



THE WESTAIM CORPORATION

ANNUAL INFORMATION FORM

in respect of the year ended December 31, 2015

MARCH 31, 2016

TABLE OF CONTENTS

INTERPRETATION	1
FORWARD-LOOKING STATEMENTS.....	1
CORPORATE STRUCTURE	2
Name and Incorporation.....	2
Intercorporate Relationships.....	3
BUSINESS OF THE COMPANY	3
General Development of the Business.....	3
Summary Description of the Business.....	6
CURRENT INVESTMENTS.....	9
HIIG.....	9
Arena Group.....	12
RISK FACTORS.....	18
Risks Relating to Westaim	19
Risks Relating to HIIG’s Business	21
Risks Related to the Arena Group	28
Risks Related to Specialty Finance Operations	32
DESCRIPTION OF CAPITAL STRUCTURE	33
Common Shares.....	34
Class A Preferred Shares	35
Class B Preferred Shares	35
MARKET FOR SECURITIES.....	35
Trading Price and Volume.....	35
DIVIDENDS	36
DIRECTORS AND EXECUTIVE OFFICERS	36
Name, Residency and Principal Occupation.....	36
Shareholdings of Directors and Executive Officers.....	37
Cease Trade Orders, Bankruptcies, Penalties or Sanctions	37
Conflicts of Interest	38
AUDIT COMMITTEE.....	38
The Audit Committee’s Charter	38
Composition of the Audit Committee.....	39
Relevant Education and Experience	39
Pre-Approval of Audit and Non-Audit Services by Independent Auditors	39
Audit Committee Oversight.....	40
Audit Fees.....	40
Exemption	40
PROMOTERS.....	40
LEGAL PROCEEDINGS AND REGULATORY ACTIONS.....	40
Legal Proceedings	40
Regulatory Actions	40
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	40
TRANSFER AGENT AND REGISTRAR	41
MATERIAL CONTRACTS.....	41
INTERESTS OF EXPERTS	41
ADDITIONAL INFORMATION	41
APPENDIX “A” - AUDIT COMMITTEE CHARTER.....	A - 1

INTERPRETATION

As used in this annual information form (the “AIF”), unless the context indicates or requires otherwise, the terms “Company” or “Westaim” refer to The Westaim Corporation (including, where applicable, its predecessor entities) and its subsidiaries, the term “HIIG” refers to Houston International Insurance Group, Ltd. and its subsidiaries and the terms “Arena” or the “Arena Group” refer collectively to Arena Investors (as defined herein), Arena Finance Company Inc. (“Arena Finance”) and Arena Origination Co., LLC (“Arena Origination”) and their respective affiliated entities. The term “Arena Investors” refers collectively to Westaim Arena Holdings II, LLC (“WAHII”) and its subsidiary entities (including Arena Investors, LP), Arena Special Opportunities Fund (Onshore) GP, LLC (“ASOF-ON GP”) and Arena Special Opportunities Fund (Offshore) II GP, LP (“ASOF-OFF II GP”). Unless otherwise stated, the information contained in this AIF is as of March 31, 2016.

As a result of the completion of the Arena Transactions (as defined herein), a significant majority of revenues and costs of the Company are sourced and incurred in United States dollars. Therefore, the Company has changed its functional currency from Canadian dollars to United States dollars, prospectively from August 31, 2015. Also on August 31, 2015, the Company changed its presentation currency from Canadian dollars to United States dollars. All dollar amounts herein are expressed in United States dollars unless otherwise indicated. Unless otherwise indicated, financial information in this AIF regarding the Company and Arena Finance has been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board. The accounts of each of HIIG and the Arena Group (other than Arena Finance) are maintained in United States dollars and are prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”).

FORWARD-LOOKING STATEMENTS

This AIF contains certain “forward-looking statements” and “forward-looking information” which reflect the current expectations of management regarding the Company’s future growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements include but are not limited to statements concerning: strategies; alternatives and objectives to maximize value for shareholders; expectations and assumptions relating to the Company’s business plan; expectations and assumptions relating to the business and operations of HIIG and the Arena Group; expectations regarding the Company’s assets and liabilities; the Company’s ability to retain key employees; management’s belief that its estimates for determining the valuation of the Company’s assets and liabilities are appropriate; the Company’s views regarding potential future remediation costs; the effect of changes to interpretations of tax legislation on income tax provisions in future periods; and the Company’s determination that the adoption of new accounting standards will not have a material impact on its consolidated financial statements. These statements are based on current expectations that are subject to risks, uncertainties and assumptions and Westaim can give no assurance that these expectations are correct.

The Company’s actual results or financial position could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company’s control, including, without limitation, the following factors: risks inherent in acquisitions generally; the volatility of the stock market and other factors affecting the Company’s share price; future sales of a substantial number of the Company’s common shares (the “Common Shares”); the Company’s ability to generate revenue from its investments; the Company’s ability to raise additional capital; environmental risks; regulatory requirements may delay or deter a change in control of the Company; fluctuations in the United States dollar to Canadian dollar exchange rate; the potential treatment of the Company as a passive foreign investment company (“PFIC”) for U.S. federal income tax purposes; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters; the cyclical nature of the property and casualty (“P&C”) insurance industry; HIIG’s ability to adequately maintain loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses; the effects of emerging claim and coverage issues on HIIG’s business; the effect of government regulations designed to protect policyholders and creditors rather than investors; the effect of climate change on the risks that HIIG insures; HIIG’s reliance on brokers and third parties to sell its products to clients; the effect of intense competition and/or industry consolidation; HIIG’s ability to accurately assess underwriting risk; the effect of risk retentions on HIIG’s risk exposure; HIIG’s ability to alleviate risk through reinsurance; dependence by HIIG on key employees; the effect of litigation and regulatory actions; HIIG’s ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); HIIG’s ability to compete against larger more well-established competitors; unfavourable capital market

developments or other factors which may affect the investments of HIIG; HIIG's ability to maintain its financial strength and issuer credit ratings; HIIG's ability to obtain additional funding; HIIG's ability to successfully pursue its acquisition strategy; HIIG's possible exposure to goodwill or intangible asset impairment in connection with its acquisitions; HIIG's ability to receive dividends from its subsidiaries; HIIG's reliance on information technology and telecommunications systems; dependence by HIIG on certain third party service providers; Arena's limited operating history; Arena's ability to mitigate operational and due diligence risks; the subjective nature of the valuation methods for certain of Arena's investments; Arena's ability to mitigate regulatory and other legal risks; Arena's ability to find appropriate investment opportunities; Arena Investors' ability to successfully navigate and secure compliance with regulations applicable to it and its business; the performance of the investments of Arena; Arena's investment in illiquid investments; Arena's ability to manage risks related to its risk management procedures; dependence by Arena on key management and staff; Arena Investors' ability to compete against current and potential future competitors; conflicts of interest; employee error or misconduct; Arena's ability to finance borrowers in a variety of industries; dependence by Arena Origination and Arena Finance on the creditworthiness of borrowers; the ability of Arena Origination and/or Arena Finance to mitigate the risk of default by and bankruptcy of a borrower; the ability of Arena Origination and/or Arena Finance to adequately obtain, perfect and secure loans; the ability of Arena Origination and/or Arena Finance to limit the need for enforcement or liquidation procedures; the ability of Arena Origination and/or Arena Finance to protect against fraud; changes to the regulation of the asset-based lending industry; United States tax law implications relating to the conduct of a U.S. trade or business; and other risk factors set forth herein or in the Company's annual report or other public filings.

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. Although Westaim has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause unanticipated actions, events or results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The reader is cautioned not to place undue reliance on forward-looking statements.

CORPORATE STRUCTURE

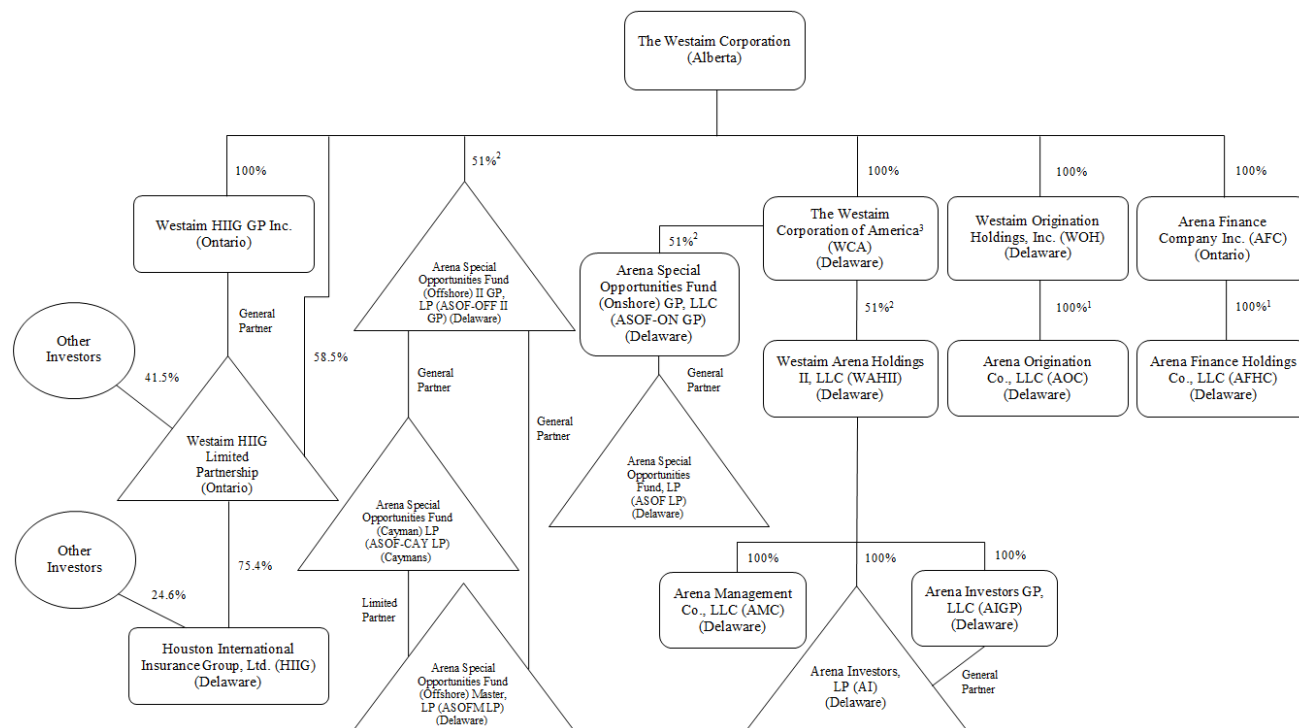
Name and Incorporation

Westaim was incorporated under the *Business Corporations Act* (Alberta) (the "ABCA") by Articles of Incorporation dated May 7, 1996 (the "Articles"). The Articles were amended effective June 26, 1996 to remove the private company restrictions on the transfer of securities, to create preferred share classes designated as Class A preferred shares and Class B preferred shares and to increase the maximum number of directors to fifteen. Restated Articles of Incorporation were issued under the ABCA on April 17, 2000 and the Articles were further amended on May 24, 2000 to permit meetings of shareholders to be held in certain specified cities outside of Alberta, or in any other city in Canada or the United States and to allow the board of directors of the Company (the "Board") to appoint additional directors between annual meetings, subject to certain limitations. The Articles were amended again on February 8, 2010, February 26, 2010 and September 11, 2012 in connection with the creation of the Non-Voting Shares (as hereinafter defined) and the removal of the conversion restrictions attaching thereto. On October 1, 2013, the Articles were further amended to effect a 50:1 share consolidation of the Common Shares (the "Consolidation"). All information herein relating to the Common Shares is (unless otherwise indicated) presented on a post-Consolidation basis.

Westaim's registered office is located at 2400, 525 8th Avenue S.W., Calgary, Alberta, T2P 1G1 and its head office is located at 70 York Street, Suite 1700, Toronto, Ontario M5J 1S9.

Intercorporate Relationships

The following chart sets forth the organizational structure of Westaim, including each of the material entities directly and indirectly owned and/or controlled by Westaim or in which it has a material interest.



Notes: ¹ Subject to “option-type” rights held by Bernard Partners, LLC (“BP LLC”). See “*Business of the Company – General Development of the Business – Arena Transactions*”.

² Subject to “earn-in” rights held by BP LLC. See “*Business of the Company – General Development of the Business – Arena Transactions*”.

³ Formerly Westaim Arena Holdings, Inc.

BUSINESS OF THE COMPANY

General Development of the Business

Jevco Sale Transaction

On May 2, 2012, Westaim announced that it had entered into an agreement with Intact Financial Corporation (“**Intact**”) pursuant to which, subject to regulatory approval and other terms and conditions, Westaim agreed to sell to a wholly-owned subsidiary of Intact all of the issued and outstanding shares in the capital of Westaim’s wholly-owned subsidiary, JEVCO Insurance Company, for C\$530 million in cash (the “**Jevco Sale Transaction**”). Approval by the shareholders of the Company for the Jevco Sale Transaction was received at a special meeting held on June 28, 2012 and the sale was completed on September 4, 2012.

On September 28, 2012, Westaim effected a cash distribution by way of a return of capital on the Common Shares of C\$37.50 per Common Share (the “**Cash Distribution**”). The Cash Distribution represented substantially all of the net proceeds realized from the Jevco Sale Transaction.

Following the Jevco Sale Transaction, Westaim no longer met the continued listing requirements of the Toronto Stock Exchange (the “**TSX**”) as it had no active business. On January 9, 2013, following applications made by the

Company, the Common Shares commenced trading on the TSX Venture Exchange (the “**TSXV**”) and were delisted from the TSX. Management spent much of the first half of 2013 identifying and investigating potential acquisition opportunities principally in the insurance sector. However, none of such opportunities met management’s investment parameters. Accordingly, management determined to: (i) widen the focus of its search to include opportunities outside of the insurance sector; and (ii) adopt a formal investment policy. On September 25, 2013, the Board approved a business acquisition and investment policy for the Company, which policy was amended on August 14, 2014 and on April 13, 2015 (the “**Investment Policy**”).

HIIG Acquisitions

On March 12, 2014, the Company announced that Westaim HIIG Limited Partnership (the “**Partnership**”), an Ontario limited partnership established by Westaim, had agreed to acquire a significant equity interest in HIIG, an international specialty insurance company headquartered in Houston, Texas. The Partnership was formed to acquire, hold and/or dispose of interests of HIIG, including any class or series of stock in the capital of HIIG, or indebtedness of HIIG, and certain permitted Canadian dollar and/or United States dollar investments.

On April 23, 2014, Westaim completed the sale of an aggregate of 50,995,385 subscription receipts (the “**2014 Subscription Receipts**”) at a purchase price of C\$2.65 per 2014 Subscription Receipt for aggregate gross proceeds of approximately C\$135.1 million (the “**Subscription Receipt Offering**”). On July 29, 2014, net proceeds of approximately C\$128.2 million from the Subscription Receipt Offering were released from escrow to Westaim and an aggregate of 50,995,385 additional Common Shares were issued upon the conversion of the 2014 Subscription Receipts. An additional 5,399,020 Common Shares were issued on July 31, 2014 to certain funds and co-investors pursuant to subscription agreements entered into on April 23, 2014 (the “**Additional Private Placement**”). In connection with the Additional Private Placement, Westaim received additional gross proceeds of approximately C\$14.3 million.

On July 31, 2014, the Partnership completed the acquisition (the “**Initial HIIG Acquisition**”) of approximately 70.8% of the issued and outstanding shares of common stock of HIIG (“**HIIG Shares**”) for an aggregate purchase price of approximately \$138.7 million. The Initial HIIG Acquisition involved:

- (i) the purchase by the Partnership of an aggregate of 16,588,865 HIIG Shares from certain shareholders of HIIG for an aggregate purchase price of \$53.7 million; and
- (ii) the purchase by the Partnership from HIIG of an aggregate of 18,702,673 HIIG Shares from treasury for an aggregate purchase price of \$85.0 million.

In order to complete the Initial HIIG Acquisition and to provide working capital, the Partnership received funding of approximately \$141.1 million. This funding was provided as to (i) approximately \$75.7 million by Westaim, (ii) approximately \$24.3 million and \$22.9 million by affiliates of Everest Re Group, Ltd. and Catlin Group Limited, respectively, (iii) \$10 million by Stephen L. Way, Chairman and Chief Executive Officer of HIIG, and/or certain investors associated with Mr. Way, and (iv) approximately \$8.2 million by certain other existing shareholders of HIIG and other investors.

In connection with the Initial HIIG Acquisition, the Company’s wholly-owned subsidiary, Westaim HIIG GP Inc. (the “**GP**”), entered into a management services agreement with HIIG (the “**HIIG MSA**”) pursuant to which the GP agreed to render to HIIG, such advisory and consulting services in relation to the affairs of HIIG and its subsidiaries as HIIG may reasonably request, including, without limitation, (i) advice regarding the structure, terms, conditions and other provisions, distribution and timing of debt and equity offerings and advice regarding relationships with HIIG’s and its subsidiaries’ lenders and bankers, (ii) advice regarding dispositions or acquisitions, (iii) business analyst services, and (iv) such other advice directly related or ancillary to the above financial advisory services as may be reasonably requested by HIIG. The GP is entitled to receive from HIIG a fee of \$1.0 million annually for the first three years of the HIIG MSA (commencing on August 1, 2014) and \$0.5 million annually for two years thereafter relating to advisory services to be provided by the GP.

Westaim Management Limited Partnership (the “**Manager**”) was established on February 25, 2014 for the purpose of providing management services to Westaim and entities established by Westaim and/or its affiliates. Westaim has engaged the Manager to provide all necessary personnel, office facilities, supplies and services necessary or desirable for carrying on the management and administration of the Company. In particular, the services of Westaim’s executive officers and employees, office premises and office equipment, utilities and supplies are provided by the Manager to Westaim substantially on a cost reimbursement basis.

On January 14, 2015, the Partnership raised an additional \$70 million (the “**Additional Offering**”) through the sale of Class A Units of the Partnership (“**Class A Units**”). The proceeds from the Additional Offering were used to acquire 14,213,487 HIIG Shares at a purchase price of approximately \$4.92 per HIIG Share (the “**Subsequent HIIG Acquisition**”) in order to fund (i) the purchase by HIIG, through HIIG Underwriters Agency, Inc., of all of the assets of the underwriting business being operated as “Elite Underwriting Services” (“**Elite**”), a division of Elite Brokerage Services, Inc. (the “**Elite Acquisition**”), (ii) an additional capital contribution to HIIG’s subsidiary insurance companies, and (iii) for general corporate purposes. At the time of the Elite Acquisition, Elite operated as a Pennsylvania-based national managing general underwriter (“**MGU**”). An MGU is a specialized type of insurance agent/broker that, unlike traditional agents/brokers, is vested with underwriting authority from one or more insurers. Elite provided brokers, consultants, and carriers with a wide array of medical stop-loss (“**MSL**”) market options and product flexibility and wrote business in all 50 states of the United States. MSL insurance is a layer of coverage that provides insurance protection to employers who choose to self-fund their health benefit plans. Westaim filed a business acquisition report in respect of the Subsequent HIIG Acquisition on March 31, 2015.

In connection with the Additional Offering, the Company subscribed for Class A Units for an aggregate subscription amount of approximately \$50.6 million. Based on this additional investment, as at December 31, 2015, the Company owned approximately 58.5% of the issued and outstanding Class A Units and the Partnership owned approximately 75.4% of the issued and outstanding HIIG Shares.

Arena Transactions

On April 27, 2015, the Company entered into a non-binding letter of intent (the “**Term Sheet**”) with Arena Investors, LLC (“**Old Arena**”) relating to the proposed acquisition by Westaim of Old Arena for nominal consideration and the establishment and funding by Westaim of a specialty finance company to be named “Arena Finance Company Inc.”. Old Arena was a U.S.-based investment firm led by Daniel B. Zwirn, which specialized in making fundamentals-based, asset-oriented credit investments. Subsequent to the execution of the Term Sheet, Westaim determined to establish a new entity, Arena Investors, LP (“**AI**”), to undertake, under the leadership of Mr. Zwirn, the investment management business rather than to acquire Old Arena. In addition, Westaim determined to create a specialty origination platform (Arena Origination) to source and originate fundamentals-based, asset-oriented credit investment opportunities for resale to Arena Finance, clients of AI and/or other third parties.

On May 28, 2015, Westaim completed the sale of an aggregate of 72,120,145 special warrants (the “**Special Warrants**”) at a purchase price of C\$3.25 per Special Warrant for aggregate gross proceeds of approximately C\$234.4 million (the “**Special Warrant Offering**”) with a view to funding the Arena Transactions (as defined herein).

On August 31, 2015, net proceeds of approximately C\$222.8 million from the Special Warrant Offering were released from escrow to Westaim and an aggregate of 72,120,145 Common Shares were issued upon the deemed conversion of an equal number of subscription receipts (“**2015 Subscription Receipts**”) issued on the deemed exercise of the Special Warrants. An additional 769,231 Common Shares were issued on August 31, 2015 to Daniel B. Zwirn at an effective purchase price of C\$3.25 per Common Share (the “**Zwirn Subscription**”).

The net proceeds from the Special Warrant Offering and the Zwirn Subscription were used to (i) establish and capitalize the operations of AI, which operates as a U.S.-based investment manager; (ii) establish and capitalize Arena Finance in the amount of approximately \$146.6 million to facilitate the acquisition, holding and possible future sale by Arena Finance, through Arena Finance Holdings Co., LLC (“**AFHC**”), of fundamentals-based, asset-oriented credit investments, and (iii) establish and capitalize Arena Origination in the amount of approximately \$34.3 million to facilitate the origination of fundamentals-based, asset-oriented credit investments for its own

account and/or for possible future sale to Arena Finance, clients of AI and/or other third parties, (collectively, the “**Arena Transactions**”).

In connection with the Arena Transactions, Westaim entered into an acquisition and funding agreement (the “**Funding Agreement**”) with Arena Investors, LLC (“**Old Arena**”), Bernard Partners, LLC (“**BP LLC**”), a New York limited liability company (“**LLC**”) controlled by the management team of Arena Investors, and AI. Under the Funding Agreement, Westaim agreed to provide funding to the Arena Group of up to \$4.3 million for operational start-up costs and the acquisition of start-up capital assets. As at December 31, 2015, an aggregate of \$1.8 million in funding had been provided by Westaim under the Funding Agreement.

Also in connection with the Arena Transactions, BP LLC was provided with the opportunity to receive an equity ownership position in Westaim Arena Holdings II, LLC (“**WAHII**”), an LLC that controls AI, and to acquire an equity ownership position in each of AFHC and Arena Origination. In addition to the foregoing, BP LLC was also provided with comparable earn-in rights with respect to the equity of each General Partner (as defined herein) created in connection with any funds established by AI and will thereby be entitled to participate in any Performance Fees (as defined herein) earned by each such General Partner. See “*Current Investments – Arena Group – Equity Participation by BP LLC*”.

Summary Description of the Business

Overview

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the financial services industry. Westaim invests directly and indirectly through acquisitions, joint ventures and other arrangements, with the objective of providing its shareholders with capital appreciation and real wealth preservation. Westaim’s strategy is to pursue investment opportunities with a focus towards the financial services industry and to grow shareholder value over the long term.

Westaim’s senior management team and Board have extensive experience in sourcing, executing and financing businesses, and providing strategic advice to businesses in order to help them grow. Accordingly, Westaim expects to provide its portfolio companies with advisory services including, but not limited to, advice on capital allocation, financing strategy, performance measurement and merger and acquisition support. As part of its financing strategy, Westaim also intends to partner with like-minded providers of third party capital to help supplement Westaim’s own capital when completing acquisitions. Any fees generated from managing this capital are expected to provide cash flow to the Company to support its operations and augment the return for Westaim’s shareholders.

Investment Policy

On September 25, 2013, the Board approved the Investment Policy, which policy was amended on August 14, 2014 and on April 13, 2015. A summary of the Investment Policy and Westaim’s approach to investment appears below.

Investment Objective

Westaim’s investment objective is to maximize the growth of its intrinsic business value on a per share basis over the long-term. Westaim intends to seek to accomplish this objective through:

- Utilizing value investing principles and the expertise and experience of management to opportunistically acquire all or part of high quality businesses that (i) it understands, (ii) are expected to generate superior returns on invested capital, and (iii) are expected to have long-term prospects for growth;
- Providing acquired businesses with strategic, financial and capital allocation related advice and support to help accelerate their growth;
- Acquiring debt and equity securities of both public and private companies on an opportunistic basis; and

- Maintaining a conservative balance sheet that is expected to allow Westaim to withstand adversity and capitalize on opportunities when they arise.

Business Acquisition and Investment Strategy

To achieve its objectives, the following guidelines will be considered for Westaim's investment strategy:

- Westaim may invest in both public and non-public businesses and assets that have the potential for superior investment returns;
- Availability and quality of operating management with whom to partner will be a critical consideration of the attractiveness of an investment opportunity;
- Westaim intends to invest opportunistically in debt, equity and derivative securities, with a preference for equity and equity-related securities;
- While the Company will consider the liquidity of a particular investment in its evaluation, this will not be an immediate requirement, and will be a secondary consideration to the quality of the business, and the attractiveness of the investment opportunity. While the Company believes that there may be significant potential returns in less liquid investments, where longer time horizons are required, the Company will generally seek to hold its investments for no more than 7 to 15 years;
- Over time, the Company intends to assemble a concentrated portfolio of businesses where its expertise and experience can be utilized to maximize returns on invested capital to the benefit of its shareholders; and
- Pending an investment, consistent with its long-term strategy, the Company expects to invest its surplus cash in interest bearing demand or deposit obligations or Government of Canada short-term debt obligations, other short-term investment grade debt obligations, or public equity securities as the Company may determine in accordance with limitations and guidelines established by the Board from time to time.

Investment Process

Westaim's senior management team is responsible for identifying and investigating investment opportunities, including conducting business, tax and legal due diligence and preparing financial models. If a potential investment appears to be consistent with Westaim's investment objective, the opportunity will typically be brought to Westaim's Board either at a regularly scheduled or special Board meeting to gauge the Board's view of the merits of the investment. If the Board's feedback is positive, management proceeds to negotiate the definitive terms of the transaction including any required financing. Once the terms are negotiated, the transaction is brought to the Board for final approval and, if approved, is completed and announced.

Implementation

In reaching an investment decision regarding a particular investment, the Company expects to consider, amongst others, the following factors:

- Availability and quality of operating management, and the ability to align management's interest with Westaim's shareholders;
- The ability of management to use their expertise to help grow the business organically and through prudent acquisitions;
- The financial condition and financial performance of the investee company; and

- The size of the investment, its price and valuation, and the Company’s ability to efficiently finance its purchase.

Conflicts of Interest

Prior to making an investment, all members of senior management and the Board are obligated to disclose any interest in the potential investment. In the event that a conflict is determined to exist, the person having the conflicted interest is required to abstain from making further decisions concerning the investment.

Monitoring and Reporting

The investment activities of Westaim will be monitored by senior management, and by the Board through regular reporting from the Company’s management, no less than quarterly. Investments will be monitored, evaluated and communicated to management and the Board on a fair value basis in accordance with the Company’s status as an investment company.

Financing

Westaim expects to raise capital from time to time through the public offering of its securities, by private placement, or through the incurrence of debt obligations. The Company expects to maintain a conservative balance sheet in order to provide the flexibility to make opportunistic investments as they arise.

Dividends

Westaim does not expect to declare dividends in the near future, as it intends to reinvest cash flows and/or proceeds of investment sales in new opportunities in accordance with its strategy. See “*Dividends*”.

Investments

In the past three years, Westaim has made two significant investments, each of which was in the financial services industry. For a description of these acquisitions, see “*Business of the Company - General Development of the Business – HIIG Acquisitions*” and “*Business of the Company - General Development of the Business – Arena Transactions*”.

Competition

There is significant competition for investments sought by the Company from strategic and financial buyers including pension funds and private equity groups. Some of these entities have greater financial, technical, personnel and operational resources than Westaim. In addition, some of these competitors may also have access to lower costs of capital and to funding sources not available to the Company, thereby providing them with a competitive advantage.

Employees

As at the date hereof, Westaim employs eight individuals, four of whom are executive officers of Westaim with significant experience in originating, structuring, executing and managing investments.

In addition, Westaim management has an extensive network of relationships, and from time-to-time retains the services of consultants who provide the Company with specific expertise in certain niche areas.

CURRENT INVESTMENTS

HIIG

Overview

HIIG is a U.S. based diversified specialty insurance company providing coverage primarily in the United States but also globally for certain risks. HIIG's business includes accident and health, construction, energy, specialty lines, professional liability and transactional property risks. The majority of its business is written in the United States while the transactional property is written worldwide. HIIG's strategy includes in-house underwriting expertise for certain classes of business as well as utilizing managing general underwriters where the underwriting and policy service are effectively outsourced. HIIG's strategy with managing general underwriters typically includes an ownership stake in the managing general underwriter in order to ensure alignment of interests. HIIG manages its claims with both in-house professionals as well as through third party administrators. At December 31, 2015, HIIG's assets were over \$1.2 billion and for the year ended December 31, 2015, HIIG had aggregate gross written premiums of approximately \$508.7 million.

HIIG was founded in 2007 by Stephen L. Way, who has significant expertise and experience in the property and casualty insurance industry. Prior to HIIG, in 1974 Mr. Way founded Houston Casualty Corporation, an international specialty property and casualty insurance company and led the company until 2006.

HIIG's subsidiaries include Houston Specialty Insurance Company ("HSIC"), Oklahoma Specialty Insurance Company ("OSIC"), Imperium Insurance Company ("IIC"), Great Midwest Insurance Company ("GMIC"), HIIG Underwriting Agency, Inc. ("HIIGU"), HIIG Underwriters Agency (Canada), Ltd. ("HIIGU Canada") and HIIG Service Company ("HSC").

HSIC is a Texas-domiciled insurance company that writes commercial auto, commercial property and general liability policies as a non-admitted carrier in 49 states and on an admitted basis in Texas.

OSIC is an Oklahoma-domiciled insurance company writes commercial auto, commercial property and general liability policies as a non-admitted carrier in Texas and on an admitted basis in Oklahoma.

IIC is a Texas-domiciled insurance company that primarily writes workers' compensation, commercial auto, commercial property, and general liability policies. IIC is licensed to write direct insurance and reinsurance in 50 states plus the District of Columbia.

GMIC is a Texas-domiciled insurance company that primarily writes workers' compensation, auto liability, property, accident and health (MSL) and general and professional liability policies. GMIC is licensed to write direct insurance and reinsurance in 50 states and the District of Columbia.

HIIGU, a Texas corporation, is a managing general insurance agent for property and casualty risks in specialty niche markets, including MSL.

HIIGU Canada, which was incorporated in 2015, will be initially focused on the Canadian construction market.

HSC, a Delaware corporation, provides various administrative services to the HIIG insurance company subsidiaries.

HIIG is headquartered in Houston (Texas) with offices in Atlanta (Georgia), Birmingham (Alabama), Chicago (Illinois), Dallas (Texas), Morristown (New Jersey), Oklahoma City (Oklahoma), Philadelphia (Pennsylvania), Scottsdale (Arizona), Orlando (Florida), Wakefield (Massachusetts) and Toronto (Ontario).

Strategy

HIIG's strategy is to grow its business both organically and through selected acquisitions, with a focus on superior underwriting performance, in order to generate above-average risk adjusted returns. HIIG is managed by a proven

management team, with significant experience in the property and casualty industry. The key pillars of its strategy are:

Underwriting Discipline: HIIG seeks to create or acquire specialty lines of business that are managed by experienced underwriting staff who are experts in their line of business, and have written business across market cycles and therefore have the ability to maintain underwriting discipline. Profitable underwriting is emphasized over growth in premiums. HIIG strives to attract successful, experienced underwriters to its business that adhere to this underwriting philosophy.

Mitigation of Risk: By virtue of its underwriting discipline and through the use of reinsurance to cover classes of business, HIIG mitigates its exposure to severity and catastrophe losses. HIIG seeks to mitigate the risk of loss in each of its lines of business through policy limits, coverage provided as well as through reinsurance protection.

Capital Preservation: HIIG maintains a conservative balance sheet and executes a conservative investment philosophy with its investment portfolio.

Conservative Reserving: While actual losses are unknown at the time of issuing an insurance policy, HIIG relies on its loss data over long historical periods to better manage and forecast the underlying risk inherent in each policy in order to estimate the reserves for loss and loss adjustment expenses. HIIG also utilizes an independent actuarial firm to review its estimate of reserves for loss and loss adjustment expenses.

Controlled Growth: HIIG is expected to grow organically by (i) increasing its geographic footprint with new and existing clients in selected lines of business; and (ii) the hiring of experienced and successful underwriting teams in existing and new lines of business, where HIIG believes opportunities for significant underwriting profitability exists. HIIG is expected to grow through selected acquisitions, primarily of high quality MGU agencies. By acquiring these agencies and integrating them with HIIG’s existing platform, HIIG gets access to their seasoned book of business and the underwriting expertise of the management team.

Lines of Business

Currently, HIIG operates in the lines of business described below. The net written premiums (“NWP”) for each line (in U.S. dollars and prepared in accordance with U.S. GAAP) for the periods indicated are as follows:

Business Line	Description	Type of Commercial Insurance	NWP for year ended December 31, 2015 (US\$MM)	NWP for year ended December 31, 2014 (US\$MM)
Accident and Health	MSL	Excess Loss Insurance	\$35.1	N/A ⁽¹⁾
Construction	Specialty Contractors	General Liability, Auto Liability, Excess Liability, Property/Inland Marine, Workers Compensation	\$27.0	\$47.4
Energy	Mining and Onshore Oil & Gas Offshore Oil & Gas	General Liability, Auto Liability, Excess Liability, Property/Inland Marine, Workers Compensation	\$44.3	\$53.0

Business Line	Description	Type of Commercial Insurance	NWP for year ended December 31, 2015 (US\$MM)	NWP for year ended December 31, 2014 (US\$MM)
Specialty	Niche business including Hospitality; Pest Control; Artisan Contractors; Commercial Auto (small risks principally in Louisiana) and Texas Workers' Compensation	Primarily General Liability and in some cases Auto Liability, Property, Workers' Compensation	\$114.4	\$130.5
Professional	Miscellaneous E&O and D&O including Lawyers; Regional banks and Home Health Providers	Errors & Omissions Liability, Directors & Officers Liability, Fidelity Bonds	\$31.7	\$29.5
Property	Catastrophe risks; Large Fortune 1000 type accounts	Domestic and International property catastrophe risks	\$80.3	\$26.2
Non-continuing & other lines			\$(0.5)	\$3.1
TOTAL:			\$332.3	\$289.7

Note: ¹ Not applicable, as the Accident and Health division (Elite) was acquired in January, 2015.

Employees

As at December 31, 2015, HIIG had 266 full-time employees.

Competition

The insurance industry is highly competitive and there are many factors that drive this competition, including:

- premium rates charged;
- claims handling;
- financial ratings assigned by independent rating agencies (for example, A.M. Best);
- coverage;
- type of insurance;
- availability of reinsurance;
- policy terms;
- strength of client and distribution relationships; and
- reputation.

HIIG competes with a number of insurance companies and managing general agents which vary based on the line of business, volume of premium and geography. Competitors include: Markel Corporation, W.R. Berkley Corporation, American Financial Group Inc., HCC Insurance Holdings Inc., CNA Financial Corporation, Hiscox, Ltd., AmTrust Financial Services, Inc., RLI Corp., OneBeacon Insurance Group, Ltd., Argo Group International Holdings, Ltd., Amerisafe, Inc. and Employers Holdings, Inc., James River Group Holdings, Ltd. and Navigators Insurance Brokers.

Some of these entities have greater resources including financial, marketing and personnel. Increased competition could result in lower premium rates and less favorable policy terms, which could adversely affect HIIG.

Distribution

The distribution channels for the P&C insurance industry are retail and wholesale brokers, direct distribution and captive agents. Brokers act as intermediaries between P&C insurance companies and customers who wish to purchase P&C insurance, and represent the vast majority of the distribution of HIIG's business. Brokers typically distribute insurance policies of multiple insurance companies and act on behalf of customers.

Regulation

The business of insurance is extensively regulated. In the United States, the insurance business is regulated primarily by the individual states. Although the extent of the regulation varies, it relates to, among other things: (i) standards of solvency, (ii) licensing of insurers and their agents, (iii) approval of policy forms, (iv) restrictions on the size of risks that may be insured under a single policy, (v) regulation of market conduct and claim practices, (vi) premium rates, (vii) reserves and provisions for unearned premium, losses and other obligations, (viii) the nature of and limitations on investments and (ix) usage of certain methods of accounting for statutory reporting purposes. In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities.

Arena Group

Overview

The business of the Arena Group consists of three separate businesses, namely (i) AI, an investment manager making fundamentals-based, asset-oriented credit investments on behalf of third-party investors; (ii) Arena Finance, a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account; and (iii) Arena Origination, which facilitates the origination of fundamentals-based, asset-oriented credit investments for sale to third party investors. Each of these businesses is supported by Arena Management Co., LLC ("AMC"), which provides both front office and back office services such as professional and other personnel, office space, utilities and other services to each of the Arena entities.

Arena Investors, Arena Finance and Arena Origination are each managed by Daniel B. Zwirn as Chief Executive Officer and Chief Investment Officer. Mr. Zwirn and entities affiliated with him, including D.B. Zwirn & Co., L.P. ("DBZ"), over their history have structured and managed over \$10 billion in special situation financing and asset-oriented credit investments globally. For a description of the history of DBZ, see the section entitled "*History of D.B. Zwirn & Co., L.P.*" in Westaim's short form prospectus dated August 28, 2015 (the "**Prospectus**"), which section of the Prospectus is incorporated by reference herein. The Prospectus is available on SEDAR at www.sedar.com.

Investments for third party clients of AI and for Arena Finance and Arena Origination are derived from essentially the same pool of fundamentals-based, asset-oriented credit investment opportunities. Arena's investment strategy, investment process, and risk management are outlined below under "*Current Investments – Arena Group – Strategy*". Arena has established a methodology to allocate investment opportunities between the respective entities in a manner consistent with each entity's investment mandate. See "*Current Investments – Arena Group – Strategy – Allocation Methodology*" for a summary overview of the allocation methodology. Below is a description of each of the Arena businesses.

AI

AI is a limited partnership established under the laws of Delaware. Arena Investors GP, LLC ("AIGP"), a LLC established under the laws of Delaware, is the general partner of AI. WAHII, a Delaware LLC, is the sole limited partner of AI and the sole member of AIGP. The Westaim Corporation of America ("WCA") (formerly Westaim Arena Holdings, Inc.), a wholly-owned Delaware subsidiary of Westaim, and BP LLC are currently the only members of WAHII. BP LLC has been provided with certain rights to receive an equity ownership position in WAHII. See "*Current Investments – Arena Group – Equity Participation by BP LLC*".

AI operates as an investment manager offering third-party clients with access to fundamentals-based, asset-oriented credit investments that aim to deliver yield with low volatility. AI provides (or intends to provide) investment services to institutional clients, insurance companies, private investment funds or other pooled investment vehicles and high net worth investors, including entrepreneurs, professionals, family trusts, private charitable foundations and estates. AI generates revenues primarily from Management Fees (as defined herein) and Performance Fees. “**Management Fees**” are the fees calculated on AI’s various segregated client accounts and private pooled investment vehicles as a percentage of assets under management (“**AUM**”). “**Performance Fees**” are the fees or profit allocation earned by AI, or the general partner which has an entitlement to earn a performance fee or similar profit interest (each, a “**General Partner**”) of any client accounts or funds established by AI, calculated annually as a percentage of the appreciation (net of Management Fees and other expenses) in each of the client accounts or funds managed by AI, subject to a “high water mark” in respect of such client account or fund, as determined from time to time.

Arena Finance

Arena Finance is a wholly-owned Ontario subsidiary of Westaim. Arena Finance and BP LLC are currently the only members of AFHC, a Delaware LLC. BP LLC has been provided with certain rights to acquire an equity ownership position in AFHC. See “*Current Investments – Arena Group – Equity Participation by BP LLC*”. Arena Finance currently has a four member board of directors, each of whom is currently a Westaim nominee, namely Ian W. Delaney, Westaim’s Executive Chairman, J. Cameron MacDonald, Westaim’s President and Chief Executive Officer, Robert T. Kittel, Westaim’s Chief Operating Officer, and Joseph Schenk, Westaim’s Managing Director.

Arena Finance uses the funds that it receives to acquire loans and/or other credit investments from Arena Origination or other third parties at their fair market value. Arena Finance does not have a target range of investment; the size of the loans and/or other credit investments acquired from Arena Origination or other third parties depends on, among other things, any diversity requirements which may be imposed by any lender. In the absence of such requirements, Arena Finance will not be subject to concentration limitations but management of Arena Finance will instead use its best judgment as to what is prudent in the circumstances.

Before acquiring any such loans or other investments, Arena Finance reviews the nature of the loan, the credit-worthiness of the borrower, the nature and extent of any collateral and the expected return on such loan or investment. Arena Finance acquires such loans or investments based on its assessment of the fair market value of the investment at the time of purchase. If a loan or other investment is to be acquired from Arena Origination, such acquisition is reviewed and approved by a person or committee that is independent of each of Arena Origination and Westaim that has knowledge of fundamentals-based, asset oriented credit investments. Arena Finance’s primary revenue consists of interest income and/or fees earned on the credit investments that it acquires as well as any gain (loss) on the disposition of any investments that it sells.

Arena Origination

Arena Origination is an LLC formed under the laws of Delaware. Westaim Origination Holdings, Inc. (“**WOH**”), a wholly-owned Delaware subsidiary of Westaim, and BP LLC are currently the only members of Arena Origination. BP LLC has been provided with certain rights to acquire an equity ownership position in Arena Origination. See “*Current Investments – Arena Group – Equity Participation by BP LLC*”. Arena Origination currently has a three member board of directors consisting of J. Cameron MacDonald, Daniel B. Zwirn, Chief Executive Officer and Chief Investment Officer of Arena Investors, and Lawrence Cutler, Chief Operating Officer of Arena Investors.

Arena Origination uses the funds that it receives to locate possible loan opportunities or other credit investments, investigate such opportunities including conducting due diligence on the potential borrower, structuring and documenting the loan or investment and ultimately, funding the loan or investment using its own funds. Once it has a portfolio of loan or other credit investments, Arena Origination may look to dispose of all or a portion of such portfolio in order to provide it with the funds necessary to make additional loans. Loans may be disposed of by Arena Origination to third parties, including Arena Finance, certain investment funds or client accounts managed by AI, and/or other third parties. In addition, Arena Origination may retain a portion of such loans for its own account, but this is not its primary investment strategy. Because Arena Origination may offer and sell loans and other investments to Arena Finance and certain investment funds or client accounts managed by AI, procedures have been

implemented to provide for the review of, and consent to, such transactions on behalf of Arena Finance and each related party. These procedures include the review and approval of the transaction by a person or committee that is independent of each of Arena Origination and Westaim that has knowledge of fundamentals-based, asset oriented credit investments.

The size of the investments to be originated by Arena Origination depends both on the funds available to Arena Origination as well as any diversity requirements which may be imposed by any lender providing funding to Arena Origination. In the absence of such diversity requirements, Arena Origination will not be subject to concentration limitations but management will instead use its judgment as to what is prudent in the circumstances. Arena Origination is expected to receive fees in connection with originating or structuring the terms of any such investment and to receive any interest or principal payments made until it disposes of such loan or the loan is repaid.

AMC

AMC is an LLC formed under the laws of Delaware. WAHII is the sole member of AMC. AMC is expected to provide both front office and back office services such as professional and other personnel, office space, utilities, telephones and general office equipment and other basic “overhead” to Arena Investors, Arena Finance, Arena Origination and related entities as well as the General Partners of any pooled investment vehicles generally structured as limited partnerships and managed by AI.

AMC’s expenses consist primarily of employment related expenses such as the salaries and bonuses paid to its personnel as well as the cost of employee benefits such as health plan costs. AMC’s professional staff is compensated through a base salary as well as through participation in a discretionary bonus pool. The discretionary payment of bonuses is expected to be tied largely to the financial performance of AI and its various client accounts and private pooled investment vehicles, including but not limited to the Management Fees and Performance Fees earned by AI, as well as the performance of Arena Finance and Arena Origination.

AMC has entered into a separate management services agreement (“**MSA**”) with each entity to which it provides services. Each MSA has a term of one year which will be automatically renewed for an additional one-year term unless terminated by either party on not less than ninety days’ notice. The MSAs provide that each party receiving services from AMC pay to AMC a services fee based on the direct and indirect costs associated with providing services to such party. With respect to direct costs, AMC allocates to each entity all direct costs attributable solely to such entity. All indirect costs and all other direct costs not solely attributable to a particular entity (including salaries and bonuses) are allocated by AMC to each entity in good faith based on such party’s pro rata share of the aggregate remaining direct and indirect costs incurred by AMC in providing services to all entities (the “**Shared Expenses**”). A party’s pro rata portion of the aggregate Shared Expenses incurred in any fiscal year is generally determined by dividing (i) the average assets (or members equity where AUM is not applicable) of such party (and/or such party’s subsidiaries or controlled entities) invested or held during the fiscal year calculated monthly by (ii) the average aggregate assets (or members equity assets where AUM is not applicable) of all entities receiving services from AMC (including each party’s subsidiaries or controlled entities) invested or held during the fiscal year, and multiplying the quotient by the aggregate Shared Expenses for such fiscal year.

Equity Participation by BP LLC

The membership interests in WAHII include both an Equity Percentage, which represents a right to participate in distributions of the capital of WAHII (“**Equity Percentage**”) and a Profit Percentage, which represents a right to participate in distributions of the profits of WAHII (“**Profit Percentage**”). Initially, 100% of the Equity Percentage in WAHII is held by WCA with 51% of the Profit Percentage held by WCA and 49% of the Profit Percentage held by BP LLC.

Under the limited liability company agreement (“**LLCA**”) of WAHII dated as of August 31, 2015 among WCA (formerly Westaim Arena Holdings, LLC) and BP LLC (the “**WAHII LLCA**”), BP LLC was provided with the right to “earn-in” to up to a 75% equity ownership position in WAHII based on meeting certain pre-established thresholds of Arena Investors’ AUM (as defined herein) and profitability measured by TTM EBITDA Margin (as defined in the WAHII LLCA). The initial earn-in entitlement of 49% of the equity ownership will be achieved once Arena Investor’s AUM reaches or exceeds US\$1 billion and its TTM EBITDA Margin reaches or exceeds 35% (the

“Initial Threshold”). Additional increases in AUM and TTM EBITDA Margin will result in additional earn-ins until the maximum earn-in ownership level of 75% is reached by Arena Investor’s AUM reaching or exceeding US\$5 billion and its TTM EBITDA Margin reaching or exceeding 60%.

At the commencement of the operations of Arena Investors, notwithstanding that BP LLC did not have any equity ownership in WAHII, BP LLC is entitled to receive a 49% Profit Percentage (as defined in the WAHII LLCA), representing a right to participate in the distribution of profits of WAHII until such time as the Initial Threshold is achieved.

In addition to the foregoing, BP LLC is entitled to comparable earn-in rights with respect to the equity of each General Partner (as defined herein) created in connection with any funds established by AI and will thereby be entitled to participate in any Performance Fees (as defined herein) earned by each such General Partner. Initially, notwithstanding that BP LLC will not have any equity ownership in such General Partners, BP LLC will be entitled to receive a 49% Profit Percentage, representing a right to participate in the distribution of profits of such General Partners until such time as the Initial Threshold is achieved.

Under the LLCAs relating to AFHC (the **“AFHC LLCA”**) and Arena Origination (the **“Arena Origination LLCA”**) each dated as of August 31, 2015, BP LLC was also provided with rights to acquire an equity ownership position in each of AFHC and Arena Origination. The funds invested by Westaim in AFHC (through Arena Finance) and Arena Origination (through Westaim Origination Holdings, Inc.) was provided at a purchase price of \$10.00 per membership unit. Under the AFHC LLCA and the Arena Origination LLCA, BP LLC was provided with Class M units (**“Class M Units”**) of each of AFHC and Arena Origination designed to be economically-equivalent to options to acquire fully participating membership units of each of AFHC and Arena Origination representing 20% of the undiluted membership units (16.67% on a fully-diluted basis). The Class M Units of each of AFHC and Arena Origination are divided into four equal classes exercisable at conversion prices \$10.40, \$12.90, \$15.40 and \$17.90, respectively. Each class of Class M Units is also divided into five tranches which vest equally on August 31, 2016, 2017, 2018, 2019 and 2020.

The WAHII LLCA, the AFHC LLCA and the Arena Origination LLCA (collectively, the **“LLCAs”**) were filed on SEDAR on September 3, 2015. For a summary of the LLCAs, please see Schedules **“A”**, **“B”** and **“C”** of the material change report of the Company dated September 9, 2015 filed on SEDAR at www.sedar.com, which schedules are incorporated by reference into, and form an integral part of, this AIF.

Strategy

Arena sources and structures primarily fundamentals-based, asset-oriented credit investment opportunities. **“Fundamentals-based, asset-oriented credit investments”** refers to loans or credit arrangements which are generally secured by assets. These assets could include hard assets such as real estate, inventory, vehicles, aircraft, watercraft, oil and gas reserves, or a borrower’s plant and equipment and other hard assets, or soft assets such as securities, receivables, contractual income streams, and certain intellectual property types. Fundamentals-based, asset-oriented investors manage their risk and exposure by carefully assessing the value of the assets securing the loan, receiving periodic and frequent reports on collateral value and the status of those assets, and tracking the financial performance of borrowers. As part of its security package, an asset-based lender may also obtain personal guarantees and/or a pledge of personal assets from the owner(s) of a borrower.

Management believes that Arena’s core competitive advantage is its operating model, which allows it to originate unique credit-based investment opportunities in scale and on a cost-efficient basis, through the use of on-balance sheet employee teams, and established relationships with other channels of credit-opportunity origination. Arena’s model allows it to originate, create, and structure returns that are not able to be purchased **“off-the-shelf”** in the credit markets. When looking for new opportunities, Arena seeks situations from which capital is retreating, providing liquidity in those situations where there is scarcity of capital for reasons unrelated to value.

By utilizing both employee teams and third party relationships to create a pipeline of opportunities, Arena expects to be able to choose the best opportunities in accordance with its investment guidelines.

Arena has pursued and is expected to continue to pursue a complementary group of investment opportunities, all focused on exploiting illiquidity and opportunities available in the market at a given point in time, in order to maximize the return in relation to the risk. Arena intends to provide liquidity to companies and owners of assets who require it in a timely manner and who Arena believes are underserved by conventional sources of capital.

Arena's strategy is comprised of multiple investment strategies, including, but not limited to the following types of investments:

- *Corporate Private Credit.* Senior private corporate debt, bank debt, including secondary market bank debt, distressed debt such as senior secured bank debt before or during a Chapter 11 bankruptcy filing, corporate bonds, including bonds in liquidation or out-of-court exchange offers and trade claims of distressed companies in anticipation of a recapitalization, bridge loans/transition financing, debtor-in-possession (“DIP”) financings, junior secured loans, junior capital to facilitate restructurings, equity co-investments or warrants alongside corporate loans;
- *Real Estate and Real Estate-Related Credit Assets.* Real property, secured or unsecured mezzanine financings, DIP loans, “A-tranche” loans (senior secured loans) and “B-tranche” loans (junior secured loans) for real estate properties requiring near-term liquidity, structured letters of credit, real estate loans secured by land, single family homes, multi-family apartments, condominium towers, hospitality providers, health care service providers, and corporate campuses, leases and lease residuals;
- *Commercial and Industrial Assets.* Commercial receivables, investments in entities (including start-up businesses) engaged, or to be engaged, in activities or investments such as distressed commercial and industrial loans, commercial and industrial assets such as small-scale asset-based loans, trade claims and vendor puts, specialized or other types of equipment leases and machinery, non-performing loans globally, hard assets (including airplanes and components, industrial machinery), commodities (physical and synthetic), reinsurance and premium finance within life and property casualty insurance businesses, legal-related finance including law firm loans, settled and appellate judgments and probate finance, royalties, trust certificates, intellectual property and other financial instruments that provide for the contractual or conditional payment of an obligation;
- *Structured Finance.* Thinly traded or more illiquid loans and securities backed by mortgages (commercial and residential), other small loans including equipment leases, auto loans, commercial mortgage-backed securities, residential mortgage-backed securities, collateralized loan obligations, collateralized debt obligations, other structured credits and consumer credit securitizations, aviation and other leased asset securitizations, esoteric asset securitization, revenue interests, synthetics, and catastrophe bonds;
- *Consumer Assets.* Auto and title loans, credit cards, consumer installment loans, charged-off consumer obligations, consumer bills, consumer receivables, product-specific purchase finance, residential mortgages, tax liens, real estate owned homes, other consumer credit securitizations, retail purchase loans and unsecured consumer loans as well as distressed or charged-off obligations of all of these types, peer-to-peer originated loans of all types, manufactured housing, and municipal consumer obligations; and
- *Corporate and Other Securities.* Hedged and unhedged investments in public securities (including public REITs), preferred stock, common stock, municipal bonds, senior public corporate debt, other industry relative value, merger arbitrage in transactions such as mergers, hedged investments in regulated utilities, integrated utilities, merchant energy providers, acquisitions, tender offers, spin-offs, recapitalizations and Dutch auctions, event-driven relative value equity investments in transactions such as corporate restructurings, strategic block, other clearly defined event, high-yield bonds, credit arbitrage and convertible bond arbitrage, in/post bankruptcy equities, de-mutualizations, liquidations and litigation claims, real estate securities, business development companies, master limited partnership interests, royalty trusts, publicly traded partnerships, options and other equity derivatives.

The weighting of each of these strategies is based on management's assessment of the opportunity available in the area, in order to maximize the return in relation to the risk, and the investment guidelines of each fund, managed account or other capital pool available.

Allocation Methodology

In making allocation decisions with respect to limited investment opportunities that could reasonably be expected to fit the investment objectives of the pooled funds and other clients, or of another member of the Arena Group, consideration is given to the following factors deemed relevant: the investment objectives of each party; the source of the investment opportunity; any rights to investment opportunities that may have been granted to particular parties; the expected duration of the investment in light of clients' investment objectives and policies (including diversification policies); the amount of available capital; the size of the investment opportunity; regulatory and tax considerations; the degree of risk arising from an investment; the expected investment return; relative liquidity; likelihood of current income or such other factors as deemed to be appropriate. Arena has put in place a defined and documented allocation methodology consistent with the foregoing.

Investment Process

Infrastructure and Processes

Arena's investment process seeks to take into consideration the material pitfalls and possible hidden costs of an investment. Arena gains comfort with potential investments through a bottom-up, thorough understanding of the fundamentals of a business and/or situation rather than through portfolio-level, top-down allocations. Arena's investment process is summarized below:

- *Evaluation and Initial Approval.* Investments are sourced by Arena personnel or through third party relationships and proposed to the Chief Investment Officer through an introductory investment memorandum. The Chief Investment Officer reviews potential investment opportunities with all of Arena's senior investment professionals on a regular basis, typically once per week. Once a potential investment has been identified, it is reviewed for possible risks such as operational, administrative, reputational, tax and other risks. A detailed investment memorandum is prepared and scrutinized by Arena's senior investment professionals and the Chief Investment Officer for final conditional approval of the investment.
- *Risk and Funding Management.* The asset management team is responsible for monitoring and surveilling the portfolio of credit investments, and interfacing with the front and back office employees. The asset management team determines the capability of the firm to monitor, service and review the investment going forward and assigns an asset manager(s) to monitor the investment independent of the applicable investment professional/team that originated the investment. Ongoing monitoring of an asset for risk management purposes and regulatory analysis is performed by Arena's asset management/surveillance and compliance departments. See "*Current Investments – Arena Group – Risk Management*". The asset management team is not compensated on the outcome of the investments. Allocation across AI's pooled funds and managed accounts, Arena Finance and Arena Origination is monitored to ensure compliance with Arena's documented allocation methodology, and compliance with each respective pool's stated investment mandate. See "*Current Investments – Arena Group – Strategy – Allocation Methodology*".
- *Final Funding.* Legal documentation related to the investment is reviewed by Arena's senior investment professionals and outside legal counsel for consistency across investments and tax analysis is also performed. Final sign-off for an investment is required from the Chief Investment Officer, any investment committee of the respective Arena entity, and senior Arena personnel responsible for operations, asset management, treasury, tax, legal and compliance before the investment is funded.

Because of the nature and timing of certain investment opportunities, not all steps of the above summarized process may be followed for each and every investment.

Valuation and Pricing

Arena has established a policy for the valuation of the investments owned by AI's funds and clients, and by Arena Finance and Arena Origination. Arena prices or values all investments in accordance with such policy in a manner that it believes to be fair and reasonable. Senior Arena personnel oversee and implement Arena's valuation policy for all investments and securities and may engage qualified outside third party service providers as appropriate to assist with its pricing and valuation activities.

All investments managed by AI are priced or valued on a monthly basis using principles consistent with U.S. GAAP. AI provides the monthly net asset value to its investors and clients determined through its valuation and pricing processes. A similar analysis relating to the investments held by Arena Finance and Arena Origination is generally conducted by Arena Finance and Arena Origination on a monthly basis.

Arena utilizes such valuation techniques as it considers appropriate given the facts and circumstances of a particular investment. In some cases a single valuation technique is considered to be appropriate. In other cases, multiple valuation techniques are utilized. If multiple valuation techniques are used, Arena evaluates and weighs the results, as determined appropriate, considering the reasonableness of the range indicated by those results.

Risk Management

Arena has established a risk management process. Arena manages risk through diversification of investments, policies with respect to the use of leverage, position size limits, security construction and hedging. This multi-strategy approach is designed to allow Arena to shift capital to those types of investments that, in its opinion, offer the most attractive risk/reward characteristics. Arena seeks to diversify by industry, geography, asset class, strategy and sub-strategy.

Arena seeks to mitigate risk by (i) investing at senior (and typically secured) levels in the capital structure of an investee company or otherwise investing within a "margin of safety", (ii) investing in companies, properties or assets at debt to cash flow ratios it believes are attractive, (iii) pricing perceived risk and illiquidity into investments, and/or (iv) including covenants in transactions that may ultimately create yield enhancement opportunities through amendments and other document changes.

Employees

As at December 31, 2015, Arena had 30 full-time employees.

Competition

The investment management industry is highly competitive with various pools of capital pursuing finite investment opportunities. However, management of Arena believes that the competitive environment for Arena is as open as it has been in the United States since the savings and loan crisis of the early 1990s. The majority of market participants against which DBZ historically competed have largely been regulated out of existence, severely hampered by legacy burdens, or retreated to pursue other investment opportunities. These include the proprietary special situation groups of the investment banking firms. Other competitors such as several alternative asset managers have retreated to pursue the opportunities available to them in their original core competencies in the purely liquid markets. Further, large-scale alternative asset management platforms typically focus on large-scale, more crowded investment opportunities while business development companies (BDCs) and small business investment companies (SBICs), as regulated investment companies (RICs), have relatively limited investment mandates.

RISK FACTORS

Westaim is subject to a number of risks, including the risks described below. The risks and uncertainties described below are those believed to be material, but they may not be the only ones faced by Westaim. If any of these risks, or any other risks and uncertainties that have not yet been identified by Westaim or that Westaim currently considers

not to be material, actually occur or become material risks, the business, prospects, financial condition, results of operations and cash flows of Westaim could be materially and adversely affected.

Risks Relating to Westaim

Risks inherent in acquisitions generally

The Company intends to actively pursue the acquisition of companies or businesses in Canada, the United States and/or internationally and may seek to acquire securities or other interests in other companies consistent with its investment strategies. Such acquisitions involve inherent risks including but not limited to (a) unanticipated costs; (b) potential loss of key employees of the company or the business acquired; (c) unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition; and (d) decline in the value of the acquired business or assets. Any one or more of these factors could cause the Company to not realize the anticipated benefits of the acquisition in question. In addition, the Company may be required to use available cash, incur debt, issue securities, or a combination of these in order to complete an acquisition. This could affect the Company's future flexibility and ability to raise capital, operate or develop its business and could dilute its existing shareholders' holdings as well as decrease the trading price of its Common Shares. There is no assurance that when evaluating a possible acquisition, the Company will correctly identify and manage the risks and costs inherent in the business or asset to be acquired.

Operating expenses are expected to exceed revenues

The Company has made and intends to make investments in private entities which do not typically have an active market. Private investment transactions can be highly structured and the Company expects to take measures, where possible and appropriate, to create defined liquidity events. However, such liquidity events are rarely expected in the first three to five years of making an investment and may not be realized as expected or at all. While the Company may seek to obtain regular cash flow from these investments through management fees, capital appreciation and/or investment income, in the near term these revenues are not expected to be sufficient to offset the Company's operating expenses. In addition, Westaim does not expect that HIIG or Arena will declare or pay dividends in the foreseeable future. Accordingly, the Company expects to incur negative cash flow at the holding company level until such time as its revenues exceed its operating expenses, which negative cash flow is expected to be funded from the Company's cash resources.

Volatile stock price

The price of Westaim's Common Shares is expected to be highly volatile and will be drastically affected by various factors. Westaim cannot predict the timing of future acquisitions or other developments expected to take place in the future which will likely trigger major changes in the trading price of the Common Shares.

Liquidity and financing risks

Westaim's ability to continue its acquisition efforts will be largely reliant on its continued attractiveness to equity investors and third party capital partners. Westaim may incur operating losses as it continues to expend funds to seek out, investigate and complete future acquisitions. There is no guarantee that companies that Westaim acquires or invests in will become or continue to be profitable as general economic conditions, regulatory requirements and other factors affect their operations and future performance. Many of these factors are beyond Westaim's control. Additionally, should Westaim require additional capital to continue its activities, failure to raise such capital could restrict Westaim's activities or result in the Company going out of business. From time to time, Westaim may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase Westaim's debt levels above industry standards. Westaim cannot assure investors that it will be able to generate sufficient cash flow to pay the interest on any debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt.

Environmental risks

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. The site restoration provision is based on periodic independent estimates of costs associated with soil and groundwater reclamation and remediation of these industrial sites. The Company has accounted for estimated future restoration costs in its financial statements. Although the Company believes, based on consultation with experts and advisors, that such estimates are reasonable based on information currently available to the Company, the ultimate environmental costs are uncertain as they are dependent on the future use of the land and future laws and regulations. In addition, estimates of future expenditures could change as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs, regulatory requirements and the impact of changes in the rate of inflation and interest rates. Although the Company has received indemnities from the previous owners of the industrial sites in respect of which the Company has indemnification obligations, there can be no guarantee that such indemnities will be available to the Company or will be sufficient to reimburse the Company for all costs incurred in connection with the Company's indemnification obligations.

Regulatory rules and required approvals might delay or deter a change of control of Westaim

Many state insurance regulatory laws contain provisions that require advance approval by state agencies of any change of control of an insurance company that is domiciled or, in some cases, has substantial business in that state. "Control" is generally presumed to exist through the ownership of 10% or more of the voting securities of a domestic insurance company or of any company that controls a domestic insurance company. As a subsidiary of Westaim is the general partner of the Partnership, which in turn owns greater than 50% of the HIIG Shares, Westaim is considered to exercise control over HIIG and its insurance subsidiaries. Accordingly, any purchaser of Common Shares representing 10% or more of the voting power of all outstanding Common Shares will be presumed to have acquired control of HIIG's domestic insurance subsidiaries unless, following application by that purchaser, the relevant state insurance regulators determine otherwise. Any transaction that would constitute a change in control of any of HIIG's individual insurance subsidiaries would generally require prior approval by the insurance departments of the states in which the insurance subsidiary is domiciled.

The by-laws of the Company contain restrictions on the ownership, transfer and voting of the Common Shares of the Company which may have an effect on the marketability and liquidity of such securities.

Foreign exchange risk

Effective August 31, 2015, the Company changed its functional and presentation currency from Canadian dollars to United States dollars. However, a significant portion of the Company's expenses are denominated and paid in Canadian dollars. Accordingly, adverse fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar could adversely impact the financial performance of Westaim.

PFIC status

Based upon certain management estimates and the nature of Westaim's current business activities, the Company does not believe it was a "passive foreign investment company" ("PFIC") for U.S. income tax purposes for its 2015 fiscal year, and does not expect to be a PFIC in its current taxation year. However, the tests for determining PFIC status are based upon the composition of the income and assets of Westaim and its subsidiaries and affiliates from time to time, and it is difficult to make accurate predictions of future income and assets. Accordingly, there can be no assurance that Westaim will not become a PFIC in the future, as a result of its investment in AI, Arena Origination, Arena Finance, or otherwise. A non-U.S. corporation generally will be considered a PFIC for any taxable year if either: (i) at least 75% of its gross income is passive income; or (ii) at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income (which generally includes cash). The market value of Westaim's assets may be determined in large part by the market price of the Common Shares, which is likely to fluctuate. It is difficult to make accurate predictions of future income and assets, which are relevant to the determination of PFIC status. If Westaim were to be treated as a PFIC for any taxation year, such characterization could result in adverse U.S. income tax consequences to certain Westaim investors in the United States.

Risks Relating to HIIG's Business

Risk of unforeseen catastrophic losses

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophes can be caused by various events, including hurricanes, tsunamis, tornados, cyclones, windstorms, icestorms, earthquakes, hailstorms, explosions, spills, flooding, severe winter weather and wild fires and may include man-made events, such as terrorist attacks and systemic risks. The incidence, frequency and severity of catastrophes are inherently unpredictable. Some scientists believe that in recent years, changing climate conditions have added to the unpredictability and frequency of natural disasters. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event.

Although HIIG typically purchases reinsurance protection for risks that it believes bear a significant level of catastrophe exposure, the nature or magnitude of losses attributed to a catastrophic event or events may result in losses that exceed HIIG's reinsurance protection. It is therefore possible that a catastrophic event or multiple catastrophic events could have a material adverse effect on HIIG's financial position, results of operations and liquidity.

The insurance and reinsurance business is historically cyclical

The insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity, as well as periods when shortages of capacity permitted an increase in pricing and, thus, more favourable premium levels. An increase in premium levels is often, over time, offset by an increasing supply of insurance and reinsurance capacity, either from capital provided by new entrants or by additional capital committed by existing insurers or reinsurers, which may cause prices to decrease. In addition, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance business significantly. Any of these factors could lead to a significant reduction in premium rates, less favourable policy terms and fewer opportunities to underwrite insurance risks, which could have a material adverse effect on HIIG's results of operations and cash flows.

HIIG's loss reserves may prove to be inadequate

HIIG maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, including legal and other fees, for reported and unreported claims incurred at the end of each accounting period. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what HIIG expects the ultimate settlement and administration of claims will cost. These estimates are based on HIIG's assessment of facts and circumstances then known, as well as estimates of future trends in severity of claims, frequency of claims, judicial theories of liability and other factors. These variables are affected by both internal and external events that could increase HIIG's exposure to losses, including changes in actuarial projections, claims handling procedures, inflation, climate change, economic and judicial trends, and legislative changes.

Volatility in the financial markets, economic events, legal/regulatory changes and other external factors may result in an increase in the number of claims and the severity of the claims reported. Many of these items are not directly quantifiable in advance. Additionally, there may be a significant reporting delay between the occurrence of the insured event and the time it is reported to HIIG.

The inherent uncertainties of estimating reserves are greater for certain types of liabilities, particularly those in which the various considerations affecting the type of claim are subject to change and in which long periods of time may elapse before a definitive determination of liability is made. Reserve estimates are regularly refined in a regular and ongoing process as experience develops and further claims are reported and settled. Adjustments to HIIG's loss and loss adjustment expenses are reflected in its results of operations in the periods in which such estimates are changed. Because setting reserves is inherently uncertain, there can be no assurance that current reserves will prove adequate in light of subsequent events. If actual claims prove to be greater than HIIG's reserves, HIIG's financial position, results of operations and liquidity may be materially adversely affected.

The effects of emerging claim and coverage issues on HIIG's business are uncertain

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended liability for claims and coverage may emerge. These changing conditions may adversely affect HIIG's business by either extending coverage beyond its underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until considerable time after HIIG has issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under HIIG's insurance or reinsurance contracts may not be known for many years after a contract is issued, and HIIG's financial position, results of operations and cash flows may be materially adversely affected.

HIIG is subject to extensive governmental regulation

HIIG is subject to extensive governmental regulation and supervision and its business depends on compliance with applicable laws and regulations and its ability to maintain valid licenses and approvals for its operations. Most insurance regulations are designed to protect the interests of policyholders rather than shareholders and other investors. In the United States, this regulation is generally administered by departments of insurance in each state in which HIIG does business and includes a comprehensive framework of oversight of its operations and review of its financial position. U.S. Federal legislation may lead to additional federal regulation of the insurance industry in the future.

Regulatory authorities have broad discretion to grant, renew or revoke licenses and approvals. Regulatory authorities may deny or revoke licenses for various reasons, including the violation of regulations. In some instances, HIIG follows practices based on its interpretations of regulations, or those it believes to be generally followed by the industry, which ultimately may be different from the requirements or interpretations of regulatory authorities. If HIIG does not have the requisite licenses and approvals and does not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend HIIG from carrying on some or all of its activities or otherwise penalize it. That type of action could have a material adverse effect on HIIG's results of operations. Also, changes in the level of regulation of the insurance industry (whether federal, state or foreign), or changes in laws or regulations themselves or interpretations by regulatory authorities, could have a material adverse effect on HIIG's business.

The Dodd-Frank Act expands the U.S. Federal government's presence in insurance oversight, streamlines state-based regulation of reinsurance and non-admitted insurance and establishes a new Federal Insurance Office with powers over most lines of insurance other than health insurance. The Federal Insurance Office is authorized to gather data and information to monitor aspects of the insurance industry, identify issues in the regulation of insurers about insurance matters, and pre-empt state insurance measures under certain circumstances. As the Dodd-Frank Act calls for numerous studies and contemplates further regulation, its future impact on HIIG's results of operations or financial position cannot be determined at this time.

The United States *Patient Protection and Affordable Care Act* (the "**PPACA**"), which impacts HIIG's MSL business, began to be implemented at the state and federal levels in 2010. The legislation is broad and many expect it will be years before all of its provisions will be fully implemented and its ramifications fully understood. Further, the PPACA remains subject to various legal challenges and legislative initiatives that may result in modifications of the existing law, and the nature and likelihood of those outcomes cannot be predicted. Although it remains unclear how HIIG's MSL business will be impacted in the long term, Westaim believes that the PPACA is attracting new market participants offering MSL insurance as employers look to self-fund their medical expenses. This increasing competition will likely lead to increased price competition and market innovation for MSL business.

HIIG cannot predict the effect, if any, climate change may have on the risks it insures

Various scientists, environmentalists, international organizations and regulators believe that global climate change has added, and will continue to add, to the unpredictability, frequency and severity of natural disasters (including, but not limited to, hurricanes, tornados, freezes, other storms and fires) in certain parts of the world. In response to this belief, a number of legal and regulatory measures as well as social initiatives have been introduced in an effort to reduce greenhouse gas and other carbon emissions, which may be chief contributors to global climate change. HIIG cannot predict the impact that changing climate conditions, if any, will have on its results of operations or

financial condition. Moreover, HIIG cannot predict how legal, regulatory and social responses to concerns about global climate change will impact its business. To the extent climate change does increase the unpredictability, frequency or severity of natural disasters, HIIG may face increased claims, which could have a material adverse effect on its financial position, results of operations and cash flows.

HIIG's reliance on agents and brokers subjects it to risk

In many cases, HIIG markets its insurance through insurance agents and brokers. Some of these agents and brokers provide a significant portion of HIIG's gross written premium for a particular line of business. As a result, some of these agents and brokers could demand higher payments that could put HIIG at a competitive disadvantage and affect the way it prices its products. The deterioration of HIIG's relationship with, or loss of all or a substantial portion of the business provided by, one or more agents or brokers could have a material adverse effect on HIIG's financial position, results of operations and cash flows. HIIG also relies on these agents and brokers to accurately represent the nature of the policies that HIIG places. HIIG may be responsible for any misstatements, misrepresentations or other inappropriate market conduct by such agents or brokers.

In accordance with industry practice, HIIG generally pays amounts owed on claims under its insurance and reinsurance contracts to agents and brokers, and these agents and brokers, in turn, pay these amounts to the clients that have purchased insurance or reinsurance from HIIG. Although the law is unsettled and depends upon the facts and circumstances of the particular case, in some jurisdictions, if an agent or broker fails to make such a payment, HIIG may remain liable to the insured or ceding insurer for the deficiency. Conversely, in certain jurisdictions, when the insured or ceding insurer pays premiums for these policies to agents and brokers, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to HIIG for those amounts, whether or not HIIG has actually received the premiums from the agent or broker. Consequently, HIIG assumes a degree of credit risk associated with agents and brokers with whom it transacts business. However, due to the unsettled and fact-specific nature of the law, HIIG is unable to quantify its exposure to this risk.

Consolidation in the insurance industry could adversely impact HIIG

Insurance industry participants may seek to consolidate through mergers and acquisitions. Continued consolidation within the insurance industry will further enhance the already competitive underwriting environment as HIIG would likely experience more robust competition from larger competitors. These consolidated entities may use their enhanced market power and broader capital base to take business from HIIG or to drive down pricing, which could adversely affect the results of HIIG's operations.

Inability to accurately assess underwriting risk could reduce HIIG's net earnings

HIIG's underwriting success is dependent on its ability to accurately assess the risks associated with the business on which the risk is retained. HIIG relies on the experience of its underwriting staff in assessing these risks. If HIIG fails to accurately assess the risks it retains, HIIG may fail to establish appropriate premium rates and its reserves may be inadequate to cover its losses, which could reduce its net earnings. The underwriting process is further complicated by HIIG's exposure to unpredictable developments, including earthquakes, weather-related events and other natural catastrophes, as well as war and acts of terrorism and those that may result from volatility in the financial markets, the economic downturn and systemic risks.

Retentions in various lines of business expose HIIG to potential losses

HIIG retains risk for its own account on business underwritten by its insurance companies. The determination to not purchase reinsurance, or to reduce the amount of reinsurance HIIG purchases, for a particular risk or line of business is based on a variety of factors including market conditions, pricing, availability of reinsurance, the level of HIIG's capital and its loss history. Such determinations have the effect of increasing HIIG's financial exposure to losses associated with such risks or in such lines of business and, in the event of significant losses associated with such risks or lines of business, could have a material adverse effect on HIIG's financial position, results of operations and cash flows.

HIIG may have inadequate reinsurance protection for some of the risks it has underwritten

HIIG purchases reinsurance for a portion of the risks underwritten by its insurance companies, especially volatile and catastrophe-exposed risks. Market conditions beyond HIIG's control determine the availability and cost of the reinsurance protection it purchases. In addition, the historical results of reinsurance programs and the availability of capital also affect the availability of reinsurance. HIIG's reinsurance facilities are generally subject to annual renewal. HIIG cannot assure that it can maintain its current reinsurance facilities or that HIIG can obtain other reinsurance facilities in adequate amounts and at favourable rates. Further, HIIG cannot determine what effect catastrophic losses will have on the reinsurance market and on its ability to obtain adequate reinsurance at favourable rates. If HIIG is unable to renew or to obtain new reinsurance facilities on acceptable terms, either its net exposures would increase or, if HIIG was unwilling to bear such an increase in exposure, HIIG would have to reduce the level of its underwriting commitments, especially in catastrophe-exposed risks. Either of these potential developments could have a material adverse effect on HIIG's financial position, results of operations and cash flows.

HIIG relies on key personnel

HIIG's success depends to a certain degree upon certain key members of management (including its CEO and certain senior executive officers). These individuals are a significant factor in HIIG's growth and success. The loss of the service of certain members of management and certain key employees for whatever reason could have a material adverse effect on HIIG.

HIIG also depends on its ability to attract, retain and provide for the succession of skilled and experienced underwriting talent and other key employees who are knowledgeable about HIIG's business. Certain of HIIG's senior underwriters and other key employees have employment agreements that are for definite terms, and there is no assurance HIIG will retain these employees beyond the current terms of their agreements. If the quality of HIIG's underwriting team and other key personnel decreases, HIIG may be unable to maintain its current competitive position in the specialized markets in which it operates and be unable to expand its operations into new markets, which could materially adversely affect HIIG's business.

HIIG's business is subject to risks related to litigation

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

- disputes over coverage or claims adjudication including "bad faith" claims;
- disputes with reinsurers regarding the payment of claims ceded through reinsurance;
- disputes regarding sales practices, disclosure, premium refunds, licensing, regulatory compliance and compensation arrangements;
- disputes with its agents, producers or network providers over compensation and termination of contracts and related claims;
- disputes relating to employees such as claims for wrongful dismissal or claims from competitors regarding non-competition obligations;
- disputes relating to customers regarding the ratio of premiums to benefits in its various business lines;
- disputes with taxing authorities regarding its tax liabilities; and
- disputes relating to certain businesses acquired or disposed of by it.

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

HIIG is exposed to credit and other risks in connection with its reinsurance

HIIG purchases reinsurance by transferring, or ceding, all or part of the risk it has assumed as a direct insurer to a reinsurance company in exchange for all or part of the premium HIIG receives in connection with the risk. Through reinsurance, HIIG has the contractual right to collect the amount reinsured from its reinsurers. Although reinsurance makes the reinsurer liable to HIIG to the extent the risk is transferred or ceded to the reinsurer, it does not relieve HIIG of its full liability to its policyholders. Accordingly, HIIG bears credit risk with respect to its reinsurers.

HIIG cannot assure that its reinsurers will pay all of HIIG's reinsurance claims, or that they will pay HIIG's claims on a timely basis. Additionally, catastrophic losses from multiple direct insurers may accumulate within the more concentrated reinsurance market and result in claims that adversely impact the financial condition of such reinsurers and thus their ability to pay such claims. Further, additional adverse developments in the capital markets could affect HIIG's reinsurers' ability to meet their obligations to HIIG. If HIIG becomes liable for risks it has ceded to reinsurers or if HIIG's reinsurers cease to meet their obligations to HIIG, because they are in a weakened financial position as a result of incurred losses or otherwise, HIIG's financial position, results of operations and cash flows could be materially adversely affected.

HIIG may be unsuccessful in competing against larger or more well-established business rivals

HIIG faces competition from other specialty insurance companies, standard insurance companies and underwriting agencies, as well as from diversified financial services companies that are larger than HIIG and that have greater financial, marketing and other resources than HIIG does. Some of these competitors also have longer experience and more market recognition than HIIG does in certain lines of business. In addition, it may be difficult or prohibitively expensive for HIIG to implement technology systems and processes that are competitive with the systems and processes of these larger companies. HIIG cannot assure that it will maintain its current competitive position in the markets in which it operates, or that it will be able to expand its operations into new markets. If HIIG fails to do so, its results of operations and cash flows could be materially adversely affected.

HIIG investment portfolio is subject to market and credit risk

A significant amount of HIIG's investment portfolio is invested in fixed maturity securities. The fair value of these fixed maturity securities and the related investment income fluctuate depending on general economic and market conditions, including volatility in the financial markets and the economy as a whole. For HIIG's fixed maturity securities, the fair value generally increases or decreases in an inverse relationship with fluctuations in interest rates and credit spreads, while net investment income realized by HIIG from future investments in fixed maturity securities will generally increase or decrease with interest rates. Mortgage-backed and asset-backed securities may have different net investment income and/or cash flows from those anticipated at the time of investment. These securities have prepayment risk because the timing of cash flows that result from the repayment of principal might occur earlier than anticipated, due to declining interest rates, or extension risk when cash flows may be received later than anticipated because of rising interest rates.

Although the majority of HIIG's fixed income portfolio is investment grade, all of HIIG's fixed maturity securities are subject to credit risk. For mortgage-backed securities, credit risk exists if mortgagors default on the underlying mortgages. During an economic downturn, HIIG's state, municipal and non-U.S. sovereign bond portfolios could be subject to a higher risk of default or impairments due to declining tax bases and revenue, notwithstanding the relatively low historical rates of default on these types of obligations. If any of the issuers of HIIG's fixed maturity securities suffer financial setbacks, the ratings on the fixed maturity securities could fall (with a concurrent fall in fair value) and, in a worst case scenario, the issuer could default on its financial obligations. If the issuer defaults, HIIG could realize losses associated with the impairment of the securities.

The impact of fluctuations in the market prices of securities affects HIIG's financial statements. Because all of HIIG's fixed maturity and equity securities are classified as available for sale, changes in the fair value of these securities are reflected in net unrealized investment gain or loss within HIIG's other comprehensive income. Similar treatment is not available for liabilities. Therefore, an increase in market interest rates could cause a decrease in HIIG's shareholders' equity and financial position.

Since 2008, the financial markets and the economy have been severely affected by various events. This has impacted interest rates and has caused large writedowns in other companies' financial instruments either due to the market fluctuations or the impact of the events on the debtors' financial condition. Turmoil in the financial markets and the economy, particularly related to potential future ratings downgrade and/or impairment of debt securities of sovereign issuers, could adversely affect the valuation of HIIG's investments and cause it to have to record other-than-temporary impairment credit losses on its investments, which could have a material adverse effect on HIIG's financial position and results of operations.

Rating agencies could downgrade HIIG's financial strength ratings

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. HIIG's insurance companies are rated by A.M. Best Company, Inc. (A.M. Best). The financial strength ratings reflect the rating agencies' opinions of an insurance company's and insurance holding company's financial strength, operating performance, strategic position and ability to meet its obligations to policyholders and are not evaluations directed to investors. In addition, some organizations have internal requirements mandating that they transact only with insurance companies that have a specified rating level or higher. HIIG's ratings are subject to periodic review by A.M. Best, and the continuation of those ratings at current levels cannot be assured. If HIIG's ratings are reduced from their current levels, it could significantly impede HIIG's ability to raise capital, borrow money, compete for high quality business and, thus, its business, financial position and results of operations could be adversely affected.

HIIG may require additional capital or funds in the future

HIIG's future capital and liquidity requirements depend on many factors, including its ability to write new business successfully, to establish premium rates and reserves at levels sufficient to cover losses, and to maintain its current line of credit. HIIG may need to raise additional funds through financings or curtail its growth and reduce its assets. Any equity or debt financing, if available at all in periods of stress and volatility in the financial markets, may be on terms that are not favourable to HIIG. If HIIG cannot obtain adequate capital or funds for liquidity on favourable terms or at all, HIIG's business, results of operations and liquidity could be adversely affected. HIIG may also be pre-empted from making acquisitions.

HIIG's strategy of acquiring other companies and underwriting teams for growth may not succeed

HIIG's strategy for growth includes growing through acquisitions of insurance industry related companies. This strategy presents risks that could have a material adverse effect on HIIG's business and financial performance, including: (i) the diversion of management's attention, (ii) HIIG's ability to assimilate the operations and personnel of the acquired companies, (iii) the contingent and latent risks associated with the past operations of, and other unanticipated problems arising in, the acquired companies, (iv) the need to expand management, administration and operational systems and (v) increased competition for suitable acquisition opportunities and qualified employees.

HIIG cannot predict whether it will be able to find suitable acquisition targets, nor can it predict whether it would be able to acquire these additional companies on terms favourable to HIIG or if it will be able to successfully integrate the acquired operations into its business. HIIG does not know if it will realize any anticipated benefits of completed acquisitions or if there will be substantial unanticipated costs associated with new acquisitions. In addition, future acquisitions by HIIG may result in potentially dilutive issuances of its equity securities, the incurrence of additional debt, and/or the recognition of potential impairment of goodwill and other intangible assets. Each of these factors could materially adversely affect HIIG's financial position and results of operations.

More recently, HIIG's growth has come through hiring underwriting teams focused on new lines of business. While more limited, many of the same risks above apply. Most notably, the diversion of management attention, the assimilation of new personnel and the need to expand management, administration and operational systems are present. Also, because these are new lines of business for which HIIG may have limited experience, the results of these new lines could materially adversely affect HIIG's financial position and results of operations.

HIIG may be exposed to goodwill and intangible asset impairment risk

HIIG has recorded goodwill and intangible assets in connection with the majority of its business acquisitions. HIIG is required to perform goodwill and intangible asset impairment tests at least annually and whenever events or circumstances indicate that the carrying value of HIIG's goodwill may not be recoverable from estimated future cash flows. As a result of annual and other periodic evaluations, HIIG may determine that a portion of its goodwill or intangible assets needs to be written down to fair value, which could materially adversely affect HIIG's financial position and results of operations.

HIIG may not be able to receive dividends in needed amounts from its insurance company subsidiaries

In the past, HIIG has had sufficient cash flow from its non-insurance company subsidiaries to meet its corporate cash flow requirements for paying principal and interest on outstanding debt obligations, dividends to shareholders and corporate expenses. More recently, HIIG has relied on, and in the future it may rely on, dividends from HIIG's insurance companies to meet these requirements. The payment of dividends by HIIG's insurance companies is subject to regulatory restrictions and will depend on the surplus and future earnings of these subsidiaries, as well as the regulatory restrictions. As a result, should HIIG's other sources of funds prove to be inadequate, HIIG may not be able to receive dividends from its insurance companies at times and in amounts necessary to meet its obligations, which could materially adversely affect HIIG's financial position and liquidity.

HIIG's information technology systems or third-party systems may fail or suffer a loss of security

HIIG's business is highly dependent upon the successful and uninterrupted functioning of its computer systems. HIIG relies on these systems to perform actuarial and other modeling functions necessary for writing business, to process premiums and policies, to process and make claims payments, to establish loss reserves, and to prepare management and external financial statements and information. The failure of these systems could interrupt HIIG's operations. In addition, in the event of a disaster such as a natural catastrophe, a blackout, a computer virus or hacking incident, a terrorist attack or war, HIIG's systems may be inaccessible for an extended period of time. These systems failures or disruptions could result in a material adverse effect on HIIG's business results. HIIG also utilizes and/or relies on computer systems developed and maintained by outsourcing relationships and key vendors. Their systems could experience the same risks, which could result in a material adverse effect on HIIG's business results.

A security breach of HIIG's computer systems could damage its reputation or result in liability. HIIG retains confidential information regarding its business dealings in its computer systems. HIIG may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. Despite the implementation of security measures, the infrastructure supporting HIIG's computer systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. In addition, HIIG could be subject to liability if hackers were able to penetrate its network security or otherwise misappropriate confidential information. Furthermore, certain of HIIG's businesses are subject to compliance with laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The compromise of personal, confidential or proprietary information could result in remediation costs, legal liability, regulatory action and reputational harm, which could have a material adverse effect on HIIG's results of operations or financial condition.

HIIG may experience difficulties with outsourcing relationships

HIIG outsources certain business and administrative functions to third parties and may do so increasingly in the future. If HIIG fails to develop and implement its outsourcing strategies or its third party providers fail to perform as anticipated, HIIG may experience operational difficulties, increased costs and a loss of business that may have a material adverse effect on its results of operations or financial position. In addition, HIIG may be responsible for the actions of such third parties particularly if they violate or are inconsistent with applicable regulatory requirements. By outsourcing certain business and administrative functions to third parties, HIIG may be exposed to enhanced risk of data security breaches. Any breach of data security could damage HIIG's reputation and/or result in monetary damages, which could have a material adverse effect on HIIG's results of operations or financial condition.

Risks Related to the Arena Group

Arena has a limited operating history

Arena is effectively a start-up venture with very limited operating history. While Mr. Zwirn has substantial previous experience at other investment management firms, the historical performance of any of them individually or collectively is not intended to be, nor should it be construed as an indication or forecast of future performance or an indication as to the future value or return on investment in respect of Arena or the Common Shares. Because Arena's investment approach may differ from the approach of the prior funds managed by Mr. Zwirn and his affiliates, and because market conditions are continually changing, Mr. Zwirn's prior firm's results may be largely irrelevant to the prospects for profitability of Arena. There can be no assurance that Arena will achieve any particular results or returns.

The start up of the operations of the Arena Group has and will involve significant expenditures by the Company. These expenditures include tax, accounting and legal fees, office premises expenses, software costs, market data costs, employment expenses, utilities and overhead, leasing costs, regulatory filing fees, marketing expenses and other expenses associated with starting a new business. The aggregate amount of these expenditures is difficult to forecast accurately and cost overruns may occur. Westaim cannot predict when if at all these expenses will be offset by revenues. Accordingly, there can be no assurance that the Arena Group will achieve profitability in the future, nor that, if it does become profitable, it will sustain profitability.

Arena is subject to operational risks

Operational risks may disrupt Arena's businesses, result in losses or limit growth. Although Arena is expected to take protective measures and to endeavour to modify them as circumstances warrant, the security of Arena's computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. Additionally, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to confidential or other information of Arena or its clients or counterparties. One or more such events could potentially jeopardize the confidential and other information processed and stored in, and transmitted through, Arena's computer systems and networks, or otherwise cause interruptions or malfunctions which could result in significant losses or reputational damage to Arena and/or Westaim.

In addition, Arena operates in an industry that is highly dependent on its information systems and technology. There can be no assurance that Arena's information systems and technology will continue to be able to accommodate its operations, or that the cost of maintaining such systems will not increase from its current level. Such a failure to accommodate Arena's operations, or a material increase in costs related to such information systems, could have a material adverse effect on Arena, which could adversely affect the business, financial condition and/or profitability of Westaim.

Due diligence risks

Before making investments, Arena conducts due diligence pursuant to which it may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and other advisers may be involved in the due diligence process in varying degrees depending on the type of investment. The due diligence investigation that Arena carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity, including, among other things, the existence of fraud or other illegal or improper behaviour. Moreover, such an investigation will not necessarily result in the investment being successful.

The valuation of Arena's investment will be subject to significant subjectivity

Valuation methodologies for certain of Arena's investments may be subject to significant subjectivity, and the value of assets or investments established pursuant to such methodologies may never be realized, which could result in significant losses for Arena or its funds. There may be no readily-ascertainable market prices for the types of illiquid

investments that Arena may acquire. The fair value of such investments is determined periodically by Arena based on its valuation methodologies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies.

Change(s) in the investment management industry may impact Arena Investors

Change(s) in the investment management industry could result in a decline in Arena Investors' revenues. Arena Investors' ability to generate revenues in the investment management industry will be significantly influenced by the growth of AUM generally experienced by the investment management industry and by Arena Investors' relative performance within the investment management industry. The historical growth of the investment management industry may not continue and adverse economic conditions and other factors, including a protracted or precipitous decline in the U.S., international or global financial markets or a change in the acceptance of fees typically charged by industry participants, could affect the popularity of AI's services or result in clients withdrawing from the markets or decreasing their level and/or rate of investment. A decline in the growth of the investment management industry or other changes to the industry that discourage investors could affect AI's ability to attract clients or could lead to redemptions of securities of its investment products for reasons that may be unrelated to their performance but would nonetheless result in a lower AUM and a corresponding decline in revenues. Accordingly, the foregoing could adversely affect the business, financial condition and/or profitability of Westaim.

Arena is subject to regulatory and other legal risks

Arena may become involved in lawsuits or investigations that could result in significant liabilities and reputational harm, which could materially adversely affect its results of operations, financial condition and liquidity. Arena could be sued by many different parties, including, but not limited to, its clients or fund investors, creditors of its funds, shareholders of the companies in which it has invested, its employees and regulators. In addition, Arena may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such transactions may expose Arena to increased risk from countersuits.

The cost of settling any such claims could adversely affect Arena's results of operations. Lawsuits or investigations in which Arena may become involved could be very expensive and highly damaging to its reputation, even if the underlying claims are without merit. Moreover, Arena could incur legal, settlement and other costs in an amount that exceeds the insurance coverage maintained by Arena or by its funds. The costs arising out of litigation or investigations could have a material adverse effect on Arena's results of operations, financial condition and liquidity.

Arena may experience a lack of suitable investment opportunities

A lack of appropriate investment opportunities could adversely affect targeted performance of Arena's investment products. An important component of investment performance is the availability of appropriate investment opportunities for new client assets. If Arena is not able to find sufficient investments for new client assets in a timely manner, investment performance could be materially adversely affected. Alternatively, if there are insufficient investment opportunities for new client assets, management may elect to limit Arena's growth and reduce the rate of intake of new client assets. As AUM increases, Arena may not be able to exploit the investment opportunities that have previously been available to it or find sufficient investment opportunities for producing the returns targeted. If Arena's investment managers are not able to identify sufficient appropriate investment opportunities for new client assets, Arena's investment performance and management's decision to continue to grow may be materially adversely affected.

AI is subject to significant regulatory oversight

AI's business is subject to risks relating to regulatory compliance of investment managers, investment advisors, investment dealers and the securities business generally. AI's ability to carry on its business is dependent upon compliance with and registration under securities legislation in the jurisdictions in which it carries on business. The

securities business of AI is subject to extensive regulation under securities laws in the U.S., Canada, and elsewhere. Compliance with many of the regulations applicable to AI involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation. In the event of non-compliance with an applicable regulation, securities regulators may institute administrative or judicial proceedings that may result in censure, fine, civil penalties, issuance of cease-and-desist orders, deregistration or suspension of the non-compliant investment dealer or investment adviser, suspension or disqualification of the investment dealer's officers or employees, or other adverse consequences. The imposition of any such penalties or orders on AI regardless of duration or any subsequent appellate results could have a material adverse effect on Arena's business, and consequentially could adversely affect the operating results and financial condition of Westaim.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often affect directly the method of operation and profitability of securities firms. It is not possible to predict with any certainty what effect any such changes might have on Arena's business. Furthermore, its business may be materially affected not only by regulations applicable to AI as a financial market intermediary, but also by regulations of general application. For example, returns on investments in a given time period could be affected by, among other things, existing and proposed tax legislation, competition policy and other governmental regulations and policies, including the interest rate policies of the Federal Reserve, the Bank of Canada or other global central banks and changes in interpretation or enforcement of existing laws and rules that affect the business and financial communities or industry-specific legislation or regulations.

Arena may experience poor investment performance

Poor investment performance could negatively impact each of Arena Investors, Arena Finance and Arena Origination. Poor investment performance by the funds and managed accounts to be managed by AI could lead to a loss of clients, lower AUM and a decline in revenues. Arena Investors' revenues will be, in part, dependent upon the Management Fees and Performance Fees earned by AI with respect to such funds and managed accounts, which are based on the value of the AUM of Arena Investors. Poor investment performance (relative to AI's competitors or otherwise) could impair revenues and growth as existing clients might withdraw funds in favour of better performing products and the ability of AI to attract funds from existing and new clients would be reduced. All of the foregoing could result in lower AUM and could impact AI's ability to earn fees. In addition, the ability to earn Performance Fees is directly related to investment performance and therefore, poor investment performance may cause AI to earn lower Performance Fees. There can be no assurance that Arena Investors will be able to achieve or maintain any particular level of AUM, which may have a material adverse effect on its ability to attract and retain clients, the Management Fees and potential Performance Fees earned, and overall profitability, which accordingly could adversely affect the business, financial condition and/or profitability of Westaim. Poor performance of the investments made by Arena Origination or acquired by Arena Finance could result in losses and/or a write down of the carrying value of such investments which could adversely affect the financial condition and/or profitability of Westaim.

Arena may face challenges relating to its illiquid investments

The investment strategies contemplated for clients of Arena involve investments with limited or no liquidity which could make it challenging to raise investment capital from third party investors, making Arena a less profitable investment for Westaim. Illiquid investments might not be able to be disposed of at favourable prices or at all, which could lead to investment losses and lower fees, and accordingly, could adversely affect the business, financial condition and/or profitability of Westaim.

Arena will be exposed to risks relating to its risk management procedures

A failure in management's ability to manage risks in Arena's investment products could materially adversely affect the business, financial condition and/or profitability of Arena, which accordingly could adversely affect the business, financial condition and/or profitability of Westaim. Some of the methods of managing risk to be used are based upon the use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which may be significantly greater than the historical measures indicated. Other risk management methods may depend upon evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible. This information may not in all cases be accurate, complete, up-to-date or properly

evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

Arena is dependent on key management and staff

Failure by the Arena Group to retain and attract qualified staff could lead to a loss of key employees and clients and could lead to a decline in the Arena Group's revenues and consequentially the financial condition and/or profitability of Westaim. The Arena Group's business is dependent on the highly skilled and often highly specialized individuals engaged by Arena Investors. These employees have critical industry experience and relationships that is relied upon to implement the business plan of the Arena Group. However, there can also be no assurance that their historical success can be replicated. The contribution of these individuals to the investment management, client service, sales, marketing and operational teams is important to attracting and retaining clients. While resources will be devoted to recruiting, training and compensating these individuals, the growth in total AUM in the investment management industry, the number of new firms entering the industry and the reliance on performance results to sell financial products have increased the demand for high quality professionals in all aspects of asset management.

Arena Investors' business will be subject to competitive pressures

The investment management industry is highly competitive. Competitive pressures could reduce Arena Investors' revenues. Some of AI's current competitors have, and potential future competitors could have, substantially greater technical, financial, marketing, distribution and other resources. There can be no assurance that Arena Investors will be able to achieve or maintain any particular level of AUM or revenues in this competitive environment. Competition could have a material adverse effect on Arena Investors' profitability and there can be no assurance that AI will be able to compete effectively in this environment. In addition, the ability to grow Management Fees and Performance Fees is dependent on the ability to provide clients with products and services that are competitive. Investors have become more price and value conscious for a variety of reasons, including the current state of the capital markets, low interest rates and reduced investment return expectations, increased regulatory focus, investment performance and the availability of lower cost investment products. There can be no assurance that AI will be able to retain a given fee structure or, with such fee structure, retain clients in the future. A significant reduction in the Management Fees or Performance Fees would have a material adverse effect on the revenues of Arena Investors, which could adversely affect the business, financial condition and/or profitability of Westaim.

Arena will be subject to certain conflicts of interest

Arena is subject to certain conflicts of interest in the management of assets on behalf of AI's clients and in respect to transactions involving Arena Finance and Arena Origination. These conflicts are expected to arise primarily from the involvement of Arena Origination and other affiliates regarding: (i) the acquisition by an Arena Group investment vehicle and/or an AI managed account client of loans originated by Arena Origination; (ii) an acquisition by Arena Finance of loans originated by Arena Origination or another Arena Group investment vehicle; (iii) cross-trades among such entities or between an Arena Group investment vehicle and an AI managed account client; (iv) co-investments between one Arena Group investment vehicle and another; and (v) the provision of services to an Arena Group investment vehicle for compensation. Further, entities comprising the Arena Group may engage in a broad spectrum of activities, including direct (or principal) investment activities for their own accounts and AI's investment advisory activities that, with respect to any particular client, are independent from, and may from time to time conflict with, overlap with or compete with, the investment activities of that client and/or of other clients.

In addition to the foregoing, bonuses or incentive compensation that may be paid to employees of the Arena Group will be determined by the board of directors of WAHII (the "**WAHII Board**"). At such time that BP LLC's right to participate in distributions of the capital of WAHII exceeds 50%, BP LLC will be entitled to appoint three members of the five member WAHII Board. Accordingly, at such time, BP LLC's nominees (which are expected to include the senior management team of Arena Investors) will be able to determine the quantum of bonuses or incentive compensation that may be paid to employees of the Arena Group. In such circumstances, although the WAHII LLCA (as defined herein) provides that such bonuses or incentive compensation must be reasonable in the circumstances and consistent with industry practice (unless approved by the WAHII Board by unanimous consent),

it is expected that the senior management team of Arena Investors will retain wide latitude in determining such compensation.

Arena is subject to the risk of employee error or misconduct

Employee errors or misconduct could result in regulatory sanctions or reputational harm, which could materially adversely affect the business, financial condition and/or profitability of Arena. Misconduct by employees could include binding members of the Arena Group to transactions that exceed authorized limits or present unacceptable risks, or concealing from Arena unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use of confidential information, which could result in regulatory enforcement proceedings, sanctions and serious reputational harm. Arena is also susceptible to loss as a result of employee error. While management will proactively take measures to deter employee misconduct or prevent employee error, the precautions management takes to prevent and detect this activity may not be effective in all cases, which could materially adversely affect the business, financial condition and/or profitability of Arena which could adversely affect the business, financial condition and/or profitability of Westaim.

Loan concentration may increase investment risks

It is intended that Arena will finance borrowers in a variety of industries. However, if industry segments in which Arena has a concentration of investments experience adverse economic or business conditions, loan delinquencies, default rates or write-downs in those segments may increase and could materially adversely affect Arena, and accordingly, adversely affect the financial condition and/or profitability of Westaim.

Risks Related to Specialty Finance Operations

Arena Origination and Arena Finance depend on the creditworthiness of borrowers

The specialty finance operations of Arena Origination and Arena Finance depend on the creditworthiness of borrowers and their ability to fulfill their obligations. Although Arena Origination originates opportunities only with borrowers which it believes to be creditworthy, there can be no assurance that borrowers will not default and that Arena Origination or Arena Finance will not sustain a loss on their loans as a result. Arena Origination and Arena Finance also rely on representations made by borrowers in their loan documentation. However, there can be no assurance that such representations are accurate or that Arena Origination or Arena Finance will have any recourse against the borrower in the event a representation proves to be untrue.

Arena Origination and Arena Finance will be subject to the risk of default by and/or bankruptcy of a borrower

A borrower's failure to satisfy its borrowing obligations, including any covenants imposed, could lead to defaults and the termination of the borrower's loans and enforcement against its assets. In order to protect and recover its investments, Arena Origination or Arena Finance may be required to bear significant expenses (including legal, accounting, valuation and transaction expenses) to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting borrower. In certain circumstances, a borrower's default under one loan could also trigger cross-defaults under other agreements and jeopardize that borrower's ability to meet its obligations under a loan agreement it may have with Arena Origination or Arena Finance. Should a borrower become insolvent, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale of all of a borrower's collateral will be sufficient to satisfy the loan obligations secured by the collateral, or that sufficient assets will remain after priority creditors have been repaid.

Collateral securing loans may be inadequate

While loans will be generally secured by a lien on specified collateral of the borrower (particularly inventory, receivables and tangible fixed assets), there can be no assurance that such security will be properly obtained or perfected, or that the value of the collateral securing any particular loan will protect Arena Origination or Arena

Finance from suffering a partial or complete loss if the loan becomes non-performing and Arena Origination or Arena Finance moves to enforce against the collateral. In such event, loan losses could be suffered which could materially adversely affect the business, financial condition and/or profitability of Arena Origination or Arena Finance, as applicable, and accordingly, adversely affect the financial condition and/or profitability of Westaim.

Arena Origination or Arena Finance may be required to undertake enforcement and/or liquidation procedures

From time to time, Arena Origination or Arena Finance may be required to take enforcement proceedings with respect to non-performing loans and/or to liquidate collateral. Enforcement and liquidation proceedings can be time-consuming and, if a sufficient number of loans require enforcement, the attention of the management of Arena Origination or Arena Finance may be diverted from day-to-day operations or from pursuing other investment opportunities and significant expenses may be incurred for which there may be no recovery.

Fraud by a borrower may cause losses

While Arena Origination and Arena Finance will make every effort to verify the accuracy of information provided to it when making an investment decision, and will have systems and controls to assist it in protecting itself against fraud, a borrower may fraudulently misrepresent information relating to its financial health, operations or compliance with the terms under which Arena Origination is prepared to advance funds or Arena Finance is prepared to purchase a loan. In cases of fraud, it will be difficult and more unlikely that Arena Origination or Arena Finance, as applicable, will be able to collect amounts owing under a loan or realize on collateral, which could have a material adverse effect on Arena Origination or Arena Finance, as applicable, and, in turn, adversely affect the financial condition and/or profitability of Westaim.

The operations of Arena Origination and Arena Finance are largely unregulated

Unlike major commercial banks, asset-based lenders are not subject to regulatory capital requirements that would impede their ability to extend credit. Any changes to the regulation of the asset-based lending industry could have a material adverse effect on Arena Origination's and Arena Finance's business and, accordingly, adversely affect the financial condition and/or profitability of Westaim.

Arena Finance may be considered to be conducting a U.S. trade or business

Under U.S. tax laws, if a partnership is engaged in the conduct of a trade or business in the United States, the partners in such partnership are also treated as so engaged. There is a risk that the U.S. tax authorities may assert that AFHC, a partnership for U.S. federal income tax purposes, is engaged in the conduct of a U.S. trade or business by virtue of its acquisition and disposition of credit investments. If the U.S. tax authorities successfully make this assertion, then Arena Finance will also be treated as engaged in the conduct of a trade or business in the United States as a result of being a partner in AFHC. In such instance, Arena Finance will be subject to U.S. federal income tax at a maximum 35% rate (under current law) on its allocable share of AFHC's income that is effectively connected with a U.S. trade or business ("**Effectively Connected Income**"), and will be required to file U.S. federal income tax returns to report such income. Arena Finance may also be subject to a 30% "branch profits tax" on any Effectively Connected Income; this branch profits tax may be reduced to 5% under the United States-Canada income tax treaty, however, if Arena Finance qualifies for treaty benefits. In addition to the foregoing, Arena Finance may have tax payment and tax return filing obligations in one or more states in which AFHC conducts activities or acquires and sells investments.

DESCRIPTION OF CAPITAL STRUCTURE

The authorized capital of Westaim consists of an unlimited number of common shares, an unlimited number of Class A preferred shares, issuable in series and an unlimited number of Class B preferred shares, issuable in series. On February 8, 2010, the Company filed articles of amendment to create a series of Class A preferred shares designated as Series 1 Class A non-voting, participating, convertible preferred shares (the "**Non-Voting Shares**"). The terms of the Non-Voting Shares were revised on February 26, 2010 and September 11, 2012.

As of the date hereof, the Company had issued and outstanding 143,186,718 Common Shares. No Non-Voting Shares or other series of Class A preferred shares or Class B preferred shares are outstanding.

Common Shares

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

The insurance laws applicable to HIIG prohibit any person from acquiring control of a domestic insurance company or any entity that controls such insurance company unless that person has filed a notification with specified information with that state's Commissioner of Insurance (the "**Commissioner**") and has obtained the Commissioner's prior approval (the "**Control Restrictions**"). Under such laws, the acquisition of 10% or more of the voting securities (or securities convertible into voting securities) of an insurance company or an entity that controls an insurance company is presumptively considered an acquisition of control of the insurance company, although such presumption may be rebutted. Accordingly, any person or entity that acquires, directly or indirectly, 10% or more of the voting securities of Westaim (or securities convertible into voting securities) without the requisite prior approvals will be in violation of these laws and may be subject to injunctive action requiring the disposition or seizure of those securities or prohibiting the voting of those securities, or to other actions that may be taken by the applicable state insurance regulators.

In view of the foregoing restrictions, the by-laws of Westaim contain the following provisions designed to enable the Company to enforce compliance with the Control Restrictions:

- The Company may require a proposed subscriber or transferee of shares to submit a declaration with respect to the holding of shares of the Company and any other matter that the directors consider relevant to determine if the registration of the subscription or transfer would result in a violation of the Control Restrictions.
- The Company also may require a declaration at any time if proxies are solicited from shareholders or when, in the opinion of the directors, the acquisition, ownership, holding or control of shares by any person could violate the Control Restrictions.
- The Company has the power to refuse to issue or record a transfer and to prevent a shareholder from exercising the voting rights, of any share of any class if:
 - (a) such person (i) owns, holds or controls, directly or indirectly, or (ii) following the issue or recording of the transfer, the shareholder would own, hold or control, directly or indirectly, a "significant voting interest" in the Company, unless the required approvals from all relevant insurance regulatory authorities have been obtained; or
 - (b) the person requesting the issue or recording of the transfer refuses to sign and deliver a declaration (or provide other information reasonably necessary to assist the directors in making a determination that the Control Restrictions have not been contravened) with respect to his, her or its ownership, holding or control of shares of the Company.

For these purposes, a "significant voting interest" in the context of the Company means the holding, directly or indirectly, of voting securities of the Company carrying 10% or more of the votes carried by all voting securities of the Company.

The restrictions relating to the transfer and the issue of shares of the Company do not generally apply to the transfer and the issue of securities of the Company in favour of a securities broker while such securities broker is performing no more than a function that is usual and customary for a securities broker.

The restrictions on the ownership, transfer and voting of the Common Shares of the Company may have an effect on the marketability and liquidity of such securities.

The foregoing provisions will cease to apply if and for so long as the Control Restrictions are no longer applicable to the Company.

Class A Preferred Shares

The Class A preferred shares of each series shall rank equally with the Class A preferred shares of every other series with respect to dividends and return of capital, and shall be entitled to preference over the Class B preferred shares and Common Shares and over any other shares ranking junior to the Class A preferred shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidating, dissolution or winding-up of the Company, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs. Except as required by law or unless provision is made in the Company's articles, in general, the holders of the Class A preferred shares as a class shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

Non-Voting Shares

Any holder of Non-Voting Shares may convert any or all Non-Voting Shares held by such holder into Common Shares based on the then applicable exercise number which at the date hereof is one Common Share for each Non-Voting Share. The Non-Voting Shares: (i) rank equally with the Class A preferred shares of every other series with respect to dividends and return of capital; (ii) are entitled to such dividends as the directors may declare; provided, however, that no dividend on the Non-Voting Shares shall be declared unless the directors shall declare an equal dividend on the Common Shares; and (iii) are entitled to a preference as to \$0.0001 per Non-Voting Share over the Class B preferred shares and the Common Shares and over any other shares ranking junior to the Non-Voting Shares, following which the Non-Voting Shares shall rank equally with the Common Shares with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of Westaim, whether voluntary or involuntary, or any other distribution of the assets of Westaim for the purpose of winding up its affairs. Except as required by law, the holders of the Non-Voting Shares as a series shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

Class B Preferred Shares

Subject to the prior rights of the Class A preferred shares, the Class B preferred shares of each series shall rank equally with the Class B preferred shares of every other series with respect to dividends and return of capital, and shall be entitled to preference over the Common Shares and over any other shares ranking junior to the Class B preferred shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidating, dissolution or winding-up of the Company, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, but are subject to the preference of the Class A preferred shares. Except as required by law or unless provision is made in the Company's articles, in general, the holders of the Class B preferred shares as a class shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

MARKET FOR SECURITIES

Trading Price and Volume

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

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
2015	C\$	C\$	
January	3.05	2.67	658,756

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
February	3.36	2.90	3,403,134
March	3.63	3.15	1,956,024
April	3.54	3.36	1,226,178
May	3.47	3.15	1,532,698
June	3.29	3.20	2,238,111
July	3.26	2.89	2,339,156
August	3.14	2.80	1,159,817
September	3.07	2.75	10,126,601
October	2.98	2.70	1,988,258
November	2.96	2.60	1,866,554
December	2.95	2.55	2,471,524

DIVIDENDS

With the exception of the Cash Distribution in 2012 (described under the heading “*Business of the Company – General Development of the Business*” above), the Company has not declared dividends or distributions for any of its three most recently completed fiscal years and does not expect to declare dividends or distributions in the foreseeable future. Other than the applicable “solvency test” under the ABCA, there are no restrictions preventing the Company from declaring dividends on its Common Shares, however, any future payment of dividends will be dependent upon the earnings and financial condition of the Company and other factors that the directors may deem appropriate at the time.

DIRECTORS AND EXECUTIVE OFFICERS

Name, Residency and Principal Occupation

The following table sets forth the names, residency, principal occupation and position(s) with the Company of the current directors of Westaim and the period of service as a director. All directors hold office until the next annual meeting of shareholders of the Company or until the director resigns or a successor is duly elected or appointed.

Name and Residency	Principal Occupation at Present⁴	Position(s) with the Company	Period of Service as a Director
Stephen R. Cole ^{1, 2, 3} Ontario, Canada	President of Seeonee Inc. (<i>a financial advisory services company</i>) and Senior Advisor to Duff & Phelps Canada Limited (“ Duff & Phelps ”) (<i>a financial advisory services company</i>)	Director and Chair of each of the Human Resources and Compensation Committee and the Corporate Governance Committee	November 2014 to date
Ian W. Delaney ³ Ontario, Canada	Executive Chairman of the Corporation	Director and Executive Chairman of the Corporation	May 1996 to date
John W. Gildner ^{1, 2, 3} Ontario, Canada	Independent businessman	Director and Chair of the Audit Committee	May 2009 to date
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer of the Company	Director, President and Chief Executive Officer	December 2008 to date
Peter H. Puccetti ^{2, 3} Ontario, Canada	Chairman, Chief Executive Officer and Chief Investment Officer of Goodwood Inc. (“ Goodwood ”) (<i>an investment management company</i>)	Director	December 2008 to date
Bruce V. Walter ^{1, 2, 3}	Chairman of Nunavut Iron Ore, Inc. (<i>a resource company</i>) and Vice-Chair of Centerra Gold Inc. (<i>a gold mining company</i>)	Director	1997 - 2012; May 2015 to date

Notes:

- (1) Messrs. Cole, Gildner and Walter are members of the audit committee of the Board (the “**Audit Committee**”).
- (2) Messrs. Cole, Gildner, Puccetti and Walter are members of the human resources and compensation committee of the Board (the “**Human Resources and Compensation Committee**”).
- (3) Messrs. Cole, Delaney, Gildner, Puccetti and Walter are members of the nominating and corporate governance committee of the Board (the “**Corporate Governance Committee**”).

- (4) Each of the directors has been engaged for more than 5 years in his present principal occupation except for Messrs. Cole and Delaney. Since May 2013, Mr. Cole has been a Senior Advisor to Duff & Phelps (*a financial advisory services company*) and President of Seeonee Inc. (*a financial advisory services company*). Prior to May 2013, Mr. Cole was Managing Director of Duff & Phelps. Duff & Phelps Corporation acquired Cole & Partners (*a financial advisory services company*) on June 15, 2010. Mr. Cole was a partner at Cole & Partners for more than five years prior to the acquisition. Mr. Delaney served as Chief Executive Officer and Chairman of Sherritt International Corporation (“**Sherritt**”) (*a diversified natural resource company*) from January 2009 to December 2011 and Chairman of Sherritt from January 2012 to May 2013.

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

Name and Residency	Office(s) with the Company	Principal Occupation During the Past Five Years
Ian W. Delaney Ontario, Canada	Executive Chairman of the Corporation	Executive Chairman of the Corporation; former Chief Executive Officer and Chairman of Sherritt (<i>a diversified natural resource company</i>) from January 2009 to December 2011 and Chairman of Sherritt from January 2012 to May 2013
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer of the Company	President and Chief Executive Officer of the Company since April 3, 2009
Glenn G. MacNeil Ontario, Canada	Chief Financial Officer of the Company	Chief Financial Officer of the Company since January 1, 2015. Prior thereto, Chief Financial Officer of Richfield Oil & Gas Company (<i>an exploration and production company</i>) from 2011 to 2014 and Executive Vice President and Chief Financial Officer of GCAN Insurance Company (<i>an insurance company</i>) from 2008 to 2011
Robert T. Kittel Ontario, Canada	Chief Operating Officer of the Company	Chief Operating Officer of the Company since February 28, 2013 and interim Chief Financial Officer of the Company from June 20, 2014 to December 31, 2014. Prior thereto, Partner and Portfolio Manager at Goodwood (<i>an investment management company</i>)

Shareholdings of Directors and Executive Officers

As at the date hereof, the directors and executive officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over 13,537,291 or approximately 9.5% of the number of issued and outstanding Common Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

- (a) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemptions under Canadian securities legislation, that was in effect for a period of more than 30 consecutive days, (an “**order**”), that was issued while the director or executive officer was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer; or
- (b) was subject to an order that was issued after the director or executive officer ceased to be a director, Chief Executive Officer or Chief Financial Officer and which resulted from an event that occurred while that person was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer.

To the knowledge of the Company, except as set out below, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company (including Westaim) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings,

arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

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

Mr. Delaney was a director of OPTI Canada Inc. (“**OPTI**”) when it commenced proceedings for creditor protection under the *Companies’ Creditors Arrangement Act* (Canada) (“**CCA**”) on July 13, 2011. Ernst & Young Inc. was appointed as monitor of OPTI. On November 28, 2011, OPTI announced that it had closed a transaction whereby a subsidiary of CNOOC Limited acquired all of the outstanding securities of OPTI pursuant to a plan of arrangement under the CCA and the *Canada Business Corporations Act*.

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

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Mr. Cole has been a director of FARO Technologies Inc. (“**FARO**”) since 2005. As a result of an internal review, FARO learned that its China subsidiary had made payments to certain customers in China that may have violated the *Foreign Corrupt Practices Act* (the “**FCPA**”) and other applicable laws. In February 2006, FARO’s audit committee instituted an internal investigation and subsequently notified the U.S. Securities and Exchange Commission (the “**SEC**”) and the U.S. Department of Justice (“**DOJ**”) of this matter in March 2006. The results of the investigation revealed that there were referral fee payments were made by the Chinese subsidiary (in aggregate less than \$500,000) in possible violation of the FCPA between 2004 and 2006. In June 2008, FARO entered into settlement agreements with the SEC and DOJ pursuant to which FARO paid an aggregate of \$2.95 million in fines, disgorgement of associated profit and interest. FARO also had a two-year monitoring obligation that has since expired and other continuing obligations with the SEC and the DOJ with respect to compliance with the FCPA and other laws, full cooperation with the government, and the adoption of a compliance code containing specific provisions intended to prevent violations of the FCPA.

Conflicts of Interest

Certain of the Company’s directors and officers serve or may agree to serve as directors or officers of other companies or have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company’s directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. To the knowledge of the Company, there are no existing or potential material conflicts of interest between Westaim or any of its subsidiaries and any director or officer of Westaim or any of its subsidiaries.

AUDIT COMMITTEE

The Audit Committee’s Charter

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

Composition of the Audit Committee

The Audit Committee consists of three members: John W. Gildner (Chairman), Stephen R. Cole and Bruce V. Walter. All members of the Audit Committee are “independent” and “financially literate” for the purposes of National Instrument 52-110 – *Audit Committees* (“NI 52-110”).

Relevant Education and Experience

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

Stephen R. Cole – From 1975 until June 2010, Mr. Cole was President and Founding Partner of Cole & Partners, a Toronto based mergers and acquisition and corporate financial advisory service company. In June 2010, Cole & Partners was sold to Duff & Phelps Corporation, a global financial advisory and investment banking services firm. Mr. Cole was President of Duff & Phelps until May 2013 and thereafter Senior Advisor to Duff & Phelps and President of Seeonee Inc., a financial advisory firm. Mr. Cole is a Fellow of the Institute of Chartered Accountants of Ontario, Fellow of the Canadian Chartered Institute of Business Valuators, Senior Member of the American Society of Appraisers and Full Member of the ADR Institute of Canada, Inc. Mr. Cole became Director of FARO Technologies Inc. and audit committee Chairman in 2000, and has been Lead Director and Chairman of the compensation committee since 2005. He is currently a director and an advisory committee member to several private companies. Previously, Mr. Cole was a director of H. Paulin & Co. Limited, a TSX listed company, where he also served as Chairman of the audit committee. Mr. Cole has also held a position as an advisory committee member or director of various private companies and charitable and professional organizations such as Enterprise Capital LP II, The Canadian Institute of Chartered Business Valuators, Quetico Foundation, Nature Conservancy of Canada (Ontario Division), UJA Federation and Foundation and past Chairman of The Baycrest Centre.

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

Bruce Walter – Mr. Walter is currently Chairman of Nunavut Iron Ore, Inc. and serves as Vice Chair of Centerra Gold Inc. (part-time). From 2002 until 2007, Mr. Walter was a director and officer of Dynatec Corporation, initially as Vice-Chairman and from 2005 as President and CEO. Prior thereto his career included serving as President of Sherritt Inc., President and CEO of Plaintree Systems Inc., and Managing Director and Co-Head of the Media, Telecom & Technology investment and corporate banking group at BMO Nesbitt Burns. Mr. Walter also served as Vice-President of Horsham Corporation and was a partner in the predecessor law firm to Davies Ward Phillips & Vineberg LLP. Mr. Walter received his Juris. Doctor (J.D.) and Master of Business Administration degrees from York University in 1981. He received his PhD in law in 1985 from the University of Cape Town. Mr. Walter currently serves on the National Advisory Board of The Salvation Army.

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

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

Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year has a recommendation of the Audit Committee to nominate or compensate an external auditor not been accepted by the Board.

Audit Fees

The following table summarizes fees paid to the Company's independent auditors, Deloitte LLP, for the years ended December 31, 2014 and December 31, 2015:

(in thousands of dollars)	2014	2015
Audit Fees ⁽¹⁾	\$203.6	\$349.8
Audit-Related Fees ⁽²⁾	\$27.7	-
Tax Fees	-	-
Due Diligence	-	-
Total Fees	\$231.3	\$349.8

Notes:

- (1) Includes reviews of quarterly consolidated financial statements, and audit or involvement with prospectuses and securities filings.
(2) Includes consultation on financial accounting and reporting standards

Exemption

The Company is relying upon the exemption in Section 6.1 of NI 52-110 with respect to the reporting obligations of "venture issuers".

PROMOTERS

Other than as set out herein, no person or company has been, within the two most recently completed financial years, or during the current financial year, of the Company, a promoter of Westaim or of a subsidiary of Westaim.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

The Company is not aware of any pending or threatened proceedings or claims for damages involving the Company or any of its wholly-owned subsidiaries or any entity within the Arena Group. In the normal course of carrying on its business, HIIG becomes the subject of claims and is involved in various legal proceedings. However, the Company is not aware of any pending or threatened proceedings or claims for damages involving HIIG or any of its subsidiaries that are expected to have a material impact on Westaim.

Regulatory Actions

During the financial year ended December 31, 2015, there were no: (a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority; (b) other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision; and (c) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Management of the Company is not aware of any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company:

- (a) a director or executive officer of the Company;
- (b) a person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the Company's outstanding voting securities; and
- (c) an associate or affiliate of any of the persons or companies referred to in paragraphs (a) or (b).

TRANSFER AGENT AND REGISTRAR

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

MATERIAL CONTRACTS

The only material contracts entered into by the Company since the commencement of its most recently completed financial year, other than contracts entered into during the ordinary course of business, and which are still in effect are the following agreements:

- (a) the WAHII LLCA;
- (b) the AFHC LLCA; and
- (c) the Arena Origination LLCA, together with the WAHII LLCA and the AFHC LLCA, the "LLCAs").

There are no material contracts of the Company which have been entered into prior to the most recently completed financial year of the Company and are still in effect.

The LLCAs were filed on SEDAR on September 3, 2015. For a summary of the LLCAs, please see Schedules "A", "B" and "C" of the material change report of the Company dated September 9, 2015 and filed on SEDAR at www.sedar.com, which schedules are incorporated by reference into, and form an integral part of, this AIF.

INTERESTS OF EXPERTS

The Company's auditors are Deloitte LLP, Chartered Professional Accountants and Licensed Public Accountants, who have prepared the Auditor's Report to Shareholders dated March 31, 2016. Deloitte LLP has confirmed that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario. To the Company's knowledge, Deloitte LLP has no registered or beneficial interest, direct or indirect, in any securities or other property of the Company.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under the Company's equity compensation plans, where applicable, is contained in the Information Circular. Additional financial information relating to the Company is contained in the Company's comparative financial statements and associated management's discussion and analysis for its most recently completed fiscal year ended December 31, 2015.

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

APPENDIX “A”

THE WESTAIM CORPORATION

AUDIT COMMITTEE CHARTER

(Revised February 2013)

A. Overview and Mandate

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

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

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

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

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

- a. compensation to any auditor;
- b. compensation to any independent counsel or adviser employed by the Committee pursuant to this charter; and
- c. ordinary administrative expenses of the Committee that are necessary or appropriate in respect of the performance by the Committee of its duties.

B. Membership and Attendance at Meetings

1. The members of the Committee shall consist of not fewer than three (3) members each of whom shall be a director of the Corporation.
2. A majority of members of the Committee shall be resident Canadians.
3. A majority of members of the Committee shall satisfy the independence requirements applicable to members of audit committees under National Instrument 52-110 – *Audit Committees* of certain of the Canadian Securities Administrators and the requirements of any other applicable legislation or stock exchange rules, subject to any exemptions or relief that may be granted from such requirements.
4. Each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and

level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

5. The Chairman of the Committee shall be appointed by the Board and shall be responsible for the overall operation of the Committee.
6. Members shall serve one-year terms and may serve consecutive terms.
7. The auditor of the Corporation is entitled to receive notice of every meeting of the Committee and be heard thereat.
8. In its discharge of its responsibilities and duties set out herein, the Committee shall have free and unrestricted access at all times, either directly or through its duly appointed representatives, to the relevant accounting books, records and systems of the Corporation and shall discuss with the officers of the Corporation such books, records, systems and other matters considered appropriate.

C. Duties and Responsibilities

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

1. Review and assess the adequacy of this charter on an annual basis, or more often if deemed appropriate.
2. Review the annual consolidated financial statements of the Corporation and the notes thereto following the examination thereof by the auditor and prior to their approval by the Board and report to the Board thereon.
3. Review and approve the quarterly financial statements, notes thereto and quarterly management discussion and analysis (MD&A) and related press releases of the Corporation prior to their release.
4. Review the annual MD&A, and other public disclosure documents and related press releases, including any prospectus prior to their approval by the directors.
5. Review, and approve, the planned scope of the examination of the annual and quarterly consolidated financial statements and all related audit activities by the auditor of the Corporation, including expected related audit fees.
6. Review the accounting principles and practices to be applied and followed by the Corporation during the fiscal year and any significant changes from those applied and followed during the previous year.
7. Review the adequacy of the systems of internal accounting and audit policies, practices and controls established by the Corporation, and discuss with the auditor the results of its reviews and reports.
8. Review all litigation and claims involving or against the Corporation which could materially adversely affect its financial position and which the auditor or any officer of the Corporation may refer to the Committee.
9. Ensure the auditor's ultimate accountability to the Board and the Committee as representatives of the shareholders and as such representatives, to evaluate the performance of the auditor and review and report to the directors regarding the nomination and the remuneration and other material terms of the engagement of the auditor, and the performance by the auditor thereunder, and to recommend to the shareholders the reappointment or replacement of the auditor.
10. Ensure that the auditor submits on a periodic basis to the Committee, a formal written statement delineating all relationships between the auditor and the Corporation, consistent with Canadian auditor independence standards, and to review such statement and to actively engage in a dialogue with the auditor with respect to any disclosed or undisclosed relationships or services that may impact on the objectivity and

independence of the auditor, and to review the statement and the dialogue with the Board of Directors and recommend to the Board of Directors appropriate action to ensure the independence of the auditor.

11. Provide a line of communication between the auditor and the Board, and communicate directly with the auditor and with any internal auditor of the Corporation.
12. Meet with the auditor at least once per quarter without management present to allow a candid discussion regarding any concerns the auditor may have and to resolve any disagreements between the auditor and management regarding the Corporation's financial reporting.
13. Review and pre-approve non-audit services provided by the auditor.
14. Review and approve hiring policies regarding partners, employees, and former partners and employees of the present and former external auditors of the Corporation.
15. Review any internal audit plan and review all reports arising from any such internal audit activity.
16. Approve the Corporation's Disclosure Policy and review and assess the adequacy of the policy on an annual basis, or more often if deemed appropriate.
17. Review and approve all "related party" transactions, as defined by the rules of the applicable regulatory authorities.
18. Review the status of taxation matters of the Corporation and its major subsidiaries.
19. Review the short term investment strategies respecting the cash balance of the Corporation.
20. Review the hedging strategies of the Corporation.
21. Review the adequacy of all insurance policies maintained by the Corporation.
22. Establish procedures for:
 - a. the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
 - b. the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
23. Review regular reports from management and others with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements of the Corporation.
24. Review annually the Corporation's reserves with respect to environmental, health and safety matters.
25. Conduct or undertake such other duties as may be required from time to time by any applicable regulatory authorities, including the TSX Venture Exchange or any other stock exchange.
26. At least annually, undertake a self assessment of the Committee's performance of its duties.

D. Meetings

1. Meetings of the Committee are held as required and at least quarterly.
2. Committee meetings may be called by the Committee Chairman or by a majority of the Committee members.

3. The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board. Notwithstanding such procedures, a meeting of the Committee may also be called by the external auditor.
4. A quorum for the transaction of business at any meeting of the Committee is a majority of appointed members.
5. The Committee may invite to a meeting any officers or employees of the Corporation, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities.
6. Meetings may be held by way of telephone conference call.
7. A written resolution signed by all Committee members entitled to vote on that resolution at a meeting of the Committee is as valid as one passed at a Committee meeting.
8. The Corporate Secretary will ensure that minutes of the proceedings of all meetings of the Committee are maintained and available to the Board when requested.

E. Reporting

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