For immediate release

WESTAIM ANNOUNCES 2010 FIRST QUARTER RESULTS

Toronto, Ontario – May 11, 2010 – The Westaim Corporation (**Westaim**) announced today that for the quarter ended March 31, 2010, it recorded net income of $24.2 million or 23 cents per share, compared to a net loss of $2.7 million or 3 cents per share in the first quarter of 2009. Westaim's 2010 first quarter results include an accounting gain of $23.7 million as a result of the acquisition of JEVCO Insurance Company (**JEVCO**) on March 29, 2010 at a discount to its net book value, and a gain on the sale and redemption of investments of $3.2 million.

Westaim's first quarter results do not include any revenue or net income of JEVCO from the closing date of March 29, 2010 to March 31, 2010 as the amounts are not material. Westaim's ownership of JEVCO is reflected on the consolidated balance sheet, and JEVCO's earnings will be included in Westaim's results going forward.

At March 31, 2010, Westaim had $67.1 million in consolidated cash and cash equivalents, compared to $62.4 million at December 31, 2009.

"We believe our new focus on the property and casualty insurance industry will bring significant value to our shareholders," said Cameron MacDonald, Westaim's President and Chief Executive Officer.

Tomorrow, May 12, 2010, The Westaim Corporation is holding its Annual Meeting of Shareholders in Toronto, Canada at 10:00 a.m. EDT. The meeting takes place at the Metro Toronto Convention Centre at 255 Front Street West in Toronto Ontario.

Westaim's business is 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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Certain portions of this press release as well as other public statements by Westaim, contain forward-looking statements. Such forward-looking statements include but are not limited to statements concerning the transaction described herein; JEVCO's business and the industry in which it operates; investment strategies and expected rates of return; and strategic alternatives to maximize value for shareholder. These statements are based on current expectations that are subject to risks, uncertainties and assumptions and Westaim can give no assurance that these expectations are correct. Westaim's actual results could differ materially from those anticipated by forward-looking statements for various reasons generally beyond our control, including but not limited to: (i) changes in market conditions or deterioration in underlying investments; (ii) general economic, market, financing, regulatory and industry developments and conditions; (iii) the risks relating to JEVCO's business; and (iv) other risk factors set forth in Westaim's Annual Report or Annual Information Form. Westaim disclaims any intention or obligation to revise forward-looking statements whether as a result of new information, future developments or otherwise except as required by law. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

THE WESTAIM CORPORATION
Financial Highlights
(unaudited)
(thousands of Canadian dollars except per share data)

Consolidated Statements of Operations	Three Months Ended March 31 2010	2009
Income (loss) from continuing operations	$ 24,743	$ (960)
Net income (loss)	24,219	(2,681)
Earnings (loss) per common share		
Continuing operations		
- basic and diluted	0.23	(0.01)
Net earnings (loss)		
- basic	0.23	(0.03)
- diluted	0.22	(0.03)
Weighted average number of common shares outstanding (thousands)		
- basic	106,443	94,216
- diluted	108,119	94,216

Consolidated Balance Sheets	March 31, 2010	December 31, 2009
Cash and cash equivalents	$ 67,081	$ 62,423
Investments	932,350	9,231
Total assets	1,267,434	72,567
Total liabilities	926,598	14,564
Shareholders' equity	340,836	58,003

*This interim Management's Discussion and Analysis prepared as at May 7, 2010 should be read in conjunction with the Management's Discussion and Analysis included in the annual report of the Company for the year ended December 31, 2009. Additional information relating to the Company can be found at **www.westaim.com** and **www.sedar.com**.*

DESCRIPTION OF THE BUSINESS

The Westaim Corporation ("Westaim" or the "Company") 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.

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"). 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.

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 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 $261.3 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. The total proceeds of the Financing to the Company were $265.3 million, net of transaction costs of $9.7 million. The Financing is discussed in Note 9 to the Company's unaudited interim consolidated financial statements for the three months ended March 31, 2010.

In the first quarter of 2010, the Company recorded a gain on business acquisition of $23.7 million, reflecting the difference between the purchase price of $261.3 million and the fair value of Jevco's net assets acquired. The Acquisition is discussed in Note 2 to the Company's unaudited interim consolidated financial statements for the three months ended March 31, 2010.

Prior to February 8, 2010, the Company held a 75% investment in Nucryst Pharmaceuticals Corp. ("Nucryst"), a company that until late 2009 had been developing and manufacturing innovative medical products that fight infection and inflammation. On November 10, 2009, Nucryst entered into an asset purchase agreement with Smith & Nephew plc ("Smith & Nephew") under which it 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 $29.3 million, after transaction costs, taxes and termination amounts of $0.5 million, resulting in a gain on sale of $10.9 million.

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 Company recorded a foreign exchange loss on repurchase of shares from non-controlling interest of $0.2 million in the three months ended March 31, 2010.

CONSOLIDATED RESULTS – THREE MONTHS ENDED MARCH 31, 2010

For the three months ended March 31, 2010, the Company reported a consolidated net income of $24.2 million compared to a consolidated net loss of $2.7 million for the three months ended March 31, 2009. As a result of the sale of Nucryst's operations and assets, its financial results, balance sheet and cash flows are reported as discontinued operations in the interim consolidated financial statements.

DESCRIPTION OF THE BUSINESS (continued)

Income from continuing operations was $24.7 million for the three months ended March 31, 2010 compared to a loss of $1.0 million for the three months ended March 31, 2009. The improvement in income from continuing operations resulted primarily from the gain on acquisition of Jevco of $23.7 million, partially offset by the costs of the acquisition totaling $1.4 million. The results for the three months ended March 31, 2010 also benefited from an increase in the fair value of the Company's investments of $0.8 million and the disposition of investments resulting in a gain of $3.2 million. Corporate costs for the three months ended March 31, 2010 were $1.8 million, compared to $1.3 million in the same period in 2009. Under a management services agreement ("MSA") with Goodwood Management Inc. ("Goodwood"), Goodwood earned fees of $0.2 million in the three months ended March 31, 2010.

The loss from discontinued operations of $0.5 million for the three months ended March 31, 2010 was $1.2 million less than the loss of $1.7 million for the three months ended March 31, 2009 as a result of nominal activity at both Nucryst and iFire Technology Ltd. ("iFire") in the first quarter of 2010.

No revenue or net income of Jevco from the closing date of the Acquisition to March 31, 2010 has been reflected in the interim consolidated financial statements as the amount is immaterial.

OPERATIONS

The Company's strategic direction in 2009 was to explore new investment opportunities. In realigning its business direction, the Company sold the assets and operations of Nucryst to Smith & Nephew in December, 2009. The Company's principal activities in the first quarter of 2010 were managing its investments, and completing the Financing and the Acquisition.

ACQUISITION OF JEVCO

Description of Jevco's Business

On March 29, 2010, the Company closed the acquisition of Jevco. Jevco provides specialty insurance for individuals and businesses.

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, (c) standard automobile insurance in Quebec, (d) commercial automobile insurance, (e) property and liability insurance, and (f) surety products.

Jevco operates through a personal lines division and a commercial lines division. A more detailed description of these two divisions is provided below.

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 Kingsway General Insurance Company ("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

ACQUISITION OF JEVCO

Description of Jevco's Business **(continued)**

lower limits of insurance coverage as insureds tend to purchase coverage at the minimum prescribed limits. 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 all terrain vehicles 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 Jevco's historic underwriting profitability of this line of 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.

ACQUISITION OF JEVCO

Description of Jevco's Business **(continued)**

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.

Jevco's Net Assets Acquired

The Company acquired the net assets of Jevco at a purchase price of $261.3 million. The purchase price is allocated to the estimated fair value of the net assets acquired as follows:

(millions)	
Cash	$ 15.7
Investments	924.9
Accrued investment income	10.0
Financed premiums	52.2
Claims recoverable from other insurers	27.2
Accounts receivable and other assets	32.1
Due from reinsurers	47.3
Deferred policy acquisition costs	29.5
Future income taxes	8.8
Capital assets	19.0
Capital assets held for sale	34.5
Intangible assets	0.6
Accounts payable and accrued liabilities	(9.6)
Income taxes payable	(4.1)
Unearned premiums	(138.1)
Unpaid claims	(765.0)
Unearned reinsurance commissions	(0.0)
	$ 285.0

Purchase price paid:	
Cash	$ 261.3
Gain on business acquisition – excess of fair value over purchase price	23.7
	$ 285.0

The gain on business acquisition of $23.7 million resulted primarily from the net assets of Jevco being acquired at a 5.5% discount to its net book value at December 31, 2009.

<u>Jevco Investments</u>

Overview and Strategy

Jevco manages its investment portfolio to support the liabilities of its insurance operations, to preserve capital and to generate investment returns. As at March 31, 2010, the portfolio was invested 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 Jevco's investment policies and guidelines.

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

Investment Portfolio Composition

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.

ACQUISITION OF JEVCO

***Jevco's Net Assets Acquired* (continued)**

Investment Portfolio Risks

Liquidity 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 the 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 of Jevco's business have been 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, Jevco 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. The Company believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill the cash requirements during the current financial year and also to satisfy regulatory capital requirements.

Market Risk

Market risk is the risk that Jevco will incur losses due to adverse changes in interest or currency exchange rates or equity prices. Having disposed of substantially all common equity securities, Jevco's primary market risk exposures in the fixed income investment portfolio are to changes in interest rates and to changes in exchange rates as a result of U.S. dollar denominated securities in the investment portfolio.

Because the investment portfolio is comprised of primarily fixed income securities that are usually held to maturity, periodic changes in interest rate levels generally impact Jevco's financial results to the extent that the securities in its available-for-sale portfolio are recorded at market value. Also, reinvestment yields on maturing securities are different than the original yields. 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. This will reduce the carrying value of Jevco's available-for-sale securities which are carried on the balance sheet at fair value. The reverse is true during periods of declining interest rates.

Credit Risk

Jevco is exposed to credit risk principally through its investments and balances receivable from policyholders and reinsurers. In managing credit risk in the investment portfolio, Jevco monitors concentration and credit quality 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 investment portfolio. Jevco's credit exposure to any one individual policyholder is not material. Jevco's policies, however, are distributed by agents, program managers or brokers who manage cash collection on its behalf. Jevco has policies to evaluate the financial condition of its reinsurers and monitor 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.

Jevco's fixed income investment portfolio consists of predominantly very high quality securities in corporate and government bonds with 94% rated 'A' or better.

Other-than-temporary Impairment

Management performs a quarterly analysis of the securities holdings to determine if declines in market value are other-than-temporary. Additional information on the factors considered in establishing an other-than-temporary impairment on an investment security is discussed under the Critical Accounting Estimates and Assumptions section of this Management's Discussion and Analysis.

The length of time securities may be held in an unrealized loss position may vary based on the opinion of the appointed investment managers and their respective analyses related to valuation and to the various credit risks that may prevent Jevco from recapturing the principal investment. In cases of securities with a maturity date where the appointed investment manager determines that there is little or no risk of default prior to the maturity of a holding, Jevco would elect to hold the security in an unrealized loss position until the price recovers or the security matures. In situations where facts emerge that might increase the risk associated with recapture of principal, Jevco may elect to sell securities at a loss.

In making impairment assessments of bonds and short-term investments, management utilizes the professional expertise of the investment advisors, analyzes independent economic indicators and reviews market trends. In deciding whether to reduce the carrying value of common shares, management takes into account a number of factors, including whether the decline in market value is more than 20% and has persisted for a period exceeding six months. In the case of fixed income securities, management also takes into account whether the issuer is in financial distress (unable to pay interest or some other situation that would put in question the issuer's ability to satisfy its debt obligations).

Financed Premiums

Premiums for property and casualty insurance are typically payable at the time a policy is issued, in force or renewed. To assist insureds in making their payments, in some instances, Jevco offers premium financing whereby the insured can pay a portion of the premium in monthly instalments. The insured pays an additional amount for this option, reflecting handling costs and the income Jevco would have earned on such premium had Jevco received the total amount at the beginning of the policy period. The option of monthly premium payments is available only where permitted under the laws or regulations of the specific jurisdictions. Some jurisdictions require the option of monthly premium payments at a specific annual interest rate or monthly charge.

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. Claims recoverable from other insurers represent management's estimate of the amounts recoverable.

Failure of other insurers to honor their obligations could result in losses to the Company.

Due from Reinsurers

In the normal course of business, Jevco 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.

Jevco has purchased reinsurance protection which limits the maximum amount on any one loss to $1.8 million in the event of a liability claim to a maximum of $20 million, and $0.8 million in the event of a property claim to a maximum of $5 million.

In addition, Jevco has purchased 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.

Failure of reinsurers to honor their obligations could result in losses to the Company.

ACQUISITION OF JEVCO

***Jevco's Net Assets Acquired* (continued)**

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

(millions)	March 31, 2010	
A++	$ 3.3	7%
A+	7.2	15%
A	36.5	77%
B++	0.1	0%
Not rated	0.2	1%
	$ 47.3	100%

Deferred Policy Acquisition Costs

Jevco 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. 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. Changes in estimates, if any, are reflected in the statement of earnings of the period in which such estimates are updated. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs.

Unearned Premiums

Jevco earns motorcycle premiums over the period of risk covered by the policy based on Jevco's experience. Jevco earns premium revenue on all other lines evenly over the period covered by each individual insurance contract. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the end of the period. A premium deficiency is established if the unearned premiums are less than the estimated future claims and expenses to be incurred less investment income to be earned during the period premiums are earned.

Provision for Unpaid Claims

Overview

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. Management continually 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.

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.

ACQUISITION OF JEVCO

***Jevco's Net Assets Acquired* (continued)**

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-tail 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. Jevco's provision for unpaid claims is discounted to reflect the time value of expected future payouts of claims.

The table below shows the amounts of total unpaid claims as at March 31, 2010 split between case reserves and IBNR.

(millions)	March 31, 2010
Case reserves	$ 520.3
IBNR	244.7
	$ 765.0

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, 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 Insurance Companies Act requires Jevco to have an 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.

The table below shows a segmentation of the provision for unpaid claims, gross of external reinsurance, by line of business.

(millions)	March 31, 2010
Personal lines	$ 460.2
Commercial lines	304.8
	$ 765.0

ACQUISITION OF JEVCO

***Jevco's Net Assets Acquired* (continued)**

The following table shows a segmentation of the provision for unpaid claims, net of external reinsurance, by line of business.

(millions)	March 31, 2010
Personal lines	$ 423.4
Commercial lines	268.2
	$ 691.6

Jevco Outlook

Jevco continues to focus on its core specialty insurance lines including non-standard automobile, motorcycle, surety and niche commercial lines.

The hardening automobile insurance market, which began in 2009 as a result of deteriorating underwriting results, is expected to continue in 2010 as underwriting standards are tightened and rate increases are sought where possible. A hardening market tends to increase Jevco's premium volume. This is due to tighter underwriting among the standard insurance market which leads to higher retention rates at Jevco as insureds 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.

Automobile insurance reform legislation has been introduced in 2010. The reform is intended to control costs of accident benefit claims in order to curtail premium rate increases.

The surety and commercial insurance market continues 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.

DISCONTINUED OPERATIONS

Westaim's former operating business segment, Nucryst, was accounted for as discontinued operations in 2009, with the sale of its assets and operations to Smith & Nephew. The Company's discontinued operations also include the operating results of iFire.

Nucryst Pharmaceuticals Corp.

On November 10, 2009, Nucryst entered into an asset purchase agreement with Smith & Nephew under which it 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 and the results of Nucryst's operations were accounted for on a discontinued basis. Nucryst sold its assets and business for net proceeds of $29.3 million, after transaction costs, taxes and termination amounts of $0.5 million resulting in a gain on sale of $10.9 million.

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 Company recorded a foreign exchange loss on repurchase of shares from non-controlling interest of $0.2 in the three months ended March 31, 2010.

Nucryst Financial Results – The loss at Nucryst for the three months ended March 31, 2010 was $0.4 million compared to $1.4 million in the same period in 2009. The loss in the first quarter of 2010 related primarily to operational wind down following the sale of the business, while the loss in the three months ended March 31, 2009 reflected Nucryst's normal operating results.

iFire Technology Ltd.

iFire Financial Results – The loss at iFire for the three months ended March 31, 2010 was $0.1 million year compared to $0.3 million in the three months ended March 31, 2009. Following the sale of the land and building previously used in iFire's former operations in November 2009, ongoing operating costs at iFire are related to the maintenance of a leased building that has been partially sublet.

CONTRACTUAL COMMITMENTS

The Company's contractual commitments at March 31, 2010 are as follows:

	Payments due by Period			
(millions)	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years
Operating lease obligations	$ 2.5	$ 0.7	$ 1.4	$ 0.4

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2010, the Company had consolidated cash and cash equivalents of $67.1 million compared to $62.4 million at December 31, 2009. The Company also had MAV Notes, classified as held-for-trading investments, which were sold in April 2010 for proceeds of $4.8 million. Concurrent with the sale of the MAV Notes, the corresponding credit agreement with a financial institution providing the Company with a revolving credit facility was terminated.

Jevco is regulated by the Office of the Superintendent of Financial Institutions Canada ("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. As at March 31, 2010 the MCT ratio of Jevco was 242%.

In connection with the Acquisition, the Company has provided an undertaking to OSFI that it would maintain liquid and unencumbered assets in an amount equal to the difference between Jevco's MCT and an MCT of 243%, up to a maximum of $20 million. To the extent that Jevco's MCT is greater than the target MCT of 220%, the assets representing the excess are credited against the $20 million that the Company is required to maintain. On April 9, 2010, the Company injected $48.0 million of additional share capital into Jevco. Following this additional capital funding, Jevco's MCT is currently in excess of 243%. As long as Jevco's MCT is greater than 243%, the Company is not required to satisfy the minimum liquid asset threshold.

Capital expenditures for the remainder of 2010 are not expected to be significant.

The Company manages its liquidity and management resources 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 claim adjustment expense payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements.

The fair value of the Company's investment portfolio at March 31, 2010 is as follows:

(millions)	March 31, 2010
Short-term investments	$ 216.8
Government bonds	198.0
Corporate debt securities	459.6
Mortgage and other asset-backed securities	50.7
	925.1
Common shares	1.2
Preferred shares	6.1
	$ 932.4

The table below summarizes the composition of the carrying value of the available-for-sale and held-to-maturity fixed income and short-term investments portfolio at March 31, 2010, by rating as assigned by DBRS Limited. The available-for-sale fixed income investment portfolio consists of predominantly very high quality securities in corporate and government bonds with 94% rated 'A' or better.

LIQUIDITY AND CAPITAL RESOURCES (continued)

(millions)	March 31, 2010	
AAA	$ 297.6	33%
AA	250.9	27%
A	312.5	34%
Percentage rated A or better	861.0	94%
BBB	55.9	6%
BB	–	0%
B	–	0%
CCC or lower	–	0%
Not rated	1.2	0%
	$ 918.1	100%

The following table summarizes the value by contractual maturities of the Company's investment portfolio, excluding financed premiums and cash and cash equivalents, at March 31, 2010.

(millions)	March 31, 2010
Due in less than one year	$ 232.2
Due in one through five years	373.0
Due in five through ten years	304.8
Due after ten years	15.1
No specific date	7.3
	$ 932.4

SHARE CAPITAL

As at March 31, 2010 and May 7, 2010, the Company had 580,367,720 and 580,527,720 common shares outstanding, respectively, and 63,852,912 Series 1 Class A preferred shares outstanding. As at those date, the Company also had 2,176,999 options outstanding, exercisable for common shares, and 10,000,000 warrants outstanding, exercisable for Series 1 Class A preferred shares.

DIVIDENDS

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

TRANSACTIONS WITH RELATED PARTIES

In April 2009, the Company entered into an MSA with Goodwood, an affiliate of Goodwood Inc., to manage the day-to-day affairs of the Company and to present strategic investment opportunities for the Board of Directors to consider. Goodwood earned fees from the MSA of $0.2 million in the three months ended March 31, 2010.

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 and affairs over the preceding year.

CURRENT GLOBAL ECONOMIC UNCERTAINTY

The current global economic uncertainty has not had a significant impact on the Company compared to many other Canadian public companies as a result of the Company's strong balance sheet. At March 31, 2010, the Company had $67.1 million in cash and cash equivalents and no debt.

QUARTERLY FINANCIAL INFORMATION

(000, except per share data)	Q1 2010	Q4 2009	Q3 2009	Q2 2009
Revenue from continuing operations	$ –	$ –	$ –	$ –
Income (loss) from continuing operations	$ 24,743	$ (3,729)	$ (524)	$ (516)
Earnings (loss) per common share from continuing operations				
– basic and diluted	$ 0.23	$ (0.04)	$ (0.01)	$ 0.00
Net income (loss)	$ 24,219	$ 4,663	$ (175)	$ (1,288)
Net earnings (loss) per common share				
– basic	$ 0.23	$ 0.05	$ 0.00	$ (0.01)
– diluted	$ 0.22	$ 0.05	$ 0.00	$ (0.01)
	Q1 2009	**Q4 2008**	**Q3 2008**	**Q2 2008**
Revenue from continuing operations	$ –	$ –	$ –	$ –
Loss from continuing operations	$ (960)	$ (2,304)	$ (1,737)	$ (106)
Loss per common share from continuing operations				
– basic and diluted	$ (0.01)	$ (0.02)	$ (0.03)	$ 0.00
Net (loss) income	$ (2,681)	$ 2,746	$ (3,122)	$ (3,002)
Net (loss) earnings per common share				
– basic and diluted	$ (0.03)	$ 0.03	$ (0.04)	$ (0.03)

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 March 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 continually 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.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (continued)

There were no changes in the Company's ICFR that occurred during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, ICFR. With the recent acquisition of Jevco, the Company's certifying officers have limited the scope of design of DC & P and ICFR to exclude Jevco controls, policies and procedures. With the work currently underway, it is expected that the limitation will be removed for the next quarter.

As of March 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 as at March 31, 2010, the controls and procedures were operating effectively. There are no material weaknesses that have been identified by management in this regard.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions, some of which may 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 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.

Significant estimates and assumptions used in preparing the Company's consoldiated financial statements include the following.

Provision for Unpaid Claims

A significant degree of judgment is required to determine amounts recorded in the interim 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 the Provision for Unpaid Claims section of this Management's Discussion and Analysis and in Notes 15 and 16 to the unaudited interim consolidated financial statements for the three months ended March 31, 2010.

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.

Because the establishment of reserves is an inherently uncertain process involving estimates, current provisions may not be sufficient. Adjustments to reserves, both positive and negative, are reflected in the statement of operations of the period in which such estimates are updated. The provision for unpaid claims and adjustment expenses is discounted to take into account the time value of money. As at March 31, 2010, the discount rate used was 4.10%. Changes in market interest rates are the primary factors influencing the discount rate. Based on the net provision for unpaid claims as at March 31, 2010, a 1% decrease in the discount rate would result in an increase in the net provision for unpaid claims by approximately $15.1 million. The provision for unpaid claims includes a provision for adverse deviation, as required by accepted actuarial practices.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

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 securities holdings to determine if declines in market value are other than temporary.

The analysis includes some or all of the following procedures, as applicable:

- 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;
- 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 of security 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; and
- 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.

CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Company's interim consolidated financial statements are prepared in accordance with Canadian GAAP and reported in Canadian dollars. The Company's accounting policies are disclosed in Note 2 to the 2009 audited annual consolidated financial statements and Note 1 to the unaudited interim consolidated financial statements for the three months ended March 31, 2010.

Significant accounting policies specific to Jevco are described in Note 1 to the unaudited interim consolidated financial statements for the three months ended March 31, 2010.

Following the acquisition of Jevco, the Company will be using both GAAP and certain non-GAAP measures to assess performance. Securities regulators require that companies caution 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 the performance of its insurance operations based on underwriting ratios such as combined, expense and loss ratios. The loss ratio is derived by dividing the amount of net claims incurred by net premiums earned. The expense ratio is derived by dividing the sum of commissions and premium taxes and general and administrative expenses by net

CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS (continued)

premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio below 100.0% demonstrates underwriting profit whereas a combined ratio over 100.0% demonstrates an underwriting loss. The Company believes that consistently delivering an underwriting profit is a key measure of performance of the underwriting business of a property and casualty insurance company.

Recently Adopted Accounting Pronouncements

Effective January 1, 2010, the Company early adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1582 "Business Combinations", together with Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Section 1582 requires business acquisitions (including non-controlling interests and contingent consideration) to be measured at the acquisition-date fair value, generally requires acquisition-related costs to be expensed and requires gains from bargain purchases to be recorded in earnings. Section 1582 was applied to the acquisition of Jevco.

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of Sections 1601 and 1602 resulted in non-controlling interest of $8,584 as at December 31, 2009 being presented as a component of equity, rather than as a liability, in the consolidated balance sheet. Also, on a prospective basis, net income and components of other comprehensive income attributable to the owners of the parent company and to non-controlling interests are required to be separately disclosed in the consolidated statements of operations and comprehensive income.

Future Accounting Pronouncements

International Financial Reporting Standards

In 2006, Canada's Accounting Standards Board ("AcSB") ratified a strategic plan that will result in GAAP, as used by public entities, being converged with International Financial Reporting Standards ("IFRS") over a transitional period. In February 2008, the AcSB confirmed January 1, 2011 as the date that Canadian public entities will be required to start reporting under IFRS. Qualitative disclosure of the impact of the transition is required in companies' 2009 interim and annual Management Discussion and Analysis. Comparative financial information for 2010 will be required when companies begin reporting 2011 results under IFRS. The Company's consolidated financial statements will be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011 and will include comparable information for the prior year.

With the acquisition of Jevco Insurance Company on March 29, 2010, the Company's existing IFRS conversion plan has been significantly impacted.

In the period leading up to March 29, 2010, the Company and Jevco have both expended resources towards developing IFRS transition plans; however, Management, the Audit Committee and the Board of Directors have not had an opportunity to address all of the impacts that the acquisition of Jevco, which now comprises substantially all of Westaim's consolidated operations, will have on the Company's existing IFRS implementation plan.

Management will focus resources to optimally combine the transition plans, eliminate any inconsistencies in accounting policies or elections, etc. and provide the Audit Committee and the Board of Directors with an opportunity to review and approve the revised plan before communicating the required information to the shareholders. The Company is committed to providing the shareholders with accurate and timely information on the IFRS transition plan and will provide a comprehensive status update in the Management Discussion and Analysis, to be released, for the three and six months ended June 30, 2010.

Forward-looking Statements

Certain portions of this Management's Discussion and Analysis, 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", "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 2010 business plan; the effect of adverse changes in equity markets or Jevco's operations; Jevco's ability to compete successfully in the insurance industry; expectations that Jevco can continue to set its premiums at a level which produces an acceptable return compared to the risk assumed; Jevco's ability to realize its investment objectives; the adequacy of Jevco's provision for unpaid claims; Jevco's ability to maintain its claims paying ratings; Jevco's ability to obtain reinsurance with reliable carriers at acceptable rates; expectations regarding Jevco's assets and liabilities; Jevco'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 view that where remediation costs will be incurred many years into the future, third party recoveries cannot be estimated with certainty and that revisions to cost estimates and the recovery of actual remediation costs could result in material changes to the provision in future periods; that changes to interpretations of tax legislation could have a material effect 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. The Company's actual results could differ materially from those anticipated by forward-looking statements for various reasons generally beyond our control, including but not limited to: (i) difficult economic conditions or a prolonged economic downturn may adversely affect Jevco's business; (ii) Jevco may not be able to realize its investment objectives or its liquid assets may prove to be insufficient to meet future obligations; (iii) Jevco or the insurance industry generally may be subject to negative publicity; (iv) the highly competitive nature of the insurance industry; (v) Jevco may be unable to maintain its claims paying ratings; (vi) Jevco's business could be affected by political, regulatory, economic or other influences; (vii) Jevco's provision for unpaid claims may be inadequate; (viii) Jevco relies on independent brokers for much of its business; (ix) a majority of Jevco'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 Jevco's business; (xi) risks related to litigation and regulatory actions; (xii) failure to comply with applicable insurance laws or regulatory requirements may adversely affect Jevco's business; (xiii) Jevco's business depends upon certain key employees; (xiv) Jevco 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
(unaudited)

(thousands of Canadian dollars)	March 31 2010	December 31 2009
ASSETS		
Cash and cash equivalents	$ 67,081	$ 62,423
Investments (notes 5 and 12)	932,350	9,231
Accrued investment income	9,943	-
Financed premiums	52,243	-
Claims recoverable from other insurers (note 14)	27,151	-
Accounts receivable and other assets	38,667	248
Current assets held for sale (note 3)	202	665
Due from reinsurers (notes 15 and 16)	47,326	-
Deferred policy acquisition costs	29,506	-
Future income taxes (note 8)	8,814	-
Capital assets (note 6)	19,015	-
Capital assets held for sale (note 6)	34,519	-
Intangible assets (note 7)	617	-
	$ 1,267,434	$ 72,567
LIABILITIES		
Accounts payable and accrued liabilities	$ 13,527	$ 2,486
Accounts payable and accrued liabilities held for sale (note 3)	870	6,553
Income taxes payable	4,112	-
Unearned premiums	138,078	-
Unpaid claims (notes 15 and 16)	764,975	-
Unearned reinsurance commissions	36	-
Provision for site restoration	5,000	5,525
	926,598	14,564
Commitments and contingencies (note 17)		
SHAREHOLDERS' EQUITY		
Capital stock (note 9)	691,580	426,282
Warrants (note 9)	1,900	-
Contributed surplus (note 9)	8,734	8,734
Deficit	(361,378)	(385,597)
	340,836	49,419
Non-controlling interest (note 3)	-	8,584
	340,836	58,003
	$ 1,267,434	$ 72,567

THE WESTAIM CORPORATION

Consolidated Statements of Operations and Consolidated Statements of Comprehensive Income and Deficit (unaudited)

	Three Months Ended March 31	
(thousands of Canadian dollars except share and per share data)	2010	2009
Costs		
Corporate costs	$ 1,793	$ 1,349
Loss before the undernoted	(1,793)	(1,349)
Foreign exchange loss	(77)	(10)
Investment income	47	49
Change in fair value of held-for-trading investments	793	-
Gain on sale and redemption of investments (note 4)	3,155	-
Site restoration recovery	525	-
Gain on issuance of shares of subsidiary (note 3)	-	9
Foreign exchange loss on repurchase of shares from non-controlling interest (note 3)	(185)	-
Non-controlling interest (note 3)	-	341
Gain on business acquisition (note 2)	23,720	-
Costs of business acquisition (note 2)	(1,442)	-
Income (loss) from continuing operations	24,743	(960)
Loss from discontinued operations, net of income taxes (note 3)	(524)	(1,721)
Net income (loss)	$ 24,219	$ (2,681)
Earnings (loss) per common share (note 11)		
Continuing operations - basic and diluted	$ 0.23	$ (0.01)
Net earnings (loss)		
- basic	0.23	(0.03)
- diluted	0.22	(0.03)
Weighted average number of common shares outstanding (thousands)		
Basic	106,443	94,216
Diluted	108,119	94,216

Consolidated Statements of Comprehensive Income (Loss)

Net income (loss) for the period	$ 24,219	$ (2,681)
Unrealized gain on translation of net foreign operations	-	419
Comprehensive income (loss)	$ 24,219	$ (2,262)

Consolidated Statements of Deficit

Deficit at beginning of period	$ (385,597)	$ (386,116)
Net income (loss)	24,219	(2,681)
Deficit at end of period	$ (361,378)	$ (388,797)

THE WESTAIM CORPORATION
Consolidated Cash Flow Statements
(unaudited)

	Three Months Ended March 31	
(thousands of Canadian dollars)	2010	2009
Operating activities		
Income (loss) from continuing operations	$ 24,743	$ (960)
Items not affecting cash		
Change in fair value of held-for-trading investments	(793)	-
Gain on sale and redemption of investments	(3,155)	-
Stock-based compensation expense	-	17
Gain on issuance of shares of subsidiary	-	(9)
Foreign exchange loss on repurchase of shares from non-controlling interest	185	-
Non-controlling interest	-	(341)
Gain on business acquisition	(23,720)	-
Accounts receivable and other assets	(70)	96
Accounts payable and accrued liabilities	869	(341)
Site restoration provision recovery	(525)	(347)
Cash used in continuing operations	(2,466)	(1,885)
Cash used in discontinued operations	(5,744)	(2,009)
Cash used in operating activities	(8,210)	(3,894)
Investing activities		
Purchase of investments	(885)	-
Proceeds from sale and redemption of investments	6,567	213
Business acquisition, net of cash acquired (note 2)	(248,476)	-
Discontinued operations	-	1,326
Cash (used in) provided from investing activities	(242,794)	1,539
Financing activities		
Issuance of capital stock, net of issuance cash costs (note 9)	264,431	-
Repurchase of shares from non-controlling interest (note 3)	(8,769)	-
Return of capital of subsidiary	-	(4,644)
Cash provided from (used in) financing activities	255,662	(4,644)
Effect of exchange rate changes on cash and cash equivalents	-	390
Net increase (decrease) in cash and cash equivalents	4,658	(6,609)
Cash and cash equivalents at beginning of period	62,423	46,768
Cash and cash equivalents at end of period	$ 67,081	$ 40,159
Cash and cash equivalents is comprised of:		
Cash	$ 49,355	$ 5,579
Cash equivalents	17,726	34,580
	$ 67,081	$ 40,159

These interim consolidated financial statements should be read in conjunction with the Company's most recent annual audited financial statements.

Note 1 – Significant Accounting Principles

These interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), following the same accounting policies and methods of computation as the most recent annual consolidated financial statements, except for the adoption of new accounting policies described below and those applicable to the Company's recently acquired business, Jevco Insurance Company ("Jevco"), the accounting principles of which comply with both GAAP and the accounting requirements of the Office of the Superintendent of Financial Institutions Canada ("OSFI") and are disclosed in these interim consolidated financial statements. These interim consolidated financial statements do not include all disclosures that would be included in the Company's annual audited consolidated financial statements. All amounts are expressed in thousands of dollars except share and per share data.

Recently Adopted Accounting Pronouncements

Effective January 1, 2010, the Company early adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1582 "Business Combinations", together with Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests". Section 1582 requires business acquisitions (including non-controlling interests and contingent consideration) to be measured at the acquisition-date fair value, generally requires acquisition-related costs to be expensed and requires gains from bargain purchases to be recorded in earnings. Section 1582 was applied to the acquisition of Jevco (see Note 2).

Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The adoption of Sections 1601 and 1602 resulted in non-controlling interest of $8,584 as at December 31, 2009 being presented as a component of equity, rather than as a liability, in the interim consolidated balance sheet. Also, on a prospective basis, net income and components of other comprehensive income attributable to the owners of the parent company and to non-controlling interests are required to be separately disclosed in the consolidated statements of operations and comprehensive income.

Future Accounting Pronouncements

The CICA has announced that Canadian GAAP for publicly accountable enterprise companies will be replaced with International Financial Reporting Standards ("IFRS") over a transitional period expected to end in 2011. The Company will begin reporting its financial statements in accordance with IFRS on January 1, 2011.

Significant Accounting Principles Specific to Jevco:

(a) 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.

(b) Investments

Available-for-sale fixed income and equity 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 consolidated 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 gain (loss) on sales of investments". Held-to-maturity investments are carried at amortized cost using the effective interest method.

Dividends and interest income from these securities are included in "Investment income". Investment income is recorded as it accrues. Dividend income on common and preferred shares is recorded on the ex-dividend date.

Note 1 – Significant Accounting Principles (continued)

Jevco accounts for all financial instruments using settlement date accounting. Transaction costs are capitalized and, when applicable, amortized over the expected life of the instrument using the effective interest method.

Jevco conducts a quarterly review 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 Jevco's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery.

(c) Deferred policy acquisition costs

Jevco 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. 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. Changes in estimates, are recorded as incurred. Anticipated investment income is included in determining the realizable value of the deferred policy acquisition costs.

(d) Capital assets

Capital assets are reported in the consolidated financial statements at cost less accumulated depreciation and amortization. Depreciation and amortization of capital assets has been provided using the straight-line method over the estimated useful lives of such assets. The useful lives are 30 years for buildings, the lesser of the economic life or 5 years for leasehold improvements, 5 to 7 years for furniture and equipment, 3 to 5 years for computers, and 3 to 5 years for automobiles.

(e) Intangible assets

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

(f) Premium revenue and unearned premiums

Jevco earns motorcycle premiums over the period of risk covered by the policy based on its experience. Jevco earns premium revenue on all other lines evenly over the period covered by each individual insurance contract. Unearned premiums represent the portion of premiums written related to the unexpired risk portion of the policy at the end of the period. A premium deficiency is established if the unearned premiums are less than the estimated future claims and expenses to be incurred less investment income to be earned during the period premiums are earned.

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

In Canada, automobile insurance premium rates other than for fleet automobile are regulated by the 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. Accordingly, a significant portion of Jevco's revenue is subject to regulatory approvals.

(g) Unpaid claims

The provision for unpaid claims includes adjustment expenses and represents an estimate of the full amount of all expected costs, including investigation, and the projected final settlements of claims incurred on or before the balance sheet date. 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 deviation. Expected reinsurance recoveries on unpaid claims are recognized as amounts recoverable at the same time using principles consistent with Jevco's method for establishing the related liability.

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

Note 1 – Significant Accounting Principles (continued)

Claims liabilities are first determined on a case-by-case basis as claims are reported and then reassessed as additional information becomes known. Included in claims liabilities is a provision to account for the future development of these claims, including claims incurred but not reported by policy holders ("IBNR"), as well as a provision for adverse deviations, as required by accepted actuarial practice in Canada.

These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the accounting period in which they are determined.

(h) Claims recoverable from other insurers

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

These estimates are subject to uncertainty. The resulting changes in estimates of the ultimate recoveries are recorded as incurred.

(i) Reinsurance ceded

Net premiums earned and claims incurred are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded 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 due from reinsurers and unearned reinsurance commissions, respectively.

Amounts recoverable from reinsurers are estimated in a manner consistent with liabilities associated with the reinsured policy.

(j) Use of estimates

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 investment impairment. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined.

Note 2 – 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 $261,284. 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 (see Note 9).

Note 2 – Business Acquisition (continued)

The total proceeds of the Financing to the Company were $265,298, of which $3,331 was in accounts receivable at March 31, 2010. The proceeds were net of transaction costs of $9,702, of which $1,900 was non-cash and related to the valuation of the warrants issued and $564 was included in accounts payable and accrued liabilities at March 31, 2010. 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 $261,284 and the fair value of net assets acquired has been accounted for as a gain on business acquisition in these interim 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
Due from reinsurers	47,326
Deferred policy acquisition costs	29,506
Future income taxes	8,814
Capital assets	19,015
Capital assets held for sale	34,519
Intangible assets	617
Accounts payable and accrued liabilities	(9,608)
Income taxes payable	(4,112)
Unearned premiums	(138,078)
Unpaid claims	(764,975)
Unearned reinsurance commissions	(36)
	$ 285,004

Purchase price paid:	
Cash	$ 261,284
Gain on business acquisition – excess of fair value over purchase price	23,720
	$ 285,004

The gain on business acquisition of $23,720 resulted primarily from the net assets of Jevco being acquired at a 5.5% discount to its net book value at December 31, 2009.

At closing of the Acquisition, $27,500 of the purchase price was paid by the Company to an independent escrow agent in trust pending certain adjustments to the purchase price.

The conditions for release of the escrow funds of $7,500, relating to the valuation and sale of a building owned by Jevco, are expected to be satisfied prior to the end of June 30, 2010 and approximately $5,500 and $2,000 that is currently recorded in accounts receivable and other assets will be released to the vendor and the Company, respectively. In addition, accounts receivable and other assets includes $887 due from the vendor related to closing purchase price adjustments.

The remaining amount of $20,000 is 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 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.

The transaction costs in connection with the acquisition of Jevco amounted to $1,442, consisting of consulting, legal, accounting, and investment advisory fees, and were expensed in these interim consolidated financial statements, in accordance with CICA Handbook Section 1582.

Management has used its best estimates in allocating the purchase price of the business acquisition to the fair value of the net assets acquired. Adjustments may be made to the purchase price allocations in future periods. In the second quarter of 2010, management will continue its efforts to finalize the purchase price allocation. The purchase price allocation was not finalized due to the time constraints between the closing of the Acquisition and the interim reporting requirements of the Company.

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

Note 2 – Business Acquisition (continued)

No revenue or net income of Jevco from the closing date of the Acquisition to March 31, 2010 has been reflected in the interim consolidated financial statements as the amount is immaterial.

Note 3 – Discontinued Operations

Nucryst Pharmaceuticals Corp.

The Company's ownership in Nucryst Pharmaceuticals Corp. ("Nucryst") was 74.7% at December 31, 2009. 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$8,202. The Company recorded a foreign exchange loss on repurchase of shares from non-controlling interest of $185 in the three months ended March 31, 2010.

For the three months ended March 31, 2009, the non-controlling interest amounted to $341 and the Company recorded a gain on the issuance of shares of Nucryst of $9. These shares were issued by Nucryst in relation to its stock-based compensation plans.

The results of Nucryst's discontinued operations are as follows:

	Three months ended	
	March 31, 2010	March 31, 2009
Revenue	$ –	$ 5,174
Loss from discontinued operations net of income taxes	$ (429)	$ (1,379)

Loss from discontinued operations is after deduction of depreciation and amortization expense of $nil for the three months ended March 31, 2010 (2009 – $452). Current income tax recovery included in loss from discontinued operations for the three months ended March 31, 2010 was $nil (2009 – $5).

Amounts included in the interim consolidated balance sheets relating to the Nucryst discontinued operations are as follows:

	March 31, 2010	December 31, 2009
Current assets held for sale	$ 191	$ 651
Accounts payable and accrued liabilities held for sale	479	6,137

iFire Technology Ltd.

The results of the discontinued operations of iFire Technology Ltd. ("iFire") are as follows:

	Three months ended	
	March 31, 2010	March 31, 2009
Loss related to discontinued operations	$ (95)	$ (548)
Gain on sale of capital assets held for sale	–	206
Loss from discontinued operations net of income taxes	$ (95)	$ (342)

There was no depreciation or amortization expense or income tax expense in the three months ended March 31, 2010 or 2009.

Amounts included in the interim consolidated balance sheets relating to the iFire discontinued operations are as follows:

	March 31, 2010	December 31, 2009
Current assets held for sale	$ 11	$ 14
Accounts payable and accrued liabilities held for sale	391	416

Loss per common share from Nucryst and iFire discontinued operations was $nil for the three months ended March 31, 2010 (2009 – $0.02).

Note 4 – Gain on Sale of Investments

In January 2010, the Company closed a transaction to dispose of its investment in Savvion, Inc., a U.S. business management software and service company, for proceeds of $2,185. The investment in Savvion, Inc. was previously written-off for accounting purposes and, as a result, the Company recorded a gain on sale of $2,185 in the first quarter of 2010. An additional amount of $530 is being held in escrow for a period of 15 months 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.

Also included in gain on sale of investments is $958 from disposition of investments in securities issued by publicly traded corporations and $12 from redemption of Master Asset Vehicle Notes ("MAV Notes").

Note 5 – Investments

Summary

	March 31, 2010	December 31, 2009
Available-for-sale investments carried at fair value	$ 825,952	$ –
Held-to-maturity investments carried at amortized cost	98,901	–
Held-for-trading investments carried at fair value	6,997	9,231
Available-for-sale investments carried at cost	500	–
	$ 932,350	$ 9,231

On acquisition of Jevco, the fair value of the investments at the date of acquisition establishes the amortized cost base for the Company. As such, the amortized cost and fair value of the investments acquired, as presented in the following tables, are the same.

The table below provides details of the amortized cost and fair value of available-for-sale investments:

	March 31, 2010	
	Amortized cost	Fair value
Short-term investments	$ 216,802	$ 216,802
Canadian bonds:		
- Government	123,858	123,858
- Corporate	373,618	373,618
- Mortgage backed	18,505	18,505
- Other asset backed	27,413	27,413
U.S. bonds:		
- Corporate	42,549	42,549
Other bonds:		
- Corporate	16,401	16,401
	819,146	819,146
Common shares:		
- Canadian	707	707
- U.S.	–	–
Preferred shares:		
- Canadian	6,099	6,099
	$ 825,952	$ 825,952

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

	March 31, 2010	
	Amortized cost	Fair value
Canadian bonds:		
- Government	$ 74,073	$ 74,073
- Corporate	24,828	24,828
	$ 98,901	$ 98,901

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

Note 5 – Investments (continued)

Fair values of short-term investments, bonds and common 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 its 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;
- 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 of security 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; and
- 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.

The held-for-trading investments include MAV Notes with a fair value of $4,750 at March 31, 2010 (December 31, 2009 – $3,967). Subsequent to March 31, 2010, the MAV Notes were sold for $4,750 and the corresponding credit agreement with a financial institution providing the Company with a revolving credit facility was terminated.

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 is recorded.

Note 6 – Capital Assets

			March 31, 2010	December 31, 2009
	Cost	Accumulated amortization	Net book value	Net book value
Buildings	$16,961	$ –	$ 16,961	$ –
Furniture and equipment	1,428	–	1,428	–
Computers	616	–	616	–
Automobiles	10	–	10	–
	$19,015	$ –	$ 19,015	$ –

Note 6 – Capital Assets (continued)

Amortization expense related to capital assets during the three months ended March 31, 2010 was $nil.

Capital assets held for sale at March 31, 2010 relate to land and a building owned by Jevco which is expected to be sold in the second quarter of 2010. The fair value of the real estate, less estimated costs to sell, was $34,519 at March 31, 2010.

Note 7 – Intangible Assets

			March 31, 2010	December 31, 2009
	Cost	Accumulated amortization	Net book value	Net book value
Software development	$ 617	$ –	$ 617	$ –
	$ 617	$ –	$ 617	$ –

Amortization expense related to intangible assets during the three months ended March 31, 2010 was $nil.

Note 8 – Income Taxes

The Company's net future income tax asset is comprised of:

	March 31, 2010	December 31, 2009
Future income tax assets:		
Tax benefit of loss carry-forwards and tax credits	$ 56,186	$ 52,855
Unpaid claims	9,807	–
Provisions and reserves	3,001	3,151
Capital, intangible and other assets	161	171
Other	2,094	–
Less valuation allowance	(61,442)	(56,177)
	9,807	–
Future income tax liabilities:		
Investments	(850)	–
Other	(143)	–
	(993)	–
Future income tax assets, net	$ 8,814	$ –

Note 9 – 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 at March 31, 2010 and December 31, 2009 is as follows:

	March 31, 2010	December 31, 2009
Common shares	$ 660,780	$ 426,282
Series 1 Class A preferred shares	30,800	–
	$ 691,580	$ 426,282

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

Note 9 – Capital Stock (continued)

	Three months ended March 31, 2010		Three months ended March 31, 2009	
Common shares (000)	Number	Stated Capital	Number	Stated Capital
Balance at beginning of period	94,221	$ 426,282	94,215	$ 426,280
Issued upon private placement (Note 2)	486,147	234,498	–	–
RSUs exercised	–	–	6	2
Balance at end of period	580,368	$ 660,780	94,221	$ 426,282

	Three months ended March 31, 2010		Three months ended March 31, 2009	
Series 1 Class A preferred shares (000)	Number	Stated Capital	Number	Stated Capital
Balance at beginning of period	–	$ –	–	$ –
Issued upon private placement (Note 2)	63,853	30,800	–	–
Balance at end of period	63,853	$ 30,800	–	$ –

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 total proceeds of the Financing to the Company were $265,298, of which $3,331 was in accounts receivable at March 31, 2010. The proceeds were net of transaction costs of $9,702, of which $1,900 was non-cash and related to the valuation of the warrants issued and $564 was included in accounts payable and accrued liabilities at March 31, 2010.

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 recorded 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 and at March 31, 2010.

In the first quarter of 2009, 6,000 shares were issued as settlement for 6,000 fully vested Restricted Share Units ("RSUs").

Note 10 – Stock-based Compensation Plans

Employee and Director Stock Options – Changes under the Company's stock option plans for the three months ended March 31, 2010 and 2009 are as follows:

	Three months ended	
Common share stock options (000)	March 31, 2010	March 31, 2009
Outstanding at beginning of period	2,292	4,099
Expired and forfeited	(115)	(165)
Outstanding at end of period	2,177	3,934

No stock options were granted in the first quarter of 2010 or 2009.

In April 2010, 160,000 options with an exercise price of $0.22 per share were exercised for 160,000 common shares.

Directors' Deferred Share Units – The Company maintains a Deferred Share Unit Plan for the non-executive Directors of the Company. Deferred Share Units ("DSUs") are issued at the market value of the Company's shares at the date of grant and vest upon death or retirement of the non-executive Director. Directors may elect to receive additional DSUs in lieu of fees, which are issued at 90% of the market value of the Company's shares at the date of grant.

Note 10 – Stock-based Compensation Plans (continued)

Changes under the Company's DSU plans for the three months ended March 31, 2010 and 2009 are as follows:

	Three months ended	
DSUs (000)	March 31, 2010	March 31, 2009
Outstanding at beginning of period	2,633	3,057
Granted	172	437
Outstanding at end of period	2,805	3,494

Compensation expense relating to DSUs during the three months ended March 31, 2010 amounted to $954 (2009 – $187) and as at March 31, 2010, a liability of $2,020 (December 31, 2009 – $1,066) has been accrued with respect to issued DSUs.

Restricted Share Unit Plan – The Company also maintains a Restricted Share Unit Plan for the Executive Officers of the Company. These units vest over three years and are payable when fully vested in a combination of common shares and cash at the weighted average trading price at the date of exercise. Compensation expense with respect to RSUs during the three months ended March 31, 2010 amounted to $nil (2009 – $2). In the first quarter of 2009, RSUs with a value of $3 were settled with the issuance of 6,000 common shares of the Company and a cash payment of $2. There were no RSUs outstanding at March 31, 2010 or December 31, 2009.

For the three months ended March 31, 2010, corporate costs include compensation expense totaling $954 (2009 – $189) relating to DSUs and RSUs.

The Company's stock-based compensation plans are expected to be amended at the Company's annual general meeting of shareholders to be held on May 12, 2010.

Note 11 – 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:

(000)	March 31, 2010	March 31, 2009
Weighted average number of common shares and Series 1 Class A preferred shares outstanding		
- basic earnings per share	106,443	94,216
Effect of dilutive securities		
- warrants	1,493	–
- stock options	183	–
Weighted average number of common shares and Series 1 Class A preferred shares outstanding		
- diluted earnings per share	108,119	94,216

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.

The impact of all dilutive securities on earnings per share was anti-dilutive for the three months ended March 31, 2009. Options to purchase 2,176,999 common shares were outstanding at March 31, 2010 (December 31, 2009 – 2,291,999) and warrants to purchase 10,000,000 Series 1 Class A preferred shares were outstanding at March 31, 2010. Of the options outstanding in the three months ended March 31, 2010, 1,869,799 (2009 – 3,933,597) were excluded in the calculation of diluted earnings per common share because the exercise price of the options were greater than the weighted average market value of the common shares in the period.

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

Note 12 – Financial Instruments and Financial Risk Management

(a) Financial risk management objectives and policies

By virtue of the nature of Jevco's business activities, financial instruments make up the majority of the Company's interim consolidated balance sheet at March 31, 2010. 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. Jevco has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

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

Credit risk:

Jevco is exposed to credit risk principally through its investments and balances receivable from policyholders and reinsurers. Jevco 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. Jevco's credit exposure to any one individual policyholder is not material. Jevco's policies, however, are distributed by agents, program managers and brokers who manage cash collection on its behalf. Jevco 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.

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

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

	March 31, 2010	
AAA	$ 278,624	34.1%
AA	184,680	22.5%
A	298,794	36.5%
BBB	55,873	6.8%
Non-rated	1,175	0.1%
	$ 819,146	100.0%

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

	March 31, 2010	
AAA	$ 18,999	19.4%
AA	66,226	67.1%
A	13,676	13.5%
	$ 98,901	100.0%

At March 31, 2010, 93.1% of the Company's available-for-sale fixed income portfolio and 100.0% of held-to-maturity fixed income portfolio was rated "A" or better.

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

	March 31, 2010	
A++	$ 3,320	7.0%
A+	7,186	15.2%
A	36,542	77.2%
B++	84	0.2%
Not rated	194	0.4%
	$ 47,326	100.0%

Note 12 – Financial Instruments and Financial Risk Management (continued)

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 $25,600 at March 31, 2010, representing 3.1% of the $819,146 fair value of 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 $15,100 at March 31, 2010, representing 2.2% of the $691,649 of net unpaid claims liabilities carried on the interim consolidated balance sheet.

The Company holds U.S. dollar denominated provincial bonds with a market value of $75,100 as at March 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. An increase in the value of the U.S. dollar relative to the Canadian dollar increases the market value of these holdings. A 1 cent increase in the value of the U.S. dollar increases the market value of these holdings by approximately $800. The reverse is true during periods of a weakening U.S dollar.

Computation of the prospective effect of hypothetical interest rate changes are based on numerous assumptions, including, maintenance of 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 analysis 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.

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 comprises of two key components (i.e. 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).

Fluctuation in value of the entity affects the carrying value of these securities and the level and timing of recognition of gains and losses on securities held, causing changes in realized and unrealized gains and losses.

At March 31, 2010, management estimates that a 10% increase in prices of equity securities held as available-for-sale, with all other variable held constantly, would increase other comprehensive income and AOCI by approximately $700. A 10% decrease in equity prices would have the corresponding opposite effect on other comprehensive income and AOCI. Equities comprise 0.8% of the fair value of the Company's available-for-sale investments portfolio at March 31, 2010.

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

Note 12 – Financial Instruments and Financial Risk Management (continued)

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 the 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 of Jevco's business have been 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, Jevco 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 during the current financial year and also to satisfy regulatory capital requirements.

The following table summarizes the carrying amounts of financial instruments held by the Company by contractual maturity or expected cash flow dates (the actual repricing 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):

As at March 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	$ 67,081	$ –	$ –	$ –	$ –	$ 67,081
Investments (Available-for-sale)	227,430	370,754	205,879	15,083	7,306	826,452
Investments (Held-to-maturity)	–	–	98,901	–	–	98,901
Investments (Held-for-trading)	4,750	2,247	–	–	–	6,997
Accrued investment income	9,943	–	–	–	–	9,943
Financed premiums	52,243	–	–	–	–	52,243
Claims recoverable	8,680	15,514	2,750	207	–	27,151
Accounts receivable and other assets	38,667	–	–	–	–	38,667
Due from reinsurers	15,130	27,042	4,794	360	–	47,326
	$ 423,924	$415,557	$312,324	$15,650	$ 7,306	$ 1,174,761
Liabilities:						
Accounts payable and accrued liabilities	$ 13,527	$ –	$ –	$ –	$ –	$ 13,527
Unpaid claims	244,562	437,107	77,492	5,814	–	764,975
	$ 258,089	$437,107	$77,492	$ 5,814	$ –	$ 778,502

The Company's investment portfolio is liquid, providing sufficient flexibility 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 2.1% to 11.9% at March 31, 2010. The average effective yield (using amortized cost and the contractual interest rates, adjusted for any amortization of premiums and discounts) is 3.1%.

(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 as at March 31, 2010 is as follows:

Description	March 31, 2010	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Available-for-sale investments:				
Short-term investments	$ 216,802	$ –	$ 216,802	$ –
Fixed income investments:				
Canadian bonds:				
- Government	123,858	–	123,858	–
- Corporate	375,865	2,247	372,718	900
- Mortgage backed	18,505	–	18,505	–
- Other asset backed	32,163	–	27,413	4,750
U.S. bonds:				
- Corporate	42,549	–	42,549	–
Other bonds:				
- Corporate	16,401	–	16,401	–
Equity investments:				
- Canadian	707	707	–	–
Preferred investments:				
- Canadian	6,099	6,099	–	–
	$ 832,949	$ 9,053	$818,246	$ 5,650

The provision for policy liabilities is based on the present value of future cash flows plus 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.

Note 13 – Capital Management

The Company's objectives when managing capital are:

- meeting regulatory requirements;
- maintaining strong credit rating; and
- maximizing shareholder value.

The Company's capital is comprised of its shareholders' equity. These funds are mainly invested in the equity of Jevco.

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.

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

Note 13 – Capital Management (continued)

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. As at March 31, 2010 the MCT ratio of Jevco was 242%.

In connection with the Acquisition, the Company has provided an undertaking to OSFI that it would maintain liquid and unencumbered assets in an amount equal to the difference between Jevco's MCT and an MCT of 243%, up to a maximum of $20,000. To the extent that Jevco's MCT is greater than the target MCT of 220%, the assets representing the excess are credited against the $20,000 that the Company is required to maintain. On April 9, 2010, the Company injected $48,000 of additional share capital into Jevco. Following this additional capital funding, Jevco's MCT is currently in excess of 243%. As long as Jevco's MCT is greater than 243%, the Company is not required to satisfy the minimum liquid asset threshold.

14 – 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.

15 – Underwriting Policy and Reinsurance Ceded

In the normal course of business, Jevco 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 honor their obligations could result in losses to the Company.

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 coverage risk.

Jevco'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. Jevco focuses on profitable underwriting using a combination of experienced underwriting staff, pricing models and price adequacy monitoring tools. Jevco 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. Jevco'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:

Jevco relies on reinsurance to manage the underwriting risk; however, reinsurance does not release Jevco from its primary commitments to its policyholders. Therefore, Jevco is exposed to the credit risk associated with the amounts ceded to reinsurers. Jevco assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. In addition, Jevco has minimum rating requirements for its reinsurers. Jevco tenders reinsurance requirements on a regular basis to ensure that the best price possible is obtained. Jevco works with well established reinsurers that have expertise in their field as well

15 – Underwriting Policy and Reinsurance Ceded (continued)

as an understanding of the business. Management reviews reinsurance programs to manage cost-efficiency and reduce the likelihood of coverage gaps.

The due from reinsurers is detailed as follows:

	March 31, 2010
Unearned premiums	$ 1,152
Unpaid claims and adjustment expenses	46,174
	$ 47,326

Jevco follows the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of Jevco to a maximum amount on any one loss.

Jevco has purchased reinsurance protection which limits the maximum amount on any one loss to $1,750 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 $5,000. In addition, Jevco has purchased 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.

16 – Unpaid Claims and Claims Incurred

(a) Nature of unpaid claims

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 Jevco's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, 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 Jevco'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 payment or 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.

Consequently, the process of establishing the provision for unpaid claims relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

Reserving risk arises due to the length of time between the occurrences of a loss, the reporting of the loss to the insurer and ultimate resolution of the claim. Claim provisions are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

Variables in the reserve estimation process can be affected by 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, inclusion of exposures not contemplated at the time of policy inception and significant changes in severity or frequency of claims relative to historical trends. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the actuarial assumptions made when initially estimating the provision for claims. Jevco's provision for claims is reviewed separately by, and must be acceptable to internal actuaries at Jevco, and the independent appointed actuary.

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

16 – Unpaid Claims and Claims Incurred (continued)

(b) Provision for unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses is discounted using a rate based on Jevco's projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The discount rate used is 4.10%. Reinsurance recoverable estimates are discounted based on a rate using Jevco's investment portfolio yield.

Margins for adverse development are included in 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.

The gross provision and reinsurance recoverable estimates are as follows:

		March 31, 2010
	Undiscounted	Discounted
Gross provision	$ 749,976	$ 764,975
Reinsurance ceded	(74,747)	(73,326)

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 relating to each preceding financial quarter compared to the liability that was originally established.

The provision for unpaid claims by major lines of business at March 31, 2010 is as follows:

	March 31, 2010
Personal lines	$ 460,212
Commercial lines	304,763
	$ 764,975

Jevco's direct written premiums are derived from the following business lines:

	March 31, 2010
Personal lines	73%
Commercial lines	27%
	100%

17 – Commitments and Contingent Liabilities

Commitments

(a) In connection with the Acquisition, the Company has provided an undertaking to OSFI that it would maintain liquid and unencumbered assets in an amount equal to the difference between Jevco's MCT and an MCT of 243%, up to a maximum of $20,000. To the extent that Jevco's MCT is greater than the target MCT of 220%, the assets representing the excess are credited against the $20,000 that the Company is required to maintain. Following the additional share capital investment by the Company in Jevco on April 9, 2010, Jevco's MCT is currently in excess of 243%. As long as Jevco's MCT is greater than 243%, the Company is not required to satisfy the minimum liquid asset threshold.

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

2010	$ 746
2011	$ 738
2012	$ 382
2013	$ 213
2014	$ 213
Thereafter	$ 204

(c) Jevco pledges assets to third parties to collateralize liabilities incurred under its policies of insurance or for the services provided by them to it. At March 31, 2010, the amount of such pledged assets was $5,000. Collateral pledging transactions are conducted under terms that are common and customary to standard collateral pledging and are subject to Jevco's standard risk management controls. Subsequent to March 31, 2010, Jevco did not have any assets pledged.

17 – Commitments and Contingent Liabilities (continued)

Contingencies

(a) The Company has agreed to pay a third party a transaction fee related to the Acquisition which is contingent upon the future financial performance of Jevco, to a maximum of $1,100, over three years. No amount has been recorded in the interim consolidated balance sheet at March 31, 2010 in respect of this arrangement.

(b) The Company and its subsidiaries are party to legal proceedings in the ordinary course of their businesses. Management does not expect the outcome of any of these proceedings to have a material effect on the Company's financial position or operating results.

(c) Jevco has purchased a number of annuities in settlement of claims. 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 Jevco at March 31, 2010 was $41,850. Jevco has a contingent credit risk with respect to the failure of these life insurers which management has assessed as being immaterial. Jevco has assessed the fair value of these financial guarantees to be $nil based on the claim paying ability of the life insurers and historical experience.

Note 18 – Management Services Agreement

In April 2009, the Company entered into a management services agreement ("MSA") with Goodwood Management Inc. ("Goodwood"), an affiliate of Goodwood Inc., to manage the day-to-day affairs of the Company and to present strategic investment opportunities for the Board of Directors to consider. Goodwood earned fees from the MSA of $247 for the three months ended March 31, 2010, of which $87 was included in accounts payable and accrued liabilities at March 31, 2010 (December 31, 2009 – $1,093).

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 and affairs over the preceding year.