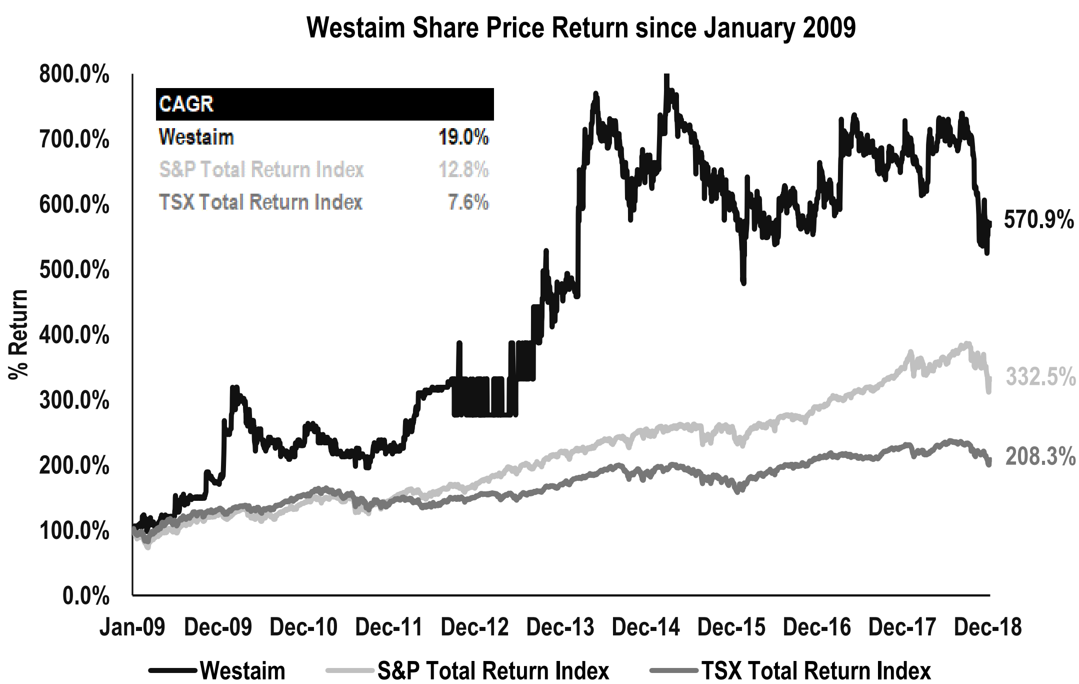
LETTER TO SHAREHOLDERS

Dear Fellow Shareholder:

At Westaim, our focus has been, and continues to be, to seek out unique, high quality investment opportunities that allow us to partner with businesses and aligned management teams that are positioned to compound wealth and provide above average returns over the long term. Unlike private equity whose investment time horizon is generally limited and short, the permanency of Westaim's equity capital through the public markets allows us to take a longer term approach, something we find is very attractive to high quality management teams we meet. We believe this perspective on partnering and building profitable, sustainable businesses allows our management teams to make the right long term decisions which, at times, may come with short-term upfront costs. Westaim relies greatly on our management teams to manage their businesses day-to-day, while we remain very engaged in working alongside our partners to provide strategic advice, capital allocation expertise and financial discipline to help them grow and enhance the long term value of their businesses.

As December 31, 2018 effectively marks the 10-year anniversary of your current management team's involvement with Westaim, I thought I would take the opportunity to look back on what has been accomplished during this period. Below is a chart of Westaim's share price during the 10-year period from January 1, 2009 through December 31, 2018:



Though not at all by design, this 10-year period can effectively be split into two five-year segments. During the period from 2009 – 2013, Westaim's focus was on the acquisition, building and eventual sale of JEVCO Insurance Company ("JEVCO"). Westaim closed the acquisition of JEVCO on March 29, 2010 for a total purchase price of approximately C$260 million. After a period of reorganization and continued growth and the receipt of an unsolicited offer, Westaim sold JEVCO on September 4, 2012 for approximately C$530 million, resulting in a significant return for Westaim's shareholders. Subsequent to the sale, the Board made the decision to return substantially all of the proceeds (approximately C$521 million) to Westaim's shareholders through a special distribution. This returned Westaim to effectively a shell company, with approximately $30 million of cash as we entered 2014 in search of new unique opportunities.

The next chapter in the Westaim story began (i) in July 2014, when we acquired, through a limited partnership controlled by Westaim, a controlling interest in Houston International Insurance Group, Ltd. ("HIIG") in conjunction with Stephen Way and (ii) in August 2015, when we funded the start-up of the Arena Group ("Arena"), an alternative asset management firm focused on credit in partnership with industry veteran Dan Zwirn. As a result of significant efforts by both management teams, Arena and HIIG achieved record profitability in 2018, with both businesses in their best strategic position since our respective partnerships commenced. A detailed overview of each business is provided below.

As a measure of Westaim's performance, internally we have historically looked at the growth in fully diluted book value per share ("FDBVPS") as a reasonable measure. Naturally the start-up of Arena and the significant initial investments that we have made to put this business in a position to scale has impacted the short term growth of our FDBVPS, especially in the initial start-up phase from Q3 2015 – Q4 2016 (when Arena as a group turned profitable for the first time). The following chart shows FDBVPS and Westaim's share price quarterly since Q2 2014:

	FDBVPS (US$)	**FDBVPS (C$)**	**Share Price (US$)**	**Share Price (C$)**
2014 - Q2	$2.00	$2.13	$3.00	$3.20
2014 - Q3[1]	2.36	2.64	2.68	3.00
2014 - Q4	2.34	2.71	2.63	3.05
2015 - Q1	2.33	2.95	2.65	3.36
2015 - Q2	2.33	2.91	2.61	3.26
2015 - Q3[2]	2.31	3.09	2.09	2.80
2015 - Q4	2.27	3.14	1.97	2.73
2016 - Q1	2.28	2.96	2.08	2.70
2016 - Q2	2.24	2.91	1.99	2.59
2016 - Q3	2.22	2.91	2.06	2.70
2016 - Q4[3]	2.21	2.97	2.09	2.80
2017 - Q1	2.23	2.97	2.01	2.68
2017 - Q2	2.24	2.91	2.45	3.17
2017 - Q3	2.27	2.83	2.39	2.98
2017 - Q4[4]	2.33	2.92	2.48	3.11
2018 - Q1	2.35	3.03	2.20	2.83
2018 - Q2	2.37	3.12	2.45	3.22
2018 - Q3	2.40	3.10	2.48	3.21
2018 - Q4	2.42	3.30	1.89	2.58
H2 2014	17.2%	27.4%	-12.3%	-4.7%
FY 2015	-3.0%	15.7%	-25.0%	-10.5%
FY 2016	-2.6%	-5.5%	5.7%	2.6%
FY 2017	5.4%	-1.5%	18.9%	11.1%
FY 2018	3.9%	13.0%	-23.8%	-17.0%
CAGR Since Q2 2014	4.4%	10.2%	-9.7%	-4.7%

Notes:

[1] Closed equity capital raise to complete the HIIG acquisition at C$2.65 per share.

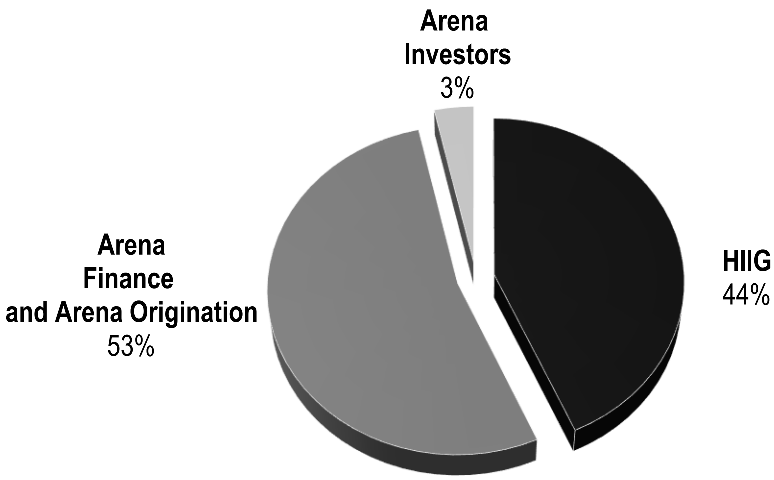
[2] Closed equity capital raise to fund Arena at C$3.25 per share.

[3] Arena turns earnings positive; HIIG completes restructuring of its claims department.

[4] Valuation of HIIG increased from 1.0x Adjusted Book Value ("ABV") to 1.1x ABV at December 31, 2017.

Regarding the above table, I make the following two observations. Firstly, unlike the period from 2009 – 2013, Westaim's share price has not kept up despite the growth in Westaim's FDBVPS during the period starting in Q3 2014 when we closed the acquisition of HIIG. Secondly, the investments made to start-up Arena had a significant, planned, short term negative impact on our FDBVPS growth during this period. As Arena Investors, the third-party asset management arm of Arena, moves toward profitability in Q4 2018 and into 2019, we expect that Westaim's FDBVPS growth will begin to accelerate moving forward.

At December 31, 2018, the approximate breakdown of our Investments measured at book value was as follows:



(1) As stated in Westaim's Consolidated Statements of Financial Position. Arena Finance and Arena Origination - $198.7 million; HIIG - $162.1 million; Arena Investors - $10.6 million.

Arena Investors has evolved from a start-up to an industry acclaimed investment management firm with approximately $1 billion of committed assets under management ("AUM") producing attractive returns for its growing client base and Westaim's proprietary invested capital in just over three years' time. Arena has highly skilled professionals, differentiated origination capability, and proprietary IT systems that we believe provide the firm with a clear competitive edge. Despite this, Arena Investors represents only 3% of Westaim's Investments measured at book value. We believe that the value of our investment in Arena Investors has the potential to produce significant value for Westaim's shareholders over the long term.

HIIG

July 31, 2019 will mark the fifth anniversary of our partnership with HIIG, a specialty property and casualty insurer led by Stephen Way, whose success over a 50-year career has been grounded in the fundamental philosophy of disciplined underwriting, mitigation of risk, capital preservation and controlled growth. Westaim's investment in HIIG in 2014 – 2015 positioned our capital alongside Stephen, HIIG's largest individual shareholder, whose reputation in the insurance industry was solidified by the founding and leadership of his former company, Houston Casualty Corporation. Our HIIG partnership was further strengthened by co-investors Everest Re Group, Ltd. and Catlin Group Ltd. (now AXA XL). Westaim is the largest and controlling shareholder of HIIG (through a limited partnership which we control), with a 43.9% look-through ownership interest as at December 31, 2018.

Like 2017, 2018 proved to be a very challenging year for the insurance industry. In spite of that, HIIG produced solid operating results. Once again, HIIG's use of quota share, excess of loss and facultative reinsurance enabled the company to largely avoid the material catastrophe ("CAT") events of 2018. The positive effects of disciplined underwriting, risk mitigation, capital preservation, building quality infrastructure and controlled growth started to become evident in 2018, as HIIG produced an underwriting profit for the first time since 2015. For the year ended December 31, 2018, HIIG's gross written premium increased to $696.9 million (+21.1% over 2017) and net written premiums increased to $300.5 million (+16.6% over 2017).

With a 2018 combined ratio of 99.5% and pre-tax investment income of $20.7 million, HIIG reported net income after taxes of $20.9 million in 2018, a 25.7% improvement over net income of $16.6 million in 2017 (adjusted to exclude a $22.1 million US Tax Reform charge). For 2018, return on average equity was 6.4%, while growth in adjusted book value per share was 3.2%. Book value growth lagged return on equity due to the market decline of public equities and bonds held within HIIG's investment portfolio (the unrealized amount of which flows through accumulated other comprehensive income on the balance sheet rather than through net income). As at December 31, 2018, HIIG's shareholders' equity was $329.9 million. Given the significant progress over the past few years improving claims management, entering new business lines and repricing old business, as well as a more positive market environment, we would expect continued operating improvements in 2019.

As a reminder, Westaim closed its initial investment of $75.7 million in HIIG on July 31, 2014 and made a follow on investment of $50.6 million on January 14, 2015, for a total investment cost for HIIG of $126.3 million. Our original investment in HIIG was completed at a valuation of 0.87x HIIG's adjusted December 31, 2013 book value and the subsequent investment was completed at 1.0x HIIG's December 31, 2014 adjusted book value. Westaim was able to secure a favourable purchase price in part because the former private equity owner was seeking liquidity due to the life cycle of its fund and, more importantly, because HIIG was working through the challenging process of closing approximately 16,000 claims assumed from discontinued business lines it inherited in a 2010 merger. We fully expected that there would be some volatility in HIIG's results, primarily in claim reserves. However, the impact of HIIG's prior period adverse development coupled with soft industry market conditions (since the beginning of Westaim's ownership until pricing and other policy term improvements began in earnest in 2018) has affected HIIG's ability to grow its book value.

Despite this challenging environment, HIIG's management team has achieved significant progress over the past five years, including:

- **Improved claims practices:** From 2010 to July 2014, HIIG terminated many underperforming Managing General Underwriters ("MGUs") inherited from the merger that the company completed in 2010. Subsequent to an evaluation of their claims operation, in 2016 HIIG management reorganized the claims division to bring more claims management in-house rather than outsourced to Third Party Administrators. As a result, HIIG was able to improve claims handling and better control loss and loss adjustment expense costs moving forward, the benefits of which we are now starting to see.

- **Extensive use of reinsurance allowing HIIG to largely avoid losses from catastrophes:** The property and casualty insurance industry encountered major catastrophic activity in 2017 and 2018, including hurricanes Irma, Maria and Harvey, earthquakes in Mexico City and wild fires in California. Due to prudent underwriting and extensive use of reinsurance, HIIG was able to navigate this challenging period and unlike many of its insurance and reinsurance competitors, did not experience any significant net CAT losses.

- **Improved investment income:** In early 2016, the Investment Committee of HIIG (led by Westaim) made the decision to reduce its exposure to high grade corporate bonds and make an allocation to Arena. Arena's asset-backed credit portfolio offered higher yields and shorter duration than the existing high grade fixed income portfolio at attractive credit statistics. HIIG was able to maintain the same book yield for the portfolio, while reducing the duration and increasing its cash balance, positioning the portfolio well to take advantage of opportunities that arise in the market.

- **Reorganized and strengthened an experienced senior management team:** The senior management of HIIG has been strengthened and expanded since Westaim's acquisition. A few notable HIIG hirings include Peter Smith as President, Mark Haushill as Chief Financial Officer, Sean Duffy as Chief Claims Officer, and Joel Vaag as Chief Actuary.

In addition to the significant internal changes, HIIG has made selective opportunistic acquisitions, primarily of MGUs to expand and diversify its lines of business. Of note was the January 15, 2015 acquisition of Elite Underwriting Services, which marked HIIG's entry into the Accident & Health business, an area where the company believes significant growth exists now that HIIG has a high quality platform in the space that is positioned to scale.

Given an attractive purchase price and despite the headwinds outlined above, the performance of Westaim's investment in HIIG based on its acquisition cost through December 31, 2018 is as follows:

As at December 31, 2018	At 1.1x (1)
Gain (US$)	28.3%
IRR (US$)	6.1%
Gain (C$)	54.7%
IRR (C$)	10.9%

(1) Based on 1.1x HIIG's adjusted book value at December 31, 2018.

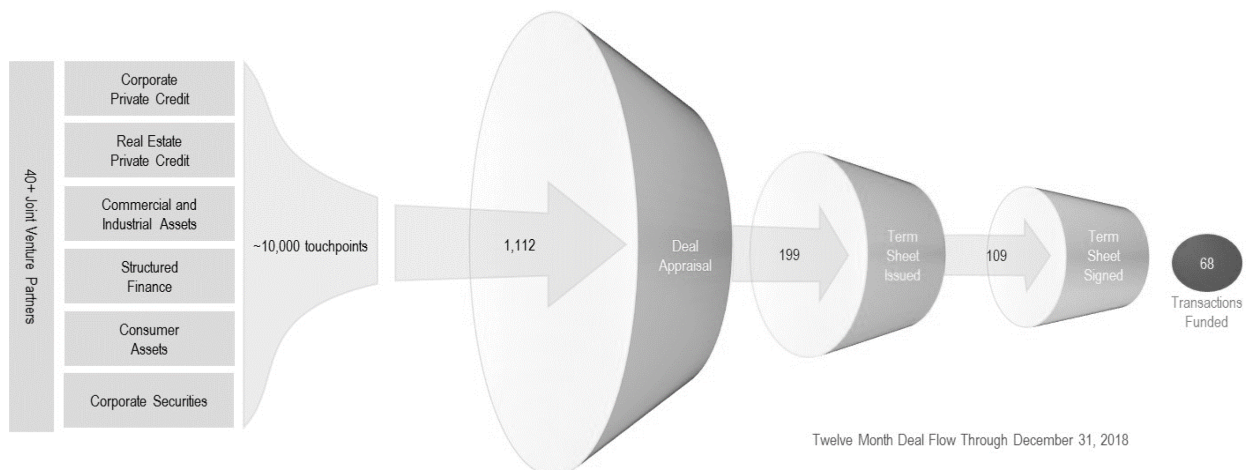
We believe that HIIG is in the best position it has ever been in from an operating perspective, and the number of areas where the company experienced adverse development in the past has narrowed and are under much better control. Today, HIIG is experiencing a more favourable pricing environment for its business lines, which we believe better positons the company to utilize its capital and retain more risk and premium, and we expect its results to reflect these advantages in 2019 and onwards.

On top of this improvement, Westaim has been and will continue to work closely with HIIG management on strategic opportunities to accelerate the improvement of its return on equity, grow the business to acquire necessary economies of scale, improve shareholder returns and therefore enhance shareholder value. These efforts continue to receive a very high level of focus as we enter 2019.

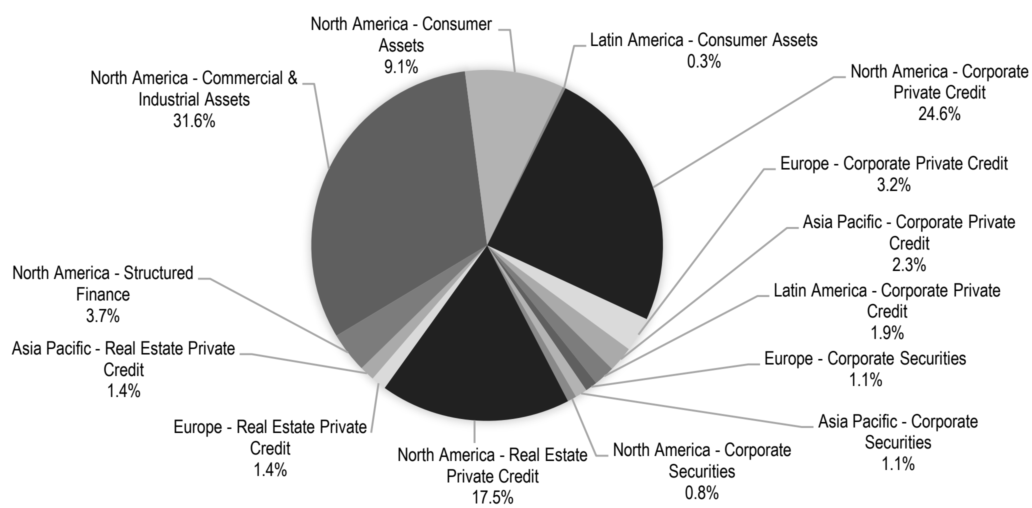
Arena

Arena continues to build an enviable business and, consistent with prior years, produced solid results in 2018. Arena is an experienced team of 47 employees located largely in New York City (Chrysler Building), with smaller offices in San Francisco and London, UK. Should your travels find you in any of these locations, please call ahead to visit the office and meet the team.

Originating and executing an uncorrelated portfolio of asset-backed credit requires a deep and highly skilled bench, all with distinct tenured competence, and an underwriting discipline that produces attractive risk adjusted returns. Sourcing and originating investment opportunities, versus participating in the syndicated market, is the true "alpha" of this investment approach, and after three and a half years of observing this inbound flow, we continue to be amazed at the depth and diversity of Arena's deal pipeline. To facilitate significant numbers of bespoke credit investments, and implement diversity by industry, strategy and geography, Arena's proprietary IT systems developed over the past 13 years (at a significant capital investment) are a critical component. Arena's systems administer the wide array of credits and "standardize" them for evaluation, ongoing monitoring, control and audit. We believe Arena has built a significant competitive advantage – the in-house expertise, hyper-aligned joint venture relationships and a proprietary IT system all of which come together to provide Arena's investors with an investment skill set and process that is unique and would be very difficult (and expensive) to replicate. In 2018, Arena's investment teams reviewed ~10,000 potential investments, eventually funding 68:



Diversification – by industry, strategy and geography is core to Arena's strategy:



(1) Represents long market value of investments as a percentage of the Arena NAV as of December 31, 2018 less Cash/Other representing 27.5% of NAV. Cash/Other represents the excess net asset value of Arena, which includes cash, cash equivalents and other assets (a portion of which may not be readily monetized), less liabilities.

The following is a summary of the performance of Arena's exited positions from inception through December 31, 2018:

	# Positions	% 1st Lien (2)	Closing LTV	Coupon	Under-written IRR(3)	Realized IRR	Average Loan Term (4)
Corporate Private Credit	19	84.5%	42%	12.3%	15.0%	22.0%	1.3 yrs
Real Estate Private Credit	11	100.0%	64%	11.1%	15.1%	27.3%	1.4 yrs
Commercial & Industrial Assets	6	100.0%	62%	14.9%	18.4%	26.7%	0.4 yrs
Structured Finance	3	100.0%	9%	18.8%	18.7%	19.2%	1.3 yrs
Consumer Assets	2	95.8%	73%	14.9%	16.1%	17.4%	1.2 yrs
Weighted Average/Total	**41**	**90.5%**	**51%**	**12.2%**	**15.5%**	**23.0%**	**1.2 yrs**

(1) Portfolio characteristics summarize privately negotiated illiquid investments currently or previously held by Arena as part of its Special Opportunities Strategy offering. In addition, Arena has invested in liquid investments, including convertible structured investments summarized as "Corporate Securities" and other illiquid investments in its Income Strategy, which are not listed herein.

(2) Includes positions where a portion of the first lien has been sold to a lending institution for yield enhancement.

(3) Investment-level gross underwritten IRR represents the internal rate of return prior to or at the time of making the initial investment as reflected in and supported by loan agreements, including, but not limited to, note purchase agreements and origination agreements. The underwritten IRR is one of many metrics considered by Arena prior to investment and is not typically updated after the initial funding date. The underwritten IRR may be presented as a single percentage or a range. Such gross IRRs are estimated and do not take into account any entity level management fees, incentive allocation and/or any other associated fees, all of which may significantly reduce the net return received attributable to any investment. These underwritten IRRs are not a proxy for investment performance for any strategy or fund. The underwritten IRRs disclosed herein are being presented for the purpose of providing insight into the investment objectives of Arena, detailing anticipated risk and reward characteristics in order to facilitate comparisons with other investments and for establishing a benchmark for future evaluation of Arena's strategy. The IRRs included herein are not intended, and must not be regarded, as a representation, warranty or prediction that any Arena vehicles will achieve any particular return with respect to any particular investment opportunity or for a particular time period, or that Arena and its investors will not incur losses. In evaluating these IRRs, it should be noted that (a) there can be no assurance that Arena will be able to source and consummate investments of the type it is seeking to make and (b) the assumptions underlying the IRRs may prove not to be accurate or not materialize.

(4) Average loan term refers to the weighted average time between the funding date and exit date in years.

Despite the turbulent markets of 2018 (especially in Q4), Arena's core strategy investments performed as expected, producing positive performance in each month, and achieving net returns (depending on the account) of between approximately 8% and 12%, without leverage. Over the past few years, Arena has been managing funds for insurers, including a small portion of HIIG's investment portfolio, providing short duration (approximately 1.2 years), attractive returns that have made a meaningful contribution to HIIG's investment portfolio results and overall return on equity. In addition, as noted each quarter in our public filings, the return on Westaim's capital (approximately $200 million as of December 31, 2018), which is held within Arena Finance and Arena Origination, continues to be solid, achieving overall gross returns (before interest, expenses and income taxes) of approximately 11.5% in 2018 and 11.4% in 2017[1]. Returns net of allocated and direct expenses, but before income taxes, were approximately 7.7% for 2018 versus 7.3% in 2017[1], as the allocation of ongoing operating costs of Arena's business to Arena Finance and Arena Origination is reducing (due to growth in Arena

[1] Gross Returns include the aggregate of Investment Income, net and Gains (Losses) on investment ("Gross Income") divided by the aggregate of Average Carrying Value for Arena Finance/Arena Origination and average Loans Payable to Westaim outstanding for the period. Net Returns are Gross Income less Interest expense, Administrative and service fees, Other operating expenses and certain other administrative expenses of Arena Finance/Arena Origination divided by Average Carrying Value for Arena Finance/Arena Origination for the period.

Investors' AUM), and operating leverage begins to take hold. We expect this operating leverage to accelerate moving forward. Finally, a key operating milestone for Arena Investors was achieved in Q4 2018 when it achieved net income before tax of $1.1 million (loss of $2.2 million for the year ended December 31, 2018). We expect Arena Investors to continue on this trajectory (though not every quarter) as we move into 2019.

With solid accomplishments in 2017 and 2018, we are proud that Arena's performance was publicly recognized twice by industry peers. In October 2018, Arena Special Opportunities Fund, LP ("ASOF") won the HFM Award (Newcomer category). More recently, on February 4, 2019, ASOF was the recipient of the Alt Credit Award (Direct Lending Category) and made the shortlist for the performance award in the Credit Specialist, Asset Backed, and Multi-Strategy Credit categories.

As we enter 2019, we believe Arena Investors' AUM will continue to grow. In May 2018, Arena welcomed Parag Shah as Managing Director of Marketing and Client Services. Parag held the same position at Bridgewater Associates where he enjoyed genuine success over a 15-year period. Parag has already made a significant impact with his experience and recently expanded his team to include two of his former colleagues, James Kingry and Lindsay Shepherd.

Performance = AUM = Net Income

The investment manager formula for success is rather simple, and while each firm has its own unique attractions, the above formula eventually applies to all. However, for the formula to be lasting, it takes time to execute, communicate and realize. New investment firms always face the competitive headwinds of the large established brands. Arguably, it is even harder to succeed today as private credit has become a very popular investment allocation, perhaps bubble like, which at times creates confusion among investors as they stamp all credit strategies with the "private credit" label. This is concerning. That said, we understand this formula well, and today Arena Investors' committed AUM is $1 billion and growing. We expect Arena Investors' profitability to grow, eventually allowing Arena Investors to first repay investments from Westaim to fund its start-up costs ($18.3 million at December 31, 2018) and then make distributions, which are to be allocated between Westaim and Arena Investors' management as noted in our public filings.

Westaim's initial ownership of Arena Investors is 100% and as Arena Investors achieves third party, fee paying AUM according to levels noted in our public filings, along with minimum EBITDA margin thresholds, Westaim's ownership will be reduced and transferred to the management team of Arena Investors. As Arena Investors progresses toward $5 billion of third party, fee paying AUM (and the requisite EBITDA margin thresholds are acheived), Westaim's ownership will gradually be reduced to 25%. It is noteworthy that Westaim's eventual 25% ownership in Arena Investors is perpetual, and Westaim will have attained this equity position without any material monetary investment.

I would also like to refresh your memory of Westaim's strong alignment with Arena's management team. Upon the commencement of distributions from Arena Investors, Arena management has committed to utilize 25% of their first $100 million of distributions to acquire Westaim common shares in the open market. When that commitment is fulfilled, Arena management is required to utilize 12.5% of their distributions to acquire Westaim common shares in the open market until they become a 19.9% owner of Westaim common shares. In other words, this is an aligned partnership for the long-term, where Arena's success and Westaim's success are inextricably linked.

We believe that distributions from capital-light Arena Investors, coupled with the ongoing investment returns achieved within Arena Finance and Arena Origination, will provide Westaim shareholders with excellent risk adjusted returns as the operating leverage from the business takes hold.

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In addition to significant active involvement with HIIG and Arena, Westaim's management continues to actively seek out attractive investment opportunities for Westaim's shareholders. The current environment is one of elevated pricing and high use of leverage to generate returns, a short term game that we are reluctant to play. Our filter, beyond obligatory acceptable hurdle rates, is to look for (i) high quality management teams that we can partner with to help build businesses over the long term; (ii) businesses that have attractive business economics and capacity to grow; and (iii) businesses where the shared experience with our other platforms can provide added value. Of course, we are also very cognizant about the other options to deploy Westaim's capital through share buybacks and/or dividends, and carefully consider the viability and attractiveness of these options on a constant basis as we build the business over the long term.

Westaim's Annual General Meeting and Investor Day will be held on Thursday May 30, 2019 at 9:00am ET. This year's presentation will take place at the Hockey Hall of Fame in Toronto. As in past years, the management teams of Westaim, Arena and HIIG will be in attendance and will be providing an in-depth presentation. We look forward to seeing everyone.

Yours truly,

C MacDonald

Cameron MacDonald
President and Chief Executive Officer