "strategy", "projected", "developing", "potential" 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 under "Risk Factors" in this AIF. These statements reflect Westaim's current beliefs with respect to future events and are based on information currently available to the Company. Forward-looking statements involve significant known and unknown risks, uncertainties and assumptions. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements including, without limitation, those listed in the "Risk Factors" section of this AIF. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results, performance or achievements could vary materially from those expressed or implied by the forward-looking statements contained in this AIF. These factors should be considered carefully and undue reliance should not be placed on these forward-looking statements. Actual results could differ materially from those estimates. Although the forward-looking statements contained in this AIF are based upon what the Company currently believes to be reasonable assumptions, Westaim cannot assure that actual results, performance or achievements will be consistent with these forward-looking statements. Other than as required by applicable law, Westaim disclaims any intention or obligation to review, revise or update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements are expressly qualified by this cautionary statement. Although Westaim has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause unanticipated actions, events or results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The reader is cautioned not to place undue reliance on forward-looking statements.

DOCUMENTS INCORPORATED BY REFERENCE IN THIS AIF

Information has been incorporated by reference in this AIF from documents filed with securities commissions or similar regulatory authorities in Canada, including: (i) the management information circular dated February 26, 2010 (the "**Information Circular**"); and (ii) the Form 51-102F4 – *Business Acquisition Report* (the "**BAR**") relating to the Acquisition (as hereinafter defined). Copies of these documents are available through the internet on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") at www.sedar.com. Upon request to the Chief Financial Officer of Westaim at 212 King Street West, Suite 201, Toronto, Ontario M5H 1K5, telephone: 416-203-2253, the Company will promptly provide a copy of any continuous disclosure document free of charge to any security holder of Westaim.

THE COMPANY

Name and Incorporation

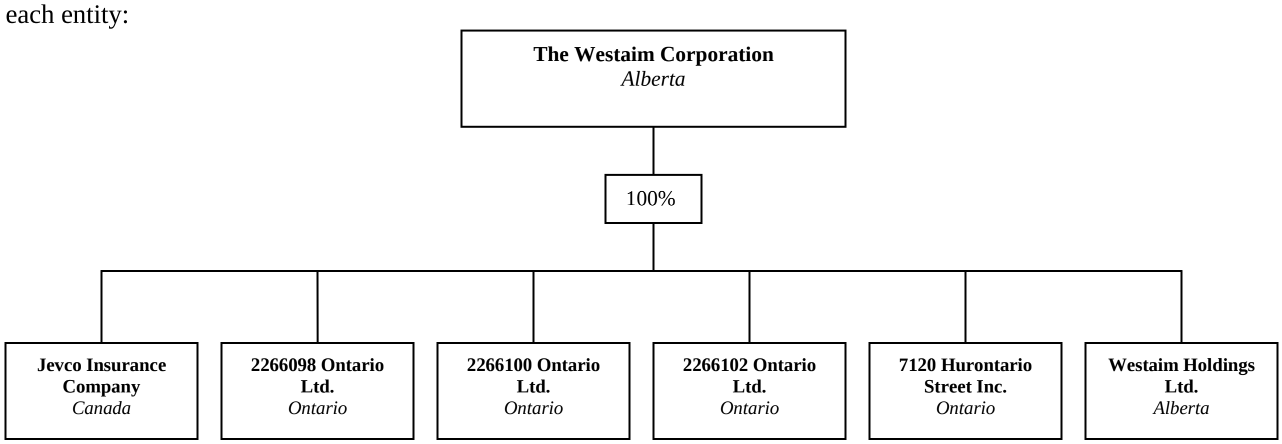
Westaim was incorporated under the *Business Corporations Act* (Alberta) (the "**ABCA**") by Articles of Incorporation dated May 7, 1996 (the "**Articles**"), as a wholly-owned subsidiary of Viridian Inc. ("**Viridian**", which includes Viridian Inc. and its predecessors). The Articles were amended effective June 26, 1996 to remove the private company restrictions on the transfer of securities, to create preferred share classes designated as Class A preferred shares and Class B preferred shares and to increase the maximum number of directors to fifteen. Restated Articles of Incorporation were issued under the ABCA on April 17, 2000 and the Articles were further amended on May 24, 2000 to permit meetings of shareholders to be held in certain specified cities outside of Alberta, or in any other city in Canada or the United States and to allow the board of directors of the Company (the "**Board**") to appoint additional directors between annual meetings, subject to certain limitations. The Articles were amended again on February 8, 2010 and February 26, 2010 in connection with the creation of the Non-Voting Shares (as hereinafter defined).

On June 26, 1996, Westaim, through a reorganization, issued 75,000,000 of its common shares (the "**Westaim Shares**") to Viridian in exchange for cash and the assets of its specialty materials businesses and related research and development activities. As a result of an initial public offering by prospectus dated June 26, 1996, Westaim became a public company. On July 8, 1996 and September 16, 1996, Viridian distributed to holders of its common shares, as dividends-in-kind, an aggregate total of 70,923,248 Westaim Shares. Viridian subsequently disposed of the remainder of its Westaim Shares through market sales.

Westaim's registered office is located at Fifth Avenue Place, 425 - 1st Street SW, 12th Floor, Calgary, Alberta T2P 3L8 and its head office is located at 212 King Street West, Suite 201, Toronto, Ontario M5H 1K5.

Intercorporate Relationships

The following indicates the corporate structure of the Company and its subsidiaries, the percentage of voting securities beneficially owned, or controlled or directed, directly or indirectly, and the jurisdiction of incorporation of each entity:



Summary Description of the Business

Westaim is a financial holding company which is focused on the property and casualty insurance industry. Westaim 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.

General Development of the Business

Westaim was established with a view to produce and market products for global applications based on its advanced industrial materials expertise. At the time of its initial public offering, it had a portfolio of development stage new business opportunities which included: coking-resistant coatings, electroluminescent flat panel displays (through its subsidiary, iFire Technology Inc. ("**iFire**")), biomedical coatings (through its subsidiary NUCRYST Pharmaceuticals Corp. ("**Nucryst**")), electronic ceramics and structural ceramics.

In February 2000, iFire entered into a US$25-million strategic business arrangement with Japan-based TDK Corporation for technology collaboration and production of iFire™ flat panel displays. In addition, TDK Corporation purchased a 2.5% equity stake in iFire for US$7.5 million.

In a series of transactions completed in the second quarter of 2000, Westaim purchased an equity interest in Savvion, Inc. ("**Savvion**") for US$15.8 million through the purchase of a combination of outstanding shares and treasury stock. At the time, Savvion was a private, California-based company in the e-business management software and services business.

In May 2001, Nucryst sold its North American burn dressing business and entered into an exclusive global licensing agreement with Smith & Nephew plc ("**S&N**") for the sale and marketing of Acticoat™ burn and wound care dressings.

On May 29, 2002, Westaim announced its intention to close or sell non-core assets to increase the focus of its management and financial resources on its two high-potential emerging businesses, iFire and Nucryst.

In January 2003, the Board retained investment bankers to undertake a review of its operations and to advise on strategic alternatives. A special committee of the Board was established for this purpose and led the review process. The comprehensive review reaffirmed Westaim's commitment to iFire and Nucryst.

In the fourth quarter of 2005, Nucryst completed an initial public offering of its common shares which were also listed on the NASDAQ Stock Market and the Toronto Stock Exchange (the "**TSX**"). Following Nucryst's initial public offering, Westaim owned approximately 75% of the outstanding common shares of Nucryst.

In the third quarter of 2007, Nucryst signed amended agreements with S&N for the manufacture and sale of Acticoat™ products.

In April 2007, Westaim announced that it was undertaking a review of its business strategy and in the second quarter of 2007, it announced a significant reduction in staff and in research and development spending at iFire.

In the fourth quarter of 2007, Westaim announced that it would actively seek a buyer for the iFire business and assets and would discontinue further development of iFire's thick film dielectric electroluminescent technology for application in the flat panel television market. Corporate management and administrative staff levels in Fort Saskatchewan and Calgary were also reduced as part of the broader reorganization.

In the first quarter of 2008, Westaim determined that maximum value would be realized by selling the individual assets of iFire including buildings, equipment and intellectual property. On October 17, 2008, Westaim announced a purchase and sale agreement for the sale of iFire's equipment, patents and intellectual property. The sale of the iFire equipment was completed later in the fourth quarter of 2008 and the sale of the patents and intellectual property was completed in the first quarter of 2009.

On October 3, 2008, Westaim announced that it had entered into a reorganization agreement under which it would acquire several closely-held businesses that provide products and services in the western Canadian construction industry. The proposed reorganization was subject to certain conditions and to approval of the shareholders of Westaim. Conditions to the reorganization were not met and, as a result, on November 4, 2008, the reorganization agreement was terminated and a shareholders' meeting called for November 21, 2008 was cancelled.

On December 1, 2008, Westaim requisitioned a special meeting of shareholders of Nucryst to consider a reduction of the stated capital of Nucryst for the purpose of distributing US$0.80 cash per common share to the shareholders of Nucryst. At a special meeting of shareholders of Nucryst held on February 12, 2009, Nucryst shareholders approved the return of capital totalling approximately US$14.7 million which was distributed to its shareholders on February 25, 2009.

On April 3, 2009, Westaim announced that it planned to pursue strategic investment opportunities designed to maximize the value of its strong balance sheet and non-cash resources. To implement this strategy, Westaim entered into a management services agreement (the "**MSA**") with Goodwood Management Inc. ("**Goodwood Management**"), an affiliate of Goodwood Inc., to manage the day-to-day affairs of Westaim and to present strategic investment opportunities for the Board to consider. Under the MSA, Goodwood Management 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 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 is also 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.

On November 10, 2009, Nucryst entered into an asset purchase agreement with S&N under which it agreed to sell all of its operations and assets including all rights to its proprietary nanocrystalline silver technology to S&N. The sale transaction was completed on December 22, 2009. Also on November 10, 2009, a wholly-owned subsidiary of Westaim, 1499642 Alberta Ltd. ("**1499642**"), entered into an amalgamation agreement with Nucryst. Under the agreement, Nucryst agreed to amalgamate with 1499642 (the "**Amalgamation**"). Under the terms of the Amalgamation, each holder of Nucryst common shares (other than Westaim) would receive one redeemable preferred share in the capital of the amalgamated company, which 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 the amalgamated company. The Amalgamation was completed on February 8, 2010.

In November 2009, Westaim completed the sale of a wholly-owned subsidiary that held iFire's land and building.

In January 2010, all of the outstanding shares in the capital of Savvion (including those held by Westaim) were acquired by Progress Software Corporation, a leading software provider.

On January 25, 2010, Westaim announced that it had agreed to purchase all of the issued and outstanding shares of JEVCO Insurance Company ("**Jevco**") from its parent corporation, Kingsway Financial Services Inc. ("**KFS**"), (the "**Acquisition**") and had arranged equity financing of $275 million for the purpose of completing the Acquisition (the "**Financing**"). Following the approval of Westaim shareholders at a special meeting held on March 25, 2010 and the receipt of the necessary regulatory approvals, the Acquisition was completed on March 29, 2010. The aggregate purchase price paid by the Company to KFS in respect of the Acquisition was approximately 94.5% of the book value of Jevco's net assets at December 31, 2009, being $261.4 million, subject to certain closing and other adjustments. For further information concerning the Acquisition, please refer to the BAR or the description under the heading "The Acquisition Agreement" in the Information Circular.

JEVCO INSURANCE COMPANY

Jevco is a federal property and casualty insurance company existing under the *Insurance Companies Act* (Canada) (the "**ICA**") and authorized to carry on property, surety, automobile and liability insurance business in all of the provinces and territories of Canada. The ICA is administered, and the activities of Jevco are supervised, by the Office of the Superintendent of Financial Institutions ("**OSFI**"). 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.

Overview of Jevco's Business

Jevco provides specialty insurance for individuals and businesses. Jevco's primary business is the insuring of drivers who do not qualify for standard automobile insurance coverage and providing insurance for recreational vehicles such as motorcycles, snowmobiles and all terrain vehicles ("**ATVs**").

Jevco's vision is to be a first choice specialty insurer while striving to become a recognized alternative to the large players in certain insurance markets. Established in 1980, Jevco is an open market company that provides specialized insurance.

Jevco operates in Canada, distributing its insurance products through a network of independent brokers to both individual and corporate customers. The insurance products offered by Jevco consist of: (a) non-standard automobile insurance; (b) insurance for recreational vehicles and motorcycles in Ontario, Quebec and Alberta, and ATV and snowmobile insurance in Quebec; (c) Quebec standard automobile insurance; (d) commercial automobile insurance; (e) property and liability insurance; and (f) surety products.

As at December 31, 2010, Jevco had approximately 500 employees, the majority of which were employed in the underwriting and claims departments.

Commutation, Business Transfer and Assumption Reinsurance Transactions

Effective October 1, 2009, Jevco completed several significant transactions that, together, resulted in a material increase in the size of Jevco's business. First, Jevco commuted its reinsurance treaties with two sister companies owned by KFS, namely, Kingsway Reinsurance (Bermuda) Ltd. ("**KRL**") and Kingsway General Insurance Company ("**KGIC**"). Subsequent to the commutation of the reinsurance treaties with KRL and KGIC, but effective October 1, 2009, Jevco entered into a business transfer agreement (the "**BTA**") and an assumption reinsurance agreement (the "**ARA**") with KGIC pursuant to which Jevco assumed all the policy liabilities and supporting assets of KGIC and purchased certain other assets of KGIC.

The transactions were effective as of October 1, 2009 in accordance with the terms of the BTA, the ARA and the commutation and release agreement between Jevco and KGIC, the commutation and release agreement between Jevco and KRL and the commutation and release agreement between KGIC and KRL.

Pursuant to the BTA, Jevco acquired various assets and liabilities including the broker agreements, an office lease, fixed assets, cash, tax receivables and a partnership interest with respect to the office building. The consideration paid for the assumed insurance business was the assumption by Jevco of policy liabilities in an amount equal to the value of the assets less a reinsurance commission in the amount of $5 million.

KGIC's business was similar to the business of Jevco described herein and strengthened Jevco's position in the Ontario non-standard automobile insurance market, the motorcycle insurance business in Ontario and Alberta and in other lines of business.

Except: (i) as otherwise specified in this AIF; and (ii) in respect of information provided for or as at a period prior to October 1, 2009, information provided with respect to Jevco includes information with respect to the assumed assets and liabilities of KGIC.

Industry Overview

The insurance industry is price competitive in all markets in which Jevco competes. Jevco strives to employ disciplined underwriting practices with the objective of rejecting underpriced risks including terminating or repricing unprofitable business and focusing on good risks within specialty markets where limited competition allows for a good spread of risk.

Although Jevco's markets generally compete on price, Jevco believes that it is not in its best interests to compete solely on price. Overall Jevco competes on the basis of numerous factors such as distribution strength, pricing, agency and broker relationships, service, reputation and financial strength.

Competitors include other companies that, like Jevco, serve the independent broker market, as well as companies that sell insurance directly to customers. Jevco often competes with major insurers, many of which have more financial, marketing, management, technical personnel and other resources than Jevco. Direct underwriters typically operate in standard lines of personal automobile and property insurance where they have certain competitive advantages over brokerage underwriters. These advantages include increased name recognition obtained through extensive media advertising, loyalty of the customer base to the insurer rather than to an independent agency and, potentially, reduced policy acquisition costs and increased customer retention.

Jevco's niche markets attract competition from time-to-time from new entrants. In some cases, these entrants may, because of inexperience, desire for growth or other reasons, price their insurance below the rates that Jevco believes provide an acceptable premium for the related risk. Jevco believes that it is generally 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 or "soft" market conditions.

Jevco believes that its ability to compete successfully in its industry is based on its:

- ability to identify specialty markets that are more likely to produce an underwriting profit;
- disciplined underwriting approach;
- diversified products and geographic platforms;
- prudent claims management;
- best practice approach to reserving for unpaid claims; and
- services and competitive commissions it provides to its independent brokers.

Any new, proposed or potential legislative or industry developments could increase competition in Jevco's markets or reduce its ability to price risks appropriately. New competition from these developments could cause the prices for insurance to fall, which would adversely affect Jevco's underwriting profitability.

Jevco's underwriting philosophy stresses receiving an adequate premium and spread of risks for the business that it accepts. Rather than attempt to select individual risks, Jevco seeks to set premium rates at levels that should generate profitable underwriting. Once Jevco has set premium rates that it believes are adequate, Jevco is generally willing to accept as much business within its underwriting guidelines as is available. Jevco regularly monitors premium adequacy and makes adjustments as required. Jevco does not reduce pricing when competitors offer to underwrite certain classes of business at premium rates that are below what Jevco believes are acceptable levels. Instead, Jevco elects to maintain premium per risk rather than write a large number of risks at premiums that it considers inadequate. In such instances, premium volumes may decrease. Underwriting profitability is primarily dependent on the claims amounts incurred on the policies sold in relation to net premiums earned. At the time premium levels are established, the claims amounts to be incurred on the policies sold are unknown and the process for estimating claims is inherently uncertain and imprecise.

Jevco regularly considers and implements various initiatives to address adverse profitability trends in its business. These initiatives vary, but include tightening of underwriting requirements, price increases, termination of underperforming programs, policy non-renewals (where permitted) and other administrative changes. Many of its lines of insurance must have their premium rates approved by the applicable insurance regulatory authority. Once these rates are approved, an insurance company is prohibited from altering them without regulatory approval for new rates.

For most lines Jevco maintains an "open market" approach which allows brokers to place business with Jevco with no minimum commitments and provides Jevco with a broad, flexible and easily scalable distribution network. Jevco focuses on developing and maintaining strong relationships with its independent brokers. Jevco strives to provide excellent service and to communicate with such brokers through a variety of channels as it looks for opportunities to increase efficiency and reduce operating costs.

Insurance Operations

Personal Lines

Personal Automobile

Jevco is a leading writer of personal non-standard automobile insurance in the Province of Ontario and writes non-standard policies in Alberta and standard and non-standard automobile insurance in the Province of Quebec.

Jevco began writing non-standard auto insurance in Ontario effective October 1, 2009 after assuming the policy liabilities of KGIC. Non-standard automobile insurance is principally provided to individuals who do not qualify for standard automobile insurance coverage because of their payment history, driving record, vehicle type or other factors. Such drivers typically represent higher than normal risks and pay higher insurance rates for comparable coverage.

Non-standard automobile insurance is generally accompanied by increased loss exposure, higher claims experience and a higher incidence of consumer and service provider fraud. These factors, however, are mitigated to some extent by higher premium rates, the tendency of high-risk individuals to own low value automobiles, and generally lower limits of insurance coverage as insureds tend to purchase coverage at the minimum prescribed limits. In addition, automobile insurance reform legislation intended to control costs of accident benefits claims was introduced in Ontario effective September 1, 2010. As well, the insuring of non-standard drivers is often transitory. When their driving records improve, insureds may qualify to obtain insurance in the standard market at lower premium rates. As a result, Jevco's non-standard automobile insurance policies experience a retention rate that is lower than that experienced for standard market risks. Most of the insureds pay their premiums on a monthly installment basis and Jevco typically limits its risk of non-payment of premiums by requiring a deposit for future insurance premiums and the prepayment of subsequent installments.

Automobile insurers are generally required to participate in various involuntary residual market pools and assigned risk plans that provide automobile insurance coverage to individuals or other entities that are unable to purchase such coverage in the voluntary market. For example, in Ontario and Alberta every insurer is required to be a member of those provinces' Facility Association pools, which were created to ensure the availability of automobile insurance to every motorist. Facility Association pools select designated carriers to provide coverage and claims handling services to drivers who are unable to purchase insurance through private carriers, in return for an administration fee. Participation in these pools in most jurisdictions is in proportion to the writing of automobile business in that jurisdiction.

Jevco sells both standard and non standard automobile insurance in Quebec. Standard automobile insurance provides coverage for standard risk drivers of private passenger automobiles. Premiums for these types of policies are usually lower than premiums charged in the non-standard market for comparable coverages. The frequency and severity of accidents and other loss events, however, are also typically lower. The retention on the non-standard business in Quebec is higher than in Ontario because, in Quebec, once a customer's driving record improves Jevco can offer standard coverage.

Motorcycle and Recreational Vehicles

Jevco 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 coverages. Jevco also writes insurance for ATVs and snowmobiles in the Province of Quebec.

Effective October 1, 2009, Jevco assumed the policy liabilities associated with KGIC's motorcycle business in Ontario and Alberta. Also, on October 1, 2009, Jevco implemented new underwriting and pricing methodology (consistent with current Jevco standards) for all KGIC policy renewals. As a result, it is expected that Jevco will retain a portion, but not all of the policies assumed from KGIC. This was done in an effort to maintain the historic underwriting profitability of this line of business for Jevco.

The motorcycle and recreational vehicle insurance business is Jevco's only seasonal business.

Commercial Lines

Surety

Jevco writes contract, commercial, fiduciary and customs and excise bonds. Contract bonds (which include performance and 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.

Commercial Auto

Jevco 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. Jevco sells largely through brokers who have larger books of business with it or who sell other lines of business such as surety or property and liability.

Property and Liability

This business focuses primarily 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 or are associated with risks within Jevco's core lines. These risks are characterized by high premiums and limited coverage. Jevco's specialty property business includes insurance for restaurants, rental properties and garages.

Investment Operations

Overview and Strategy

Jevco manages its investment portfolio to support the liabilities of the insurance operations, to preserve capital and to generate investment returns. Jevco invests predominantly in corporate and government bonds with relatively short durations. The securities are managed by third-party investment management firms and Jevco monitors their performance and their compliance with both their individual mandate and its investment policies and guidelines. Jevco considers its financed premium receivables to be a part of its investment portfolio.

Jevco's investment guidelines stress the preservation of capital, market liquidity to support payment of liabilities and the diversification of risk.

In accordance with the preservation of capital as a key component of the investment policy, Jevco undertook the strategy in early 2009 of liquidating substantially all of its common share equity portfolio with the objectives of reducing the volatility of the balance sheet and protecting Jevco's capital. The proceeds from the disposal were reinvested in high quality fixed income securities.

Provision for Unpaid Claims

A provision for unpaid claims 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**"). The provision for unpaid claims also includes an estimate of allocated loss adjustment expenses (primarily defence costs) and unallocated loss adjustment expenses (primarily the adjustment handling costs by claims personnel) which Jevco expects to incur in the future.

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. The provision for unpaid claims does not represent an exact calculation of the liability but instead represents management's best estimate at a given accounting date 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 deviation.

Jevco's management regularly reviews its estimates and adjusts as experience develops and new information becomes available. In establishing the provision for unpaid claims, Jevco also takes into account estimated recoveries, reinsurance, salvage and subrogation.

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, Pierre Laurin of Towers Watson & Co.

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 Jevco's claims personnel and independent adjustors retained to handle individual claims. A change in claims handling procedures and changes in individuals involved in the reserving process can also affect the provision for unpaid 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, court decisions, economic conditions and public attitudes, all affect the provision for unpaid claims. In addition, time can be a critical part of the provision's determination, because 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.

Accordingly, 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. Long-tailed claims are less predictable, whereas short-tailed claims are reported and settled quickly, resulting in less estimation variability. Jevco does not have exposure to asbestos or environmental liability other than pollution coverage for oil spills as required for trucking insurance. Its provision for unpaid claims is discounted to reflect the time value of expected future payouts of claims.

Any adjustments are reflected in the consolidated statement of operations in the period in which they become known and are accounted for as changes in estimates. 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.

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 for statutory reporting purposes 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, if any, that inflation or changes in operating structure or process may have on future loss settlements. Management reviews the information by its 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 segments.

The ICA requires Jevco to have an Appointed Actuary. As stated above, Pierre Laurin, an external independent actuary from Towers Watson & Co., acts as the Appointed Actuary. The Appointed Actuary ascertains whether the provision for unpaid claims as established by management is reasonably stated.

As part of the reserving process, the Appointed Actuary performs various quarterly reviews throughout the calendar year to assess whether the actual results of the operating insurance company are materially different than what was expected based on loss development factors previously established.

Reinsurance

Jevco purchases reinsurance from third parties in order to reduce its liability on individual risks and its exposure to catastrophic events. Reinsurance is insurance purchased by one insurance company from another for part of the risk originally underwritten by the purchasing (ceding) insurance company. The practice of ceding insurance to reinsurers allows an insurance company to reduce its exposure to loss by size, geographic area and type of risk or on a particular policy. An effect of ceding insurance is to permit an insurance company to write additional insurance for risks in greater number or in larger amounts than it would otherwise insure independently, having regard to its statutory capital, risk tolerance and other factors.

Reinsurance ceded does not relieve Jevco of its ultimate liability to its policyholders in the event that any reinsurer is unable to meet its obligations under its reinsurance contracts. Jevco therefore enters into reinsurance contracts with only those reinsurers which it believes have sufficient financial resources to provide the requested coverage. Reinsurance treaties are generally subject to cancellation by Jevco's reinsurers or Jevco on the anniversary date and are subject to renegotiation annually. Jevco regularly evaluates the financial condition of its reinsurers and monitors the concentrations of credit risk to minimize its exposure to significant losses as a result of the insolvency of a reinsurer. Jevco believes that the amounts it has recorded as reinsurance recoverables are appropriately established.

RISK FACTORS

The risks inherent Westaim's operations are described in its 2010 Management's Discussion and Analysis under the heading "*Risk Factors*" which is hereby incorporated by reference in this AIF and is available on SEDAR at www.sedar.com.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of Westaim consists of an unlimited number of common shares, an unlimited number of Class A preferred shares, issuable in series and an unlimited number of Class B preferred shares, issuable in series. On February 26, 2010, the Company filed articles of amendment to create a series of Class A preferred shares designated as Series 1 Class A non-voting, participating, convertible preferred shares (the "**Non-Voting Shares**").

Westaim Shares

Each Westaim Share carries one vote at all meetings of shareholders, is entitled to receive dividends as and when declared by the directors, and, subject to the prior rights of the holders of the Non-Voting Shares, is entitled to a pro rata share of the remaining property and assets of the Company distributable to the holders of the Westaim Shares and the Non-Voting Shares, upon any liquidation, dissolution or winding up of the Company.

Non-Voting Shares

Any holder of Non-Voting Shares may, subject to certain restrictions, convert any or all Non-Voting Shares held by such holder into Westaim Shares based on the then applicable exercise number which at the date hereof is one Westaim Share for each Non-Voting Share. No Westaim Share may be issued upon the conversion of a Non-Voting Share if the conversion would result in the holder, together with such holder's "associates" and "affiliates" (as such terms are defined in the *Securities Act* (Alberta)), and any person or company acting jointly or in concert with such parties: (i) being the registered holder of; (ii) being the beneficial owner of; and/or (iii) exercising control or direction over, greater than 40% of the issued and outstanding Common Shares. The Non-Voting Shares: (i) rank equally with the Class A preferred shares of every other series with respect to dividends and return of capital; (ii) are entitled to such dividends as the directors may declare; provided, however, that no dividend on the Non-Voting Shares shall be declared unless the directors shall declare an equal dividend on the Westaim Shares; and (iii) are entitled to a preference as to $0.0001 per Non-Voting Share over the Class B preferred shares and the Westaim Shares and over any other shares ranking junior to the Non-Voting Shares, following which the Non-Voting Shares shall rank equally with the Westaim Shares with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of Westaim, whether voluntary or involuntary, or any other distribution of the assets of Westaim for the purpose of winding up its affairs. Except as required by law, the holders of the Non-Voting Shares as a series shall not be entitled to receive notice of, to attend or to vote at any meeting of the shareholders of Westaim. The other rights, privileges, restrictions and conditions applicable to the Non-Voting Shares are summarized in the Information Circular under the heading "*The Financing – Non-Voting Shares*".

As of the date hereof, the Company had issued and outstanding 580,634,386 Westaim Shares and 63,852,912 Non-Voting Shares.

DIVIDENDS

The Company has not paid dividends for the three fiscal years ending December 31, 2010 and does not expect to pay dividends in the foreseeable future. There are no restrictions preventing the Company from paying dividends on its Westaim Shares provided that an equivalent dividend is declared on the Non-Voting Shares, however, any future payment of dividends will be dependent upon the earnings and financial condition of the Company and other factors that the directors may deem appropriate at the time.

MARKET FOR SECURITIES

Trading Price and Volume

The Westaim Shares are listed and posted for trading on the TSX under the symbol "WED". The following table sets forth the reported high and low closing prices and the aggregate volume of trading of the Westaim Shares on the TSX for the periods indicated:

Month	High	Low	Volume
2010			
January	$0.65	$0.40	10,297,500
February	$0.65	$0.57	10,492,200
March	$0.80	$0.65	12,434,049
April	$0.73	$0.62	2,096,117
May	$0.70	$0.56	6,519,772
June	$0.63	$0.48	10,883,736
July	$0.59	$0.51	9,799,820
August	$0.57	$0.53	5,049,297
September	$0.56	$0.49	11,846,983
October	$0.53	$0.49	5,335,545
November	$0.55	$0.49	14,120,174
December	$0.57	$0.53	3,859,365
2011			
January	$0.62	$0.56	10,178,514
February	$0.62	$0.59	4,918,845
March 1	$0.60	$0.60	127,900

DIRECTORS AND OFFICERS

Name, Residency and Principal Occupation

The following table sets forth the names, residency and principal occupation of the directors of the Company and the period of service as a director:

Name and Residency	Principal Occupation at Present[4]	Period of Service as a Director
Ian W. Delaney[3] Ontario, Canada	Chairman, President and Chief Executive Officer of Sherritt International Corporation *(a diversified resource company)*	May 1996 to date
Brian Gibson[3] Alberta, Canada	Senior Vice-President, Public Equities Alberta Investment Management Corporation *(institutional investment fund manager)*	February 2010 to date
John W. Gildner[1, 2, 3] Ontario, Canada	Independent businessman	May 2009 to date
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer of Goodwood Inc. *(an investment management company)*	December 2008 to date
Daniel P. Owen[1, 2, 3] Ontario, Canada	Chairman and Chief Executive Officer of Molin Holdings *Limited (a capital investment management company)* and Chairman of Heli-Lynx Helicopter Services Inc. *(a helicopter conversion and enhancement company)*	May 1996 to date
Peter H. Puccetti Ontario, Canada	Chairman and Chief Investment Officer of Goodwood Inc. *(an investment management company)*	December 2008 to date
Bruce V. Walter[1, 2, 3] Ontario, Canada	Chairman, Iron Ore Holdings, LP *(a resource investment partnership)* and Vice Chairman of Centerra Gold Inc. *(a gold mining company)*	May 1997 to date

Notes:

(1) Messrs. Gildner, Owen and Walter are members of the audit committee of the Board (the "**Audit Committee**").
(2) Messrs. Gildner, Owen and Walter are members of the human resources and compensation committee of the Board.
(3) Messrs. Delaney, Gibson, Gildner, Owen and Walter are members of the corporate governance committee of the Board.
(4) Each of the directors has been engaged for more than 5 years in his present principal occupation except for John Gildner. Prior to January 2009, Mr. Gildner was employed with CIBC World Markets Inc. (an investment dealer) from 1983 to December 2008, most recently as Managing Director and global head of the equity proprietary trading group.

The following table sets forth the names, residency and office of the executive officers of the Company:

Name and Residency	Office with the Company	Principal Occupation During the Past Five Years
Ian W. Delaney Ontario, Canada	Chairman of the Board (non-employee)	Chairman, President and Chief Executive Officer of Sherritt International Corporation *(a diversified resource company)*
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer (non-employee)	President and Chief Executive Officer of Goodwood Inc. *(an investment management company)*
Kevin Rooney Ontario, Canada	Corporate Secretary (non-employee)	Partner of Heenan Blaikie LLP
Jeffrey A. Sarfin Ontario, Canada	Chief Financial Officer (non-employee)	Chief Financial Officer of Marnlen Management Ltd.

Shareholdings of Directors and Executive Officers

As at the date hereof, the directors and executive officers of the Company as a group beneficially owned, directly or indirectly, or exercised control or direction over 48,027,044[1] Westaim Shares or approximately 7.45% of the number of issued and outstanding Westaim Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Company, no director or executive officer of the Company is, as at the date of this AIF, or was, within ten years before the date of this AIF, a director, Chief Executive Officer or Chief Financial Officer of any company (including Westaim) that:

(a) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemptions under Canadian securities legislation (an "**order**"), that was issued while the director or executive officer was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer; or

(b) was subject to an order that was issued after the director or executive officer ceased to be a director, Chief Executive Officer or Chief Financial Officer and which resulted from an event that occurred while that person was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer,

that was in effect for a period of more than 30 consecutive days.

To the knowledge of the Company, no director or officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

(a) is, as at the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company (including Westaim) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or

(b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

To the knowledge of the Company, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

(a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or

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[1] Based on the information provided on the System for Electronic Disclosure by Insiders, (i) Ian W. Delaney holds, in the aggregate, 11,999,844 Westaim Shares as follows: (a) 4,935,644 Westaim Shares directly; and (b) 7,064,200 Westaim Shares indirectly (Brant Investments – 6,852,960 Westaim Shares; Delaney Family Foundation – 38,240 Westaim Shares and I.W. Delaney Company Ltd. – 173,000 Westaim Shares); (ii) Brian Gibson does not hold any Westaim Shares; (iii) John W. Gildner holds 2,465,000 Westaim Shares directly; (iv) J. Cameron MacDonald holds, in the aggregate, 28,486,400 Westaim Shares as follows: (a) 500,000 Westaim Shares directly; and (b) 27,986,400 Westaim Shares indirectly (RRSP – 100,000 and various funds controlled by Goodwood Inc. – 27,886,400); (v) Daniel P. Owen holds, in the aggregate, 1,246,900 Westaim Shares as follows: (a) 60,000 directly; and (b) 1,186,900 indirectly (2136802 Ontario Inc. – 20,000; Ad Astra Venture 100,000; Benjamin Banks – 100,000; Darcy Owen – 110,000; In Trust for Dominic Owen – 110,000; In Trust for Rupert Owen – 110,000; Juicy Lucy's Good Eats Inc. – 10,000; Molin Holdings Limited – 626,900; Zoe Wadsley – 100,000 and Molin Holdings Limited – 628,056); (vi) Peter H. Puccetti holds, in the aggregate, 28,658,000 Westaim Shares as follows: (a) 760,000 Westaim Shares directly; and (b) 27,898,000 Westaim Shares indirectly (RESP – 11,600 and various funds controlled by Goodwood Inc. – 27,886,400); (vii) Bruce V. Walter holds 2,907,300 Westaim Shares directly; and (viii) Jeff Sarfin holds 150,000 Westaim Shares directly.

(b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Certain of the Company's directors and officers serve or may agree to serve as directors or officers of other companies or have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

In the normal course of carrying on its business, Jevco becomes the subject of claims and is involved in various legal proceedings. However, Jevco is not currently involved in any material legal proceedings, and the Company is not aware of any pending or threatened proceedings or claims for damages against Jevco where the amount would exceed 10% (exclusive of interest and costs) of the current assets of the Company. The Company believes that it has adequate reserves in respect of legal proceedings to which it is a party.

AUDIT COMMITTEE

The Audit Committee's Charter

The responsibilities and duties of the Audit Committee are set out in the Audit Committee's charter, the text of which is set forth in Appendix A to this AIF.

Composition of the Audit Committee

The Audit Committee consists of three members: John Gildner, Chairman; Daniel Owen and Bruce Walter. Each of Messrs. Gildner, Owen and Walter is "independent" and "financially literate" for the purposes of National Instrument 52-110 – *Audit Committees*.

Relevant Education and Experience

The following is a description of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee:

John Gildner – Mr. Gildner holds a B.B.A. from Wilfrid Laurier University, having specialized in Economics. Mr. Gildner is currently a private investor. Prior to 2009, Mr. Gildner was a Managing Director of CIBC World Markets Inc., an investment bank, where he worked for 25 years (at both CIBC World Markets Inc. and Wood Gundy Limited, which was purchased by the Canadian Imperial Bank of Commerce in 1988) in various roles within the trading operations. Most recently at CIBC World Markets Inc., Mr. Gildner was head of the firm's equity division proprietary trading groups, where he had oversight of the firm's equity-related proprietary investing and trading strategies and activities. Mr. Gildner also served on several management, risk management, due diligence, and investment committees at the company. In these capacities, Mr. Gildner has had extensive experience analyzing and evaluating financial results and the financial statements of public companies. In 2010 Mr. Gildner obtained the Chartered Director (C.Dir.) designation from the Directors College (a joint venture of McMaster University and The Conference Board of Canada).

Daniel Owen – Mr. Owen holds a B.Sc. (Econ.) from the London School of Economics and Political Science having specialized in accounting. Mr. Owen is a private investor and entrepreneur, currently Chairman and Chief Executive Officer of a private investment management company, Chairman of a helicopter conversion and enhancement company, and formerly a Senior Vice President of Polystar Energy & Chemical Corporation (previously named Canada Development Corporation). Mr. Owen serves on the board of directors of a number of Canadian public companies, has served on the audit committees of these Canadian public companies and currently serves on the audit committees of two public companies, chairing one of those committees. In these capacities, Mr. Owen has had extensive experience analyzing and evaluating financial results and financial statements.

Bruce Walter – Mr. Walter holds a B.A. degree from the University of Toronto, J.D. and M.B.A. degrees from York University and a Ph.D. from the University of Cape Town. Mr. Walter is currently Chairman of Iron Ore Holdings, LP (a resource investment partnership), and Vice-Chairman of Centura Gold Inc., a gold mining company. Mr. Walter was formerly President and Chief Executive Officer of Dynatec Corporation, a publicly-traded Canadian company, President and Chief Executive Officer of Plaintree Systems Inc., a Canadian company publicly-traded in both Canada and the United States; President of Sherritt Inc., a publicly-traded Canadian company; and a Managing Director of BMO Nesbitt Burns, an investment bank. In these capacities, Mr. Walter has had extensive experience overseeing management responsible for the preparation of financial statements.

Audit Fees

The following table summarizes fees paid to the Company's independent auditors, Deloitte & Touche LLP, for the years ended December 31, 2010 and December 31, 2009:

(in thousands of dollars)	**2010**	**2009**
Audit Fees(1)	$ 345.0	$ 364.5
Audit-Related Fees(2)	143.9	233.9
Tax Fees(3)	228.6	78.9
All Other Fees(4)	0.0	0.0
Total Fees	**$ 717.5**	**$ 677.3**

Notes:

(1) Includes reviews of quarterly consolidated financial statements and review/audit of the Company's subsidiaries' financial statements, services related to regulatory filings, and audit or involvement with prospectuses and securities filings.
(2) Includes consultation on financial accounting and reporting standards.
(3) Includes fees for tax compliance and consultation.
(4) Includes fees for transaction support services.

Pre-Approval of Audit and Non-Audit Services by Independent Auditors

The Audit Committee pre-approves all audit services provided to the Company by its independent auditors. The Audit Committee's policy or practice regarding the pre-approval of non-audit services is that all such services shall be pre-approved by the Audit Committee as a whole or by the Chairman of the Audit Committee, who must report all such pre-approvals to the Audit Committee at its next meeting following the granting thereof. Prior to the granting of any pre-approval, the Audit Committee or its Chairman, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors.

Codes of Conduct

The Company has adopted a Code of Conduct and Ethics for Directors, Officers and Employees, as well as a Finance Code of Conduct for Chief Executive and Senior Financial Officers. These Codes and any amendments thereto can be found on the Company's website at www.westaim.com. During the most recently completed fiscal year, no amendments were made to these Codes, and the Company has granted no waivers of any of the provisions of these Codes.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Management of the Company is unaware of any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company:

(a) a director or executive officer of the Company;

(b) a person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the Company's outstanding voting securities; and

(c) an associate or affiliate of any of the persons or companies referred to in paragraphs (a) or (b).

TRANSFER AGENT AND REGISTRAR

The registrar and transfer agent for the Westaim Shares is Computershare Investor Services Inc., located in Calgary, Alberta, Canada.

MATERIAL CONTRACTS

The only material contract entered into by the Company during the most recently completed financial year, or before the most recently completed financial year that is still in effect, other than contracts entered into during the ordinary course of business and required to be filed pursuant to National Instrument 51-102 – *Continuous Disclosure Obligations,* was the MSA.

INTERESTS OF EXPERTS

The Company's auditors are Deloitte & Touche LLP who have prepared the Auditors' Report to Shareholders dated March **[2]**, 2011. Deloitte & Touche LLP has confirmed that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under the Company's comprehensive long-term equity compensation plan, where applicable, is contained in the management information circular of the Company dated April 12, 2010 with respect to its most recent annual meeting of shareholders. Additional financial information relating to the Company is contained in the Company's comparative financial statements and associated management's discussion and analysis for its most recently completed fiscal year.

All of these documents as well as additional information relating to the Company are available on SEDAR at www.sedar.com.

APPENDIX A - AUDIT COMMITTEE CHARTER

THE WESTAIM CORPORATION

AUDIT COMMITTEE CHARTER

(Revised March 2010)

A. Overview and Mandate

The Audit Committee (the "Committee") is responsible to the Board of Directors (the "Board") of The Westaim Corporation (the "Corporation"). The Committee shall review the annual consolidated financial statements of the Corporation and shall report thereon to the Board before such annual consolidated financial statements are approved by the Board, and shall oversee the accounting and financial reporting processes of the Corporation and the audits of the financial statements of the Corporation. The Committee also shall perform the duties as described under "Duties and Responsibilities" below.

The Committee, in its capacity as a committee of the Board, shall be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including for the resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation (the "auditor"), and each auditor must report directly to the Committee.

It is recognized that the Committee will be acting only within the terms of reference set out herein and it is not intended that the Committee shall usurp any of the powers or responsibilities of the Board as set out in the *Business Corporations Act* (Alberta) and/or the By-laws of the Corporation.

The Committee may engage independent counsel or other advisors as it determines necessary to carry out its duties.

The Corporation shall provide for appropriate funding, as determined by the Committee in its capacity as a committee of the Board, for payment of:

(a) compensation to any auditor;

(b) compensation to any independent counsel or adviser employed by the Committee pursuant to this charter; and

(c) ordinary administrative expenses of the Committee that are necessary or appropriate in respect of the performance by the Committee of its duties.

B. Membership and Attendance at Meetings

1. The members of the Committee shall consist of not fewer than three (3) members each of whom shall be a director of the Corporation.

2. A majority of members of the Committee shall be resident Canadians.

3. Each member of the Committee shall have no direct or indirect relationship with the Corporation which, in the view of the Board, could reasonably interfere with the exercise of the member's independent judgment. Each member shall otherwise satisfy the independence requirements applicable to members of audit committees under National Instrument 52-110 – *Audit Committees* of certain of the Canadian Securities Administrators and the requirements of any other applicable legislation or stock exchange rules, subject to any exemptions or relief that may be granted from such requirements.

4. Each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

5. The Chairman of the Committee shall be appointed by the Board and shall be responsible for the overall operation of the Committee.

6. Members shall serve one-year terms and may serve consecutive terms.

7. The auditor of the Corporation is entitled to receive notice of every meeting of the Committee and be heard thereat.

8. In its discharge of its responsibilities and duties set out herein, the Committee shall have free and unrestricted access at all times, either directly or through its duly appointed representatives, to the relevant accounting books, records and systems of the Corporation and shall discuss with the officers of the Corporation such books, records, systems and other matters considered appropriate.

C. Duties and Responsibilities

The Committee shall fulfil the following duties arising from its mandate set out above:

1. Review and assess the adequacy of this charter on an annual basis, or more often if deemed appropriate.

2. Review the annual consolidated financial statements of the Corporation and the notes thereto following the examination thereof by the auditor and prior to their approval by the Board and report to the Board thereon.

3. Review and approve the quarterly financial statements, notes thereto and quarterly management discussion and analysis (MD&A) and related press releases of the Corporation prior to their release.

4. Review the annual MD&A, and other public disclosure documents and related press releases, including any prospectus prior to their approval by the directors.

5. Review, and approve, the planned scope of the examination of the annual and quarterly consolidated financial statements and all related audit activities by the auditor of the Corporation, including expected related audit fees.

6. Review the accounting principles and practices to be applied and followed by the Corporation during the fiscal year and any significant changes from those applied and followed during the previous year.

7. Review the adequacy of the systems of internal accounting and audit policies, practices and controls established by the Corporation, and discuss with the auditor the results of its reviews and reports.

8. Review all litigation and claims involving or against the Corporation which could materially adversely affect its financial position and which the auditor or any officer of the Corporation may refer to the Committee.

9. Ensure the auditor's ultimate accountability to the Board and the Committee as representatives of the shareholders and as such representatives, to evaluate the performance of the auditor and review and report to the directors regarding the nomination and the remuneration and other material terms of the engagement of the auditor, and the performance by the auditor thereunder, and to recommend to the shareholders the reappointment or replacement of the auditor.

10. Ensure that the auditor submits on a periodic basis to the Committee, a formal written statement delineating all relationships between the auditor and the Corporation, consistent with Canadian auditor independence

standards, and to review such statement and to actively engage in a dialogue with the auditor with respect to any disclosed or undisclosed relationships or services that may impact on the objectivity and independence of the auditor, and to review the statement and the dialogue with the Board of Directors and recommend to the Board of Directors appropriate action to ensure the independence of the auditor.

11. Provide a line of communication between the auditor and the Board, and communicate directly with the auditor and with any internal auditor of the Corporation.

12. Meet with the auditor at least once per quarter without management present to allow a candid discussion regarding any concerns the auditor may have and to resolve any disagreements between the auditor and management regarding the Corporation's financial reporting.

13. Review and pre-approve non-audit services provided by the auditor.

14. Review and approve hiring policies regarding partners, employees, and former partners and employees of the present and former external auditors of the Corporation.

15. Review any internal audit plan and review all reports arising from any such internal audit activity.

16. Approve the Corporation's Disclosure Policy and review and assess the adequacy of the policy on an annual basis, or more often if deemed appropriate.

17. Review and approve all "related party" transactions, as defined by the rules of the applicable regulatory authorities.

18. Review the status of taxation matters of the Corporation and its major subsidiaries.

19. Review the short term investment strategies respecting the cash balance of the Corporation.

20. Review the hedging strategies of the Corporation.

21. Review the adequacy of all insurance policies maintained by the Corporation.

22. Establish procedures for:

    (a) the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and

    (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

23. Review regular reports from management and others with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements of the Corporation.

24. Review annually the Corporation's reserves with respect to environmental, health and safety matters.

25. Conduct or undertake such other duties as may be required from time to time by any applicable regulatory authorities, including the Toronto Stock Exchange or any other stock exchange.

26. At least annually, undertake a self assessment of the Committee's performance of its duties.

D. <u>Meetings</u>

1. Meetings of the Committee are held as required and at least quarterly.

2. Committee meetings may be called by the Committee Chairman or by a majority of the Committee members.

3. The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board. Notwithstanding such procedures, a meeting of the Committee may also be called by the external auditor.

4. A quorum for the transaction of business at any meeting of the Committee is a majority of appointed members.

5. The Committee may invite to a meeting any officers or employees of the Corporation, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities.

6. Meetings may be held by way of telephone conference call.

7. A written resolution signed by all Committee members entitled to vote on that resolution at a meeting of the Committee is as valid as one passed at a Committee meeting.

8. The Corporate Secretary will ensure that minutes of the proceedings of all meetings of the Committee are maintained and available to the Board when requested.

E. <u>Reporting</u>

The Committee shall report on its review of the audited consolidated financial statements of the Corporation to the Board prior to the approval of financial statements by the Board. In addition, the Chairman of the Committee shall, when deemed necessary or when requested by the Chairman of the Board, report to the Board from time to time on the activities of the Committee.