



**First Quarter Report to Shareholders
for the quarter ended March 31, 2019**

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"Westaim" or the "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation on a consolidated basis. This MD&A, which has been approved by the Board of Directors of Westaim, should be read in conjunction with Westaim's unaudited consolidated financial statements including notes for the three months ended March 31, 2019 and 2018 as set out on pages 41 to 65 of this quarterly report. Financial data in this MD&A has been derived from the unaudited consolidated financial statements for the three months ended March 31, 2019 and 2018 and is intended to enable the reader to assess Westaim's results of operations for the three months ended March 31, 2019 and financial condition as at March 31, 2019. The Company reports its consolidated financial statements using accounting policies consistent with International Financial Reporting Standards ("IFRS"). All currency amounts are in United States dollars ("US\$"), the functional and presentation currency of the Company, except per share data, unless otherwise indicated. Canadian dollars are referenced as C\$. The following commentary is current as of May 8, 2019. Additional information relating to Westaim is available on SEDAR at www.sedar.com. Certain comparative figures have been reclassified to conform to the presentation of the current year, and certain totals, subtotals and percentages may not reconcile due to rounding.

IFRS for Investment Entities

Westaim qualifies as an investment entity under IFRS and uses fair value as the key measure to monitor and evaluate its primary investments. The Company reports its financial results in accordance with IFRS applicable to investment entities.

Functional and Presentation Currency

The US\$ is the functional and presentation currency of the Company. International Accounting Standard 21 "*The Effects of Changes in Foreign Exchange Rates*" describes functional currency as the currency of the primary economic environment in which an entity operates. A significant majority of the Company's revenues and costs are earned and incurred in US\$, respectively.

Non-GAAP Measures

Westaim uses both IFRS and non-generally accepted accounting principles ("non-GAAP") measures to assess performance. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. Management believes these measures allow for a more complete understanding of the underlying business. These measures are used to monitor Westaim's results and should not be viewed as a substitute for those determined in accordance with IFRS. Reconciliations of such measures to the most comparable IFRS figures are contained in Section 15, *Non-GAAP Measures* of this MD&A.

Cautionary Statement Regarding the Valuation of Investments in Private Entities

In the absence of an active market for its investments in private entities, fair values for these investments are determined by management using the appropriate valuation methodologies after considering the history and nature of the business, operating results and financial conditions, outlook and prospects, general economic, industry and market conditions, capital market and transaction market conditions, contractual rights relating to the investment, public market comparables, net asset value, discounted cash flow analysis, comparable recent arm's length transactions, private market transaction multiples and, where applicable, other pertinent considerations. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed. The amounts at which the Company's investments in private entities could be disposed of may differ from the fair value assigned and the differences could be material.

Cautionary Statement Regarding Financial Information of Houston International Insurance Group, Ltd.

Select financial information concerning Houston International Insurance Group, Ltd. ("HIIG") (the "HIIG Financial Information") contained in this MD&A is unaudited and has been derived from the unaudited consolidated financial statements of HIIG for the three months ended March 31, 2019 and 2018 (the "HIIG Statements") which have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). Such statements are the responsibility of the management of HIIG. The HIIG Financial Information, including any HIIG non-GAAP measures contained therein, has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

The HIIG Financial Information should be read in conjunction with Westaim's historical financial statements including the notes thereto and the related MD&A as well as Westaim's other public filings.

The HIIG Financial Information has been provided solely by HIIG. Although Westaim has no knowledge that would indicate that any of the HIIG Financial Information contained herein is untrue or otherwise misleading, neither Westaim nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information, or for any failure by HIIG to disclose to Westaim events or facts which may have occurred or which may affect the significance or accuracy of any such financial information but which are unknown to Westaim.

Westaim disclaims and excludes all liability (to the extent permitted by law), for losses, claims, damages, demands, costs and expenses of whatever nature arising in any way out of or in connection with the HIIG Financial Information, its accuracy, completeness or by reason of reliance by any person on any of it.

Cautionary Statement Regarding Financial Information of the Arena Group

Select financial information concerning the Arena Group (as hereinafter defined) (the "Arena Financial Information") contained in this MD&A is unaudited and has been derived from the unaudited financial statements of the Arena Group for the three months ended March 31, 2019 and 2018 which have been prepared in accordance with either IFRS or US GAAP. Such statements are the responsibility of the management of the Arena Group. The Arena Financial Information, including any Arena Group non-GAAP measures contained therein, may not be reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

The Arena Financial Information should be read in conjunction with Westaim's historical financial statements including the notes thereto and the related MD&A as well as Westaim's other public filings.

The Arena Financial Information has been provided by the Arena Group. Although Westaim has no knowledge that would indicate that any of the Arena Financial Information contained herein is untrue or otherwise misleading, neither Westaim nor any of its directors or officers assumes any responsibility for the accuracy or completeness of such information, or for any failure by the Arena Group to disclose to Westaim events or facts which may have occurred or which may affect the significance or accuracy of any such financial information but which are unknown to Westaim.

Westaim disclaims and excludes all liability (to the extent permitted by law), for losses, claims, damages, demands, costs and expenses of whatever nature arising in any way out of or in connection with the Arena Financial Information, its accuracy, completeness or by reason of reliance by any person on any of it.

Future Oriented Financial Information

This MD&A may contain forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from these forward-looking statements as a result of various factors, including those discussed hereinafter, and in the Company's Annual Information Form dated March 27, 2019 for its fiscal year ended December 31, 2018 which is available on SEDAR at www.sedar.com. Please refer to Section 16, *Cautionary Note Regarding Future Oriented Financial Information* of this MD&A.

The Westaim Corporation
Management's Discussion and Analysis
Three months ended March 31, 2019
(Currency amounts in United States dollars unless otherwise indicated)

1. THE COMPANY

The Westaim Corporation (TSXV: WED) is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the global financial services industry. The Company invests, directly and indirectly, through acquisitions, joint ventures and other arrangements, with the objective of providing its shareholders with capital appreciation and real wealth preservation.

Westaim's strategy is to pursue investment opportunities with a focus towards the global financial services industry and grow shareholder value over the long term. The Company's principal investments consist of HIIG (through Westaim HIIG Limited Partnership) and the Arena Group. See discussion in Section 3, *Investments* of this MD&A for additional information on these investments.

2. OVERVIEW OF PERFORMANCE

Highlights (millions except share and per share data)	Three months ended March 31	
	2019	2018
Revenue	\$ 1.4	\$ 1.1
Net results of investments	11.8	4.4
Net (expenses) recovery of expenses	(3.1)	0.4
Profit and comprehensive income	\$ 10.1	\$ 5.9
Earnings per share – basic and diluted	\$ 0.07	\$ 0.04
At March 31:		
Shareholders' equity	\$ 355.6	\$ 332.5
Number of common shares outstanding	143,186,718	143,186,718
Book value per share - in US\$ ¹	\$ 2.49	\$ 2.35
Book value per share - in C\$ ¹	\$ 3.33	\$ 3.03

¹ Non-GAAP measure. See Section 15, *Non-GAAP Measures* of this MD&A. Period end exchange rates: 1.33540 at March 31, 2019 and 1.28925 at March 31, 2018.

Three months ended March 31, 2019 and 2018

The Company reported a profit and comprehensive income of \$10.1 million for the three months ended March 31, 2019 (2018 – \$5.9 million).

Revenue for the three months ended March 31, 2019 of \$1.4 million (2018 - \$1.1 million) consisted of interest income of \$0.7 million (2018 - \$0.7 million) and advisory fees of \$0.7 million (2018 - \$0.4 million).

Net results of investments were a gain of \$11.8 million for the three months ended March 31, 2019 (2018 - \$4.4 million), consisting of an unrealized gain on the Company's investments in private entities of \$11.7 million (2018 - \$5.0 million), an unrealized gain on other investments of \$nil (2018 - \$nil) and the Company's share of profit of its Associates (as hereinafter defined) of \$0.1 million (2018 - loss of \$0.6 million).

Net expenses for the three months ended March 31, 2019 of \$3.1 million (2018 - net recovery of expenses of \$0.4 million) consisted of salaries and benefits of \$1.0 million (2018 - \$1.0 million), general, administrative and other expenses of \$0.2 million (2018 - \$0.4 million), professional fees of \$0.2 million (2018 - \$0.3 million), site restoration provision of \$0.8 million (2018 - site restoration provision recovery of \$0.1 million), share-based compensation of \$0.3 million (2018 - \$nil), a foreign exchange loss of \$0.3 million (2018 – gain of \$0.5 million), interest on preferred securities of \$0.5 million (2018 - \$0.5 million) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of \$0.2 million (2018 - \$2.0 million).

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(Currency amounts in United States dollars unless otherwise indicated)

3. INVESTMENTS

The Company's investments in private entities and associates are included under investments in the consolidated statements of financial position. The Company's principal investments consist of its investments in HIIG (through Westaim HIIG Limited Partnership (the "HIIG Partnership")) and the Arena Group, as follows:

	Place of establishment	Principal place of business	Ownership interest as at March 31, 2019
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim
Investment in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ^{1,2}

¹ Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to Bernard Partners, LLC ("BP LLC") described below under "Investment in the Arena Group - Arena Investors".

² Effective January 1, 2019, Westaim's 51% interest and BP LLC's 49% interest in each of ASOF-ON GP and ASOF-OFF II GP were transferred to WAHII. As a result, ASOF-ON GP and ASOF-OFF GP are now subsidiaries of WAHII.

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2018
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim ¹
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim ²
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim ³
Investment in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ⁴
- ASOF-ON GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ⁴
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim ⁴

¹ On September 30, 2018, Westaim HIIG Holdings Inc. an incorporated wholly-owned subsidiary, transferred all of its ownership interest in the HIIG Partnership to the Company and was dissolved. No book gain or loss was recorded upon the transfer. Following the transfer, the Company owns, directly 58.5% of the HIIG Partnership.

² On December 31, 2018, all outstanding Class M units held by BP LLC described under "Investment in the Arena Group - Arena Finance" were redeemed. The redemption payment in respect of the M units was paid to BP LLC during the quarter ended March 31, 2019.

³ On December 31, 2018, all outstanding Class M units held by BP LLC described under "Investment in the Arena Group - Arena Origination" were redeemed. The redemption payment in respect of the M units was paid to BP LLC during the quarter ended March 31, 2019.

⁴ Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described under "Investment in the Arena Group - Arena Investors".

For additional information on the Company's corporate structure, see the Company's Annual Information Form dated March 27, 2019 for its fiscal year ended December 31, 2018 which is available on SEDAR at www.sedar.com.

Houston International Insurance Group, Ltd.

The Company indirectly owns a significant interest in HIIG, through the HIIG Partnership, an Ontario limited partnership managed by Westaim HIIG GP Inc. HIIG is a U.S. based diversified specialty insurance company providing coverage primarily in the United States but also globally for certain risks. The Company's investment in HIIG (through the HIIG Partnership) is recorded in investments in private entities included under investments in the Company's consolidated financial statements.

Arena Group

The Arena Group consists of the following three businesses:

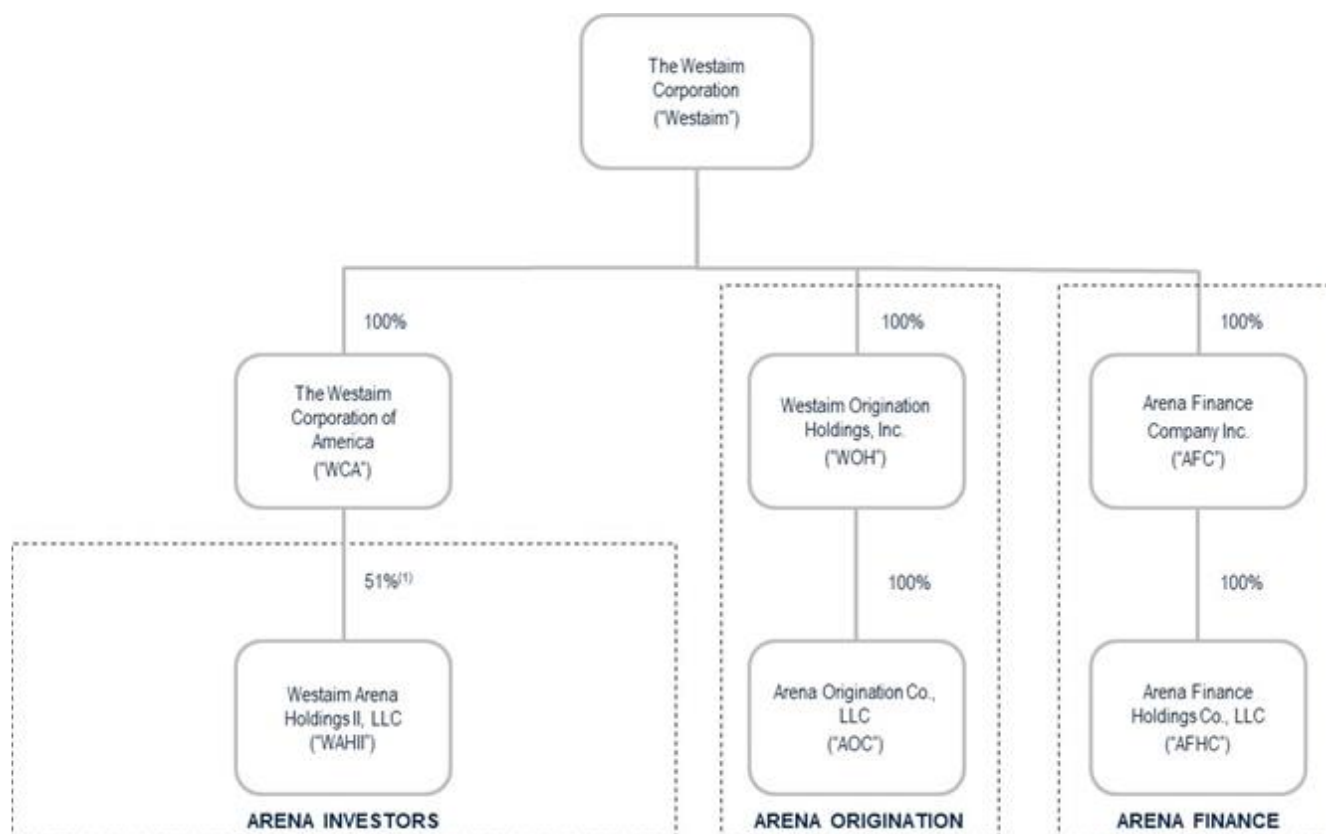
- **Arena Investors** – WAHII, through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The Company's investment in Arena Investors is recorded as investment in associates included under investments in the Company's consolidated financial statements.

3. INVESTMENTS (continued)

- Arena Finance** – Arena Finance, through Arena Finance Holdings Co., LLC ("AFHC"), a Delaware limited liability company wholly-owned by Arena Finance, and AFHC's subsidiaries, is a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account. The Company's investment in Arena Finance is recorded as investments in private entities included under investments in the Company's consolidated financial statements.
- Arena Origination** – Arena Origination, through Arena Origination Co., LLC ("AOC"), a Delaware limited liability company wholly-owned by Arena Origination, facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or other third parties. The Company's investment in Arena Origination is recorded as investments in private entities included under investments in the Company's consolidated financial statements.

Arena Investors, Arena Finance and Arena Origination and related entities are collectively referred to as "Arena" or the "Arena Group".

The following chart illustrates a simplified organizational structure of the Arena Group:



¹ Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described under "Investment in the Arena Group - Arena Investors".

For a detailed discussion of the business of the Arena Group, see the Company's Annual Information Form dated March 27, 2019 for its fiscal year ended December 31, 2018 which is available on SEDAR at www.sedar.com.

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3. INVESTMENTS (continued)

Accounting for the Company's Investments

The Company's investments in private entities consist of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination. Westaim qualifies as an investment entity under IFRS and uses fair value as the key measure to monitor and evaluate its primary investments. Accordingly, the Company's investments in private entities are accounted for at fair value through profit or loss ("FVTPL").

In determining the valuation of investments in private entities at March 31, 2019 and December 31, 2018, the Company used net asset value as the primary valuation technique. For a detailed description of the valuation of the Company's investments in private entities, see note 6 to the Company's audited annual consolidated financial statements for the years ended December 31, 2018 and 2017.

The Company's investment in associates consist of its investment in Arena Investors. Arena Investors includes the Company's indirect investment in WAHII and its subsidiaries (through WCA). In 2018, Arena Investors included the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. Effective January 1, 2019, Westaim and BP LLC transferred their interests in ASOF-ON GP and ASOF-OFF II GP to WAHII. The Company's investment in Associates is accounted for using the equity method and consists of investments in corporations or limited partnerships where the Company has significant influence.

Changes in the fair value of the Company's investments in private entities and the Company's share of profit (loss) and other comprehensive income (loss) of Associates are reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

Changes in the Company's investments in private entities are summarized as follows:

(millions)	Three months ended March 31, 2019			Three months ended March 31, 2018		
	Opening Balance	Unrealized gain	Ending balance	Opening balance	Unrealized gain	Ending balance
Investments in private entities:						
- HIIG Partnership	\$ 162.1	\$ 8.2	\$ 170.3	\$ 157.1	\$ 0.3	\$ 157.4
- Arena Finance ¹	163.9	2.3	166.2	151.3	3.9	155.2
- Arena Origination ²	34.8	1.2	36.0	34.9	0.8	35.7
	<u>\$ 360.8</u>	<u>\$ 11.7</u>	<u>\$ 372.5</u>	<u>\$ 343.3</u>	<u>\$ 5.0</u>	<u>\$ 348.3</u>

¹ Prior to January 1, 2019, ownership subject to the vesting and conversion of Class M units held by BP LLC described under "Investment in the Arena Group - Arena Finance". On December 31, 2018, the Company redeemed all M units.

² Prior to January 1, 2019, ownership subject to the vesting and conversion of Class M units held by BP LLC described under "Investment in the Arena Group - Arena Origination". On December 31, 2018, the Company redeemed all M units.

Changes in the Company's investment in Associates are summarized as follows:

(millions)	Three months ended March 31	
	2019	2018
Investment in Associates		
Opening balance	\$ 10.6	\$ 8.0
Additions – Loan	-	0.7
Share of gain (loss)	0.1	(0.6)
Ending balance	<u>\$ 10.7</u>	<u>\$ 8.1</u>

A. INVESTMENT IN HIIG

At March 31, 2019, the HIIG Partnership owned approximately 75.1% of the common shares of HIIG ("HIIG Shares"). On September 30, 2018, Westaim HIIG Holdings Inc. an incorporated wholly-owned subsidiary, transferred all of its ownership interest in the HIIG Partnership to the Company and was dissolved. No book gain or loss was recorded upon the transfer. Following the transfer, the Company owned approximately 58.5% of the HIIG Partnership, representing an approximate 43.9% indirect ownership interest in HIIG.

Units of the HIIG Partnership cannot be issued without the prior approval of the unitholders and, in connection with any such issuance, the holders of units have pre-emptive rights entitling them to purchase their pro rata share of any units that may be so issued.

(i) Fair Value

The investment in HIIG (through the HIIG Partnership) is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be \$170.3 million at March 31, 2019 and \$162.1 million at December 31, 2018.

3. INVESTMENTS (continued)

Management used a multiple of net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership of \$170.3 million at March 31, 2019. The fair value of the HIIG Partnership at March 31, 2019 was derived from a valuation of the HIIG Shares owned by the HIIG Partnership and other net assets of the HIIG Partnership at March 31, 2019. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including cash and accounts receivable less accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the HIIG Shares as at March 31, 2019 and December 31, 2018, given that this is the valuation technique which a market participant would employ.

In valuing the HIIG Shares, using a multiple of net asset value as the primary valuation technique, fair value was determined to be 1.1x the adjusted book value (or adjusted Stockholders' Equity) of HIIG as at March 31, 2019 and December 31, 2018. The adjusted book value of HIIG as at March 31, 2019 reflected 100% of HIIG stockholders' equity obtained from the unaudited financial statements of HIIG as at and for the three months ended March 31, 2019 prepared in accordance with United States generally accepted accounting principles ("US GAAP"), adjusted for a reclassification of a stock notes receivable from employees relating to their purchase of HIIG Shares. The adjusted book value contained certain significant judgments and estimates made by management of HIIG including the provision for loss and loss adjustment expenses (LAE), the valuation of goodwill and other intangible assets, and the valuation allowance recorded against deferred income tax assets.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the discounted cash flow method, the review of comparable arm's length transactions involving other specialty property and casualty insurance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair value of the Company's investment in the HIIG Partnership at the end of each reporting period.

The Company recorded an unrealized gain of \$8.2 million and an unrealized gain of \$0.3 million in the three months ended March 31, 2019 and 2018, respectively, on its investment in the HIIG Partnership.

(ii) Select Financial Information of HIIG for the three months ended March 31, 2019 and 2018

The Company considers certain financial results of HIIG to be important measures for investors in assessing the Company's financial position and performance. In particular, premium volumes provide a measure of HIIG's growth; "net loss and LAE ratio" (calculated by dividing net loss and loss adjustment expenses by net earned premiums) and "combined ratio" (calculated by dividing the aggregate of net loss and loss adjustment expenses, policy acquisition expenses and operating expenses by net earned premiums) provide measures of HIIG's underwriting profitability; net income provides a measure of HIIG's overall profitability; and stockholders' equity is a measure that is generally used by investors to determine the value of insurance companies.

The reporting segments of HIIG are as follows:

- Accident and Health - group medical insurance business written on an excess basis known as stop loss business including both aggregate and specific coverage provided to small and medium size employee groups.
- Commercial - standard lines of business generally written on an admitted basis by most markets known as "Main Street" or "Middle Market" business.
- Excess & Surplus - lines of business primarily general liability written on a non-admitted basis through wholesale brokers or managing general agents. Some Excess & Surplus business is included in other segments where written in conjunction with admitted lines.
- Specialty - niche business of generally unusual or difficult risks and business specific to certain industries or professions underwritten by underwriters with more specific knowledge and expertise.
- Non-continuing lines - represent lines of business no longer actively underwritten by HIIG.

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(Currency amounts in United States dollars unless otherwise indicated)

3. INVESTMENTS (continued)

Set out in the table below is certain select financial information relating to HIIG. The HIIG Financial Information is unaudited and has been derived from the supporting schedules to the unaudited consolidated condensed financial statements of HIIG for the three months ended March 31, 2019 and 2018 which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of HIIG. Readers are cautioned that the HIIG financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

(unaudited) (millions except for percentage)	Three months ended March 31	
	2019	2018
Income Statement		
Gross written premiums	\$ 201.4	\$ 160.0
Net written premiums	\$ 101.8	\$ 69.4
Net earned premiums	\$ 79.7	\$ 63.4
Net income	\$ 13.7	\$ 6.9
Combined ratio	99.5%	94.7%
Select Information		
Gross written premiums:		
Commercial	\$ 66.5	\$ 45.8
Specialty	94.4	79.6
Excess & Surplus	12.0	15.5
Accident and Health	28.2	19.1
Non-continuing lines	0.3	-
	<u>\$ 201.4</u>	<u>\$ 160.0</u>
Net written premiums:		
Commercial	\$ 50.3	\$ 25.6
Specialty	31.8	28.3
Excess & Surplus	9.1	9.0
Accident and Health	10.3	6.5
Non-continuing lines	0.3	-
	<u>\$ 101.8</u>	<u>\$ 69.4</u>
Net earned premiums:		
Commercial	\$ 31.3	\$ 22.0
Specialty	28.6	27.0
Excess & Surplus	7.9	7.9
Accident and Health	10.3	6.5
Non-continuing lines	1.6	-
	<u>\$ 79.7</u>	<u>\$ 63.4</u>
Net Loss and LAE Ratio:		
Commercial	71.9%	59.9%
Specialty	64.7%	61.1%
Excess & Surplus	65.6%	65.3%
Accident and Health	77.0%	76.0%
Non-continuing lines	n.m. ¹	n.m. ¹
	<u>70.5%</u>	<u>64.1%</u>
Balance Sheet Information		
	March 31, 2019	December 31, 2018
Investments, cash and cash equivalents	\$ 634.3	\$ 624.3
Stockholders' equity	\$ 347.0	\$ 329.9

¹ Not material or meaningful, but included in aggregate numbers.

Gross written premiums - Gross written premiums was \$201.4 million for the three months ended March 31, 2019 compared to \$160.0 million for the three months ended March 31, 2018, an increase of 25.9%. The increase in gross written premiums in the three months ended March 31, 2019 compared to the same period in the prior year was driven primarily by growth in the Commercial, Specialty, and Accident and Health segments.

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3. INVESTMENTS (continued)

Net written premiums - Net written premiums was \$101.8 million for the three months ended March 31, 2019 compared to \$69.4 million for the three months ended March 31, 2018, an increase of 46.7%, resulting from the growth, including an increase in HIIG's net retention, in the Commercial, Specialty, and Accident and Health segments.

Net earned premiums - Net earned premiums was \$79.7 million for the three months ended March 31, 2019 compared to \$63.4 million for the three months ended March 31, 2018, an increase of 25.7%. The increase in net earned premiums was due to HIIG's net written premium growth over the past 24 months.

Overall net loss and LAE ratio - The overall net loss and LAE ratio was 70.5% for the three months ended March 31, 2019 compared to 64.1% for the same period in the prior year. The table below provides details of HIIG's adverse loss development on prior year loss and LAE reserves of \$0.4 million in the three months ended March 31, 2019, compared to \$nil in the three months ended March 31, 2018.

Net adverse (favourable) development (unaudited) (millions)	Three months ended March 31	
	2019	2018
Commercial	\$ 1.4	\$ (1.0)
Specialty	(0.6)	0.9
Excess & Surplus	(0.8)	0.1
Accident and Health	-	-
Non-continuing lines	0.4	-
	<u>\$ 0.4</u>	<u>\$ -</u>

Operating results (all amounts net of income tax) - HIIG recorded net income of \$13.7 million for the three months ended March 31, 2019 compared to \$6.9 million for the three months ended March 31, 2018. The increase of \$6.8 million in net income was primarily attributable to a gain on a strategic investment of \$7.3 million and higher investment income of \$2.2 million which was partially offset by a lower underwriting result of \$2.4 million and higher interest expense of \$0.3 million. Investment income included reporting the changes in fair value of equity securities for the period as part of the operating result following the adoption of US GAAP standard ASU 2016-01.

Stockholders' equity - HIIG stockholders' equity increased to \$347.0 million at March 31, 2019 from \$329.9 million at December 31, 2018. The increase of \$17.1 million resulted from HIIG's net income for the period of \$13.7 million, settlement of loans from its employees' share purchase plan of \$0.1 million, and a favourable change in fair value of fixed maturity securities, net of income tax of \$3.3 million.

B. INVESTMENT IN THE ARENA GROUP

The Arena Group makes and manages fundamentals-based, asset-oriented credit investments. Fundamentals-based, asset-oriented credit investments refer to loans or credit arrangements which are generally secured by assets. These assets include real estate, inventory, vehicles, aircraft, watercraft, oil and gas reserves, a borrower's plant and equipment, other hard assets, securities, receivables, contractual income streams, and certain intellectual property assets. Fundamentals-based, asset-oriented lenders and investors manage their risk and exposure by carefully assessing the value of the assets securing the loan or investment, receiving periodic and frequent reports on collateral value and the status of those assets, and tracking the financial performance of borrowers.

The Arena Group seeks to capitalize on opportunities in both private as well as public investments subject to approved investment policies. These investment strategies include:

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, 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 Private Credit and Real Estate 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 office buildings, retail centers, hotels, land, single family homes, multi-family apartments, condominium towers, hospitality providers, health care service providers, and corporate campuses, leases and lease residuals.

3. INVESTMENTS (continued)

Commercial & 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 Investments

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, manufactured housing-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.

Other Securities

Hedged and unhedged investments in public securities (including public real estate), preferred stock, common stock, municipal bonds, senior public corporate debt, corporate bonds including bonds in liquidation or out-of-court exchange offers and trade claims of distressed companies in anticipation of a recapitalization, structured convertible notes, 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, demutualizations, liquidations and litigation claims, real estate securities, business development companies, master limited partnership interests, royalty trusts, publicly traded partnerships, options and other equity derivatives.

Arena Finance

Arena Finance is a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account. Arena Finance, through its subsidiaries, uses funds to primarily 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 as well as the investment policy of Arena Finance. In the absence of such requirements, Arena Finance is not subject to concentration limitations but the management of Arena Finance will use its best judgment as to what is prudent in the circumstances. Arena Finance seeks to capitalize on opportunities in both private and public investments subject to its investment policy.

Before acquiring any such loans or other investments, Arena Finance reviews the nature of the loan, the creditworthiness 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.

On June 9, 2017, the Company used part of the proceeds from the Fairfax financing (see discussion in Section 4, *Financing* of this MD&A) to loan C\$30 million to AFHC (the "AFHC Loan") on market terms. The AFHC Loan is denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of AFHC. The AFHC Loan carries interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest is due at the end of each calendar quarter. At December 31, 2018, C\$20,000 in principal repayments had been made by AFHC and on February 22, 2019, AFHC increased the loan by C\$5,000 resulting in an outstanding loan of C\$15,000 to AFHC at March 31, 2019 (C\$10,000 to AFHC at December 31, 2018). The AFHC Loan is translated into US\$ at rates of exchange at the end of each reporting period and any resulting unrealized foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. At March 31, 2019 and December 31, 2018, the US\$ converted value of the AFHC Loan was \$11.2 million and \$7.3 million, respectively. The Company recorded a foreign exchange gain relating to the AFHC Loan of \$0.1 million for the three months ended March 31, 2019, and a foreign exchange loss of \$0.3 million in the three months ended March 31, 2018. AFHC has used the loan proceeds for investment purposes.

3. INVESTMENTS (continued)

The primary revenue of Arena Finance, through its subsidiaries, consists of interest income, dividend income and/or fees earned on the credit investments that it acquires. The operating results of Arena Finance also include gains (losses) on its investments.

Rights Granted to BP LLC

On August 31, 2015, Arena Finance and Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, entered into a limited liability company agreement in respect of AFHC (the "AFHC LLC Agreement") setting forth each of Arena Finance's and BP LLC's respective rights and obligations as members of AFHC. Under the AFHC LLC Agreement, BP LLC was issued Class M units which were convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AFHC. The Class M units were to vest equally over 5 years from August 31, 2015 and carry escalating conversion prices in excess of the price paid by the Company for its investment in AFHC (through Arena Finance). On December 31, 2018, the Company through AFHC redeemed all Class M units outstanding for the "in the money" amount of \$0.6 million and this amount was recorded as a liability on AFHC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$0.6 million was paid to BP LLC during the quarter ended March 31, 2019.

Accounting for Arena Finance

The investment in Arena Finance is accounted for at FVTPL and is included in investments in private entities. The fair value of the Company's investment in Arena Finance was determined to be \$166.2 million and \$163.9 million at March 31, 2019 and December 31, 2018, respectively.

Management used net asset value as the primary valuation technique and arrived at the fair value of the Company's investment in Arena Finance of \$166.2 million at March 31, 2019. Using net asset value as the primary valuation technique, management determined that 1.0x the book value, or 100% of the shareholder's equity of Arena Finance at March 31, 2019, in the amount of \$166.2 million approximated the fair value of the Company's investment in Arena Finance. The Company's investment in Arena Finance was, through its subsidiaries, composed largely of cash and cash equivalents and investments, carried at fair value at March 31, 2019. This same valuation technique was also used to determine the fair value of the Company's investment in Arena Finance of \$163.9 million at December 31, 2018.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the review of comparable arm's length transactions involving other specialty finance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair value of the Company's investment in Arena Finance at the end of each reporting period.

The Company recorded unrealized gains of \$2.3 million and \$3.9 million in the three months ended March 31, 2019 and 2018, respectively, on its investment in Arena Finance.

Select Financial Information of Arena Finance

The Company considers certain financial results of Arena Finance, its subsidiary AFHC, and AFHC's subsidiaries to be important measures in assessing the Company's financial position and performance, in particular, the net assets which can be invested to generate investment income, and operating expenses. Select financial information related to Arena Finance, AFHC and AFHC's subsidiaries set out below is unaudited and has been derived from the financial statements of Arena Finance and the consolidated financial statements of AFHC for the three months ended March 31, 2019 and 2018, which have been prepared in accordance with IFRS and US GAAP, respectively. Such statements are the responsibility of the management of Arena Finance and AFHC. Readers are cautioned that the financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

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3. INVESTMENTS (continued)

A summary of the net assets of AFHC and AFHC's subsidiaries is as follows:

(unaudited) (millions except for percentage)	March 31, 2019		December 31, 2018	
	Fair value	Percentage of net assets at fair value	Fair value	Percentage of net assets at fair value
Cash and cash equivalents	\$ 4.0	2.4%	\$ 8.5	5.2%
Due from brokers, net	4.7	2.9%	1.8	1.1%
Investments:				
Loans / Private assets	163.0	98.3%	157.6	95.3%
Other Securities	6.6	4.0%	6.5	3.9%
	169.6	102.3%	164.1	99.2%
Demand loan payable to Westaim	(11.2)	(6.8)%	(7.3)	(4.4)%
Other net liabilities	(1.3)	(0.8)%	(1.8)	(1.1)%
Net assets of AFHC and AFHC's subsidiaries	\$ 165.8	100.0%	\$ 165.3	100.0%

Due from brokers consists of cash balances as well as net amounts due from brokers for unsettled securities transactions. Investment securities are net of short positions. In the normal course of AFHC's operations, AFHC enters into currency hedges to reduce its foreign currency exposure.

For additional information on the investments of AFHC and AFHC's subsidiaries, see Section 14, *Additional Arena Group Investment Schedules* of this MD&A.

A summary of the operating results of Arena Finance, AFHC and AFHC's subsidiaries attributable to the Company is as follows:

(unaudited) (millions)	Three months ended March 31	
	2019	2018 ¹
Operating results of AFHC and AFHC's subsidiaries:		
Investment income, net	\$ 3.5	\$ 3.5
Net gains on investments	1.4	2.2
Operating expenses:		
Management and asset servicing fees	(1.0)	-
Incentive fees	(0.3)	-
Administrative fees	-	(1.2)
Interest expense on demand loan from Westaim	(0.2)	(0.1)
Other operating and deal expenses	(0.6)	(0.3)
	2.8	4.1
Operating income attributable to Class M units	-	0.2
Operating income attributable to Arena Finance	2.8	3.9
Arena Finance operating expenses:		
Advisory fees paid to Westaim	(0.1)	-
Income tax expense	(0.4)	-
	(0.5)	-
Operating results of Arena Finance	\$ 2.3	\$ 3.9

¹ Adjusted to conform to the presentation of the current year

Arena Finance's Net Return on its AFHC investment portfolio was 1.7% for the three months ended March 31, 2019. See Section 15, *Non-GAAP Measures* of this MD&A.

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3. INVESTMENTS (continued)

The following table shows a continuity of the carrying value of the Company's investment in Arena Finance included in the Company's investments in private entities is as follows:

(unaudited) (millions)	Three months ended March 31	
	2019	2018
Carrying value of Arena Finance:		
Opening balance	\$ 163.9	\$ 151.3
Unrealized gain	2.3	3.9
Ending balance	\$ 166.2	\$ 155.2

Arena Origination

Arena Origination is a specialty finance company that, through its subsidiary AOC, originates fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or third parties. Arena Origination is a taxable C-Corporation established in the state of Delaware and AOC is a U.S. based limited liability company established in the state of Delaware. Arena Origination invests in both debt and equity instruments, with an emphasis on debt instruments comprised of multiple investment strategies including, but not limited to, corporate private credit, real estate private credit and real estate assets, commercial & industrial assets, structured finance investments, consumer assets, and other securities. Arena Origination does not have a target range of investment; the size of the loans and/or other credit investments originated depends on, among other things, any diversity requirements which may be imposed by any lender as well as the investment policy of AOC. In the absence of such requirements, Arena Origination is not subject to concentration limitations but the management of Arena Origination will use its best judgment as to what is prudent in the circumstances. Arena Origination seeks to capitalize on opportunities in both private and public investments subject to its investment policy.

Before originating any such loans or other investments, Arena Origination reviews the nature of the loan, the creditworthiness of the borrower, the nature and extent of any collateral and the expected return on such loan or investment. Arena Origination originates such loans or investments based on its assessment of the fair market value of the investment at the time of purchase.

In connection with the original capitalization of Arena Origination, the Company granted a term loan to Arena Origination with a balance of \$10 million at March 31, 2019 and December 31, 2018. The loan has a seven year term to August 31, 2022, is unsecured and carries interest at a rate of 7.25% per annum, with interest due on January 1 of each year during the term.

On June 9, 2017, the Company used part of the proceeds from the Fairfax financing (see discussion in Section 4, *Financing* of this MD&A) to loan C\$20 million to AOC (the "AOC Loan") on market terms. The AOC Loan is denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of AOC. The AOC Loan carries interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest is due at the end of each calendar quarter. At December 31, 2018, C\$10,000 in principal repayments had been made by AOC and on February 22, 2019, AOC made a principal repayment of C\$5,000 resulting in an outstanding loan of C\$5,000 to AOC at March 31, 2019 (C\$10,000 to AOC at December 31, 2018). The AOC Loan is translated into US\$ at rates of exchange at the end of each reporting period and any resulting unrealized foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. At March 31, 2019 and December 31, 2018, the US\$ converted value of the AOC Loan was \$3.8 million and \$7.4 million, respectively. The Company recorded a foreign exchange gain relating to the AOC Loan of \$0.2 million for the three months ended March 31, 2019, and a foreign exchange loss of \$0.4 million for the three months ended March 31, 2018. AOC has used the loan proceeds for investment purposes.

The primary revenue of Arena Origination, through AOC, consists of interest income, dividend income and/or investment-related fees earned on the credit investments that it originates. The operating results of Arena Origination also include gains (losses) on its investments.

Rights Granted to BP LLC

On August 31, 2015, Arena Origination and BP LLC entered into a limited liability company agreement in respect of AOC (the "AOC LLC Agreement") setting forth each of Arena Origination's and BP LLC's respective rights and obligations as members of AOC. Under the AOC LLC Agreement, BP LLC was issued Class M units which were convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AOC. The Class M units were to vest equally over 5 years from August 31, 2015 and carry escalating conversion prices in excess of the price paid by the Company for its investment in AOC (through Arena Origination). On December 31, 2018, the Company through AOC redeemed all Class M units outstanding for the "in the money" amount of \$0.1 million and this amount was recorded as a liability on AOC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$0.1 million was paid to BP LLC during the quarter ended March 31, 2019.

3. INVESTMENTS (continued)

Accounting for Arena Origination

The investment in Arena Origination is accounted for at FVTPL and is included in investments in private entities. The fair value of the Company's investment in Arena Origination was determined to be \$36.0 million and \$34.8 million at March 31, 2019 and December 31, 2018, respectively.

Management used net asset value as the primary valuation technique and arrived at the fair value of the Company's investment in Arena Origination of \$36.0 million at March 31, 2019. Using net asset value as the primary valuation technique, management determined that 1.0x the book value, or 100% of the shareholder's equity of Arena Origination at March 31, 2019, in the amount of \$26.0 million and the fair value of the term loan of \$10 million, totaling \$36.0 million, approximated the fair value of the Company's investment in Arena Origination. The Company's investment in Arena Origination, through AOC, was composed largely of cash and cash equivalents and investments, carried at fair value at March 31, 2019. This same valuation technique was also used to determine the fair value of the Company's investment in Arena Finance of \$34.8 million at December 31, 2018.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the review of comparable arm's length transactions involving other specialty finance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair value of the Company's investment in Arena Origination at the end of each reporting period. This same valuation technique was also used to determine the fair value of the Company's investment in Arena Origination of \$34.8 million at December 31, 2018.

The Company recorded unrealized gains of \$1.2 million and \$0.8 million in the three months ended March 31, 2019 and 2018, respectively, on its investment in Arena Origination.

Select Financial Information of Arena Origination

The Company considers certain financial results of Arena Origination and its subsidiary, AOC, to be important measures in assessing the Company's financial position and performance, in particular, the net assets which can be invested to generate investment income, and operating expenses. Select financial information related to Arena Origination and AOC set out below is unaudited and has been derived from the financial statements of Arena Origination and AOC for the three months ended March 31, 2019 and 2018, which have been prepared in accordance with IFRS and US GAAP, respectively. Such statements are the responsibility of the management of Arena Origination and AOC. Readers are cautioned that the financial information has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

A summary of the net assets of AOC is as follows:

(unaudited) (millions except for percentage)	March 31, 2019		December 31, 2018	
	Fair value	Percentage of net assets at fair value	Fair value	Percentage of net assets at fair value
Cash and cash equivalents	\$ 3.3	9.3%	\$ 15.7	46.2%
Due from brokers, net	5.3	14.9%	2.5	7.4%
Investments:				
Loans / Private assets	26.9	74.8%	20.1	59.3%
Other Securities	4.4	12.0%	3.8	11.1%
	31.3	86.8%	23.9	70.4%
Demand loan payable to Westaim	(3.8)	(10.4)%	(7.4)	(21.6)%
Other net assets	(0.1)	(0.6)%	(0.7)	(2.4)%
Net assets of AOC	\$ 36.0	100.0%	\$ 34.0	100.0%

Due from brokers consists of cash balances as well as net amounts due from brokers for unsettled securities transactions. Investment securities are net of short positions. In the normal course of AOC's operations, AOC enters into currency hedges to reduce its foreign currency exposure.

For additional information on the investments of AOC, see Section 14, *Additional Arena Group Investment Schedules* of this MD&A.

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3. INVESTMENTS (continued)

The following table shows a summary of the operating results of Arena Origination and AOC attributable to the Company:

(unaudited) (millions)	Three months ended March 31	
	2019	2018 ¹
Operating results of AOC:		
Investment income, net	\$ 0.7	\$ 1.3
Net gains on investments	2.0	0.8
Operating expenses:		
Management and asset servicing fees	(0.2)	-
Incentive fees	(0.2)	-
Administrative fees	-	(0.4)
Interest expense on demand loan from Westaim	(0.1)	(0.2)
Other operating and deal expenses	(0.2)	(0.2)
	<u>2.0</u>	<u>1.3</u>
Operating income attributable to Class M units	-	0.1
Operating income attributable to Arena Origination	2.0	1.2
Arena Origination operating expenses:		
Advisory fees paid to Westaim	(0.3)	(0.1)
Interest expense on term loan from Westaim	(0.2)	(0.2)
Income tax expense	(0.3)	(0.1)
	<u>(0.8)</u>	<u>(0.4)</u>
Operating results of Arena Origination	<u>\$ 1.2</u>	<u>\$ 0.8</u>

¹ Adjusted to conform to the presentation of the current year

Arena Origination's Net Return on its AOC investment portfolio was 5.9% for the three months ended March 31, 2019. See Section 15, *Non-GAAP Measures* of this MD&A.

The following table shows a continuity of the carrying value of the Company's investment in Arena Origination included in the Company's investments in private entities:

(unaudited) (millions)	Three months ended March 31	
	2019	2018
Carrying value of Arena Origination:		
Opening balance	\$ 34.8	\$ 34.9
Unrealized (loss) gain	1.2	0.8
Ending balance	<u>\$ 36.0</u>	<u>\$ 35.7</u>

Arena Investors

Arena Investors includes the Company's indirect investment in WAHII and its subsidiaries (through WCA). In 2018, Arena Investors included the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. Effective January 1, 2019, Westaim and BP LLC transferred their interests in ASOF-ON GP and ASOF-OFF II GP to WAHII. WAHII is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to carry on the third-party investment management business of the Arena Group.

Arena Investors, LP operates as an investment manager offering third-party clients access to fundamentals-based, asset-oriented credit investments that aim to deliver attractive yields with low volatility. Arena Investors, LP provides investment services to third-party clients consisting of but not limited to institutional clients, insurance companies, private investment funds and other pooled investment vehicles.

3. INVESTMENTS (continued)

Arena Investors generates revenues primarily from Management Fees, Incentive Fees and Asset Servicing Fees. "Management Fees" are the fees generally calculated on Arena Investors' various segregated client accounts and private pooled investment vehicles as a percentage of assets under management ("AUM"). Management fees for separately managed accounts may be based on a percentage of the fair value of invested capital for the account during the ramp-up phase. "Incentive Fees" are the fees generally calculated as a percentage of net profits earned by Arena Investors as of the end of each fiscal year or applicable withdrawal date related to client accounts subject to a "high water mark" and loss carryforward provisions for each measurement date. "Asset Servicing Fees" are the fees generally earned in connection with the management and servicing of the illiquid portion of clients' investment portfolio.

Arena Investors has established a U.S. onshore fund, Arena Special Opportunities Fund, LP ("ASOF LP") and offshore funds, Arena Special Opportunities Fund (Cayman), LP and Arena Special Opportunities Fund (Cayman 2), LLC, as commingled investment vehicles. Arena Investors continues to be in discussions with potential clients for additional capital to invest in its various pools, in accordance with its business strategy.

As of March 31, 2019, the Arena Group had committed AUM of approximately \$1,061 million. The committed AUM included the net assets of Arena Finance and Arena Origination totaling \$202 million. As of December 31, 2018, the Arena Group had committed AUM of approximately \$1,024 million. The committed AUM included the net assets of Arena Finance and Arena Origination totaling \$199 million.

Rights Granted to BP LLC

On August 31, 2015, agreements were entered into between the Company (through WCA) and BP LLC in respect of WAHII and ASOF-ON GP and between Westaim and BP LLC in respect of ASOF-OFF II GP (the "Associate Agreements"). The Associate Agreements set forth the members' respective rights and obligations, as well as BP LLC's right to participate in distributions of the capital and profit of the Associates. BP LLC's initial profit sharing percentage is 49%, and under the Associate Agreement in respect of WAHII, BP LLC has the right to earn-in up to 75% equity ownership percentage in WAHII (and indirectly in ASOF-ON GP and ASOF-OFF II GP) and to thereby share up to 75% of the profit of the Associates based on achieving certain AUM and cash flow (measured by the margin of trailing twelve months earnings before interest, income taxes, depreciation and amortization to trailing twelve month revenues) thresholds in accordance with the WAHII Associate Agreement. Effective January 1, 2019, Westaim's 51% interest and BP LLC's 49% interest in each of ASOF-ON GP and ASOF-OFF II GP were transferred to WAHII. As a result, ASOF-ON GP and ASOF-OFF II GP are now subsidiaries of WAHII.

Accounting for Arena Investors

On March 6, 2019, the Company (through WCA) amended a revolving loan facility to the Associates (the "Revolving Loan Facility") from the limit of \$20 million to \$25 million in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility has a term of 36 months to December 21, 2020 and bears interest at a rate of 5.25% per annum. WAHII had drawn down the loan facility by \$18.3 million at March 31, 2019 and December 31, 2018. The loan facility is secured by all the assets of WAHII.

The Company's investments in the Associates (Arena Investors) are accounted for using the equity method. The carrying amount of the Company's investment in the Associates was \$10.7 million and \$10.6 million at March 31, 2019 and December 31, 2018, respectively. The total of the Company's 51% share of profit of \$0.1 million and share of loss of \$0.6 million in the three months ended March 31, 2019 and March 31, 2018, respectively, was reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

Select Financial Information of Arena Investors

The Company considers certain financial results of Arena Investors to be important measures in assessing the Company's financial position and performance, in particular, the AUM used in the calculation of revenues from the provision of investment management services, and operating expenses. Select financial information related to Arena Investors set out below is unaudited and has been derived from the financial statements of WAHII for the three months ended March 31, 2019 and from the financial statements of WAHII, ASOF-ON GP and ASOF-OFF II GP for the three months ended March 31, 2018, which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of Arena Investors. Management of the Company concluded that any reconciling items to IFRS are not material.

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3. INVESTMENTS (continued)

Select financial information of Arena Investors is as follows:

Statement of Financial Position

(unaudited) (millions)	March 31, 2019	December 31, 2018 ¹
Cash and cash equivalents	\$ 1.3	\$ 1.0
Restricted cash	5.5	5.1
Revolving Loan Facility from Westaim	(18.3)	(18.3)
Other net liabilities	(3.5)	(3.0)
Net liabilities	\$ (15.0)	\$ (15.2)
Company's share	\$ (7.6)	\$ (7.7)
Revolving Loan Facility from Westaim	18.3	18.3
Carrying amount of the Company's investment in Associates	\$ 10.7	\$ 10.6

¹ Includes the accounts of WAHII, ASOF-ON GP and ASOF-OFF II GP prepared in accordance with US GAAP with no material reconciling differences to IFRS.

Restricted cash includes deposits related to investment loans received in advance.

Statement of Profit (Loss) and Comprehensive Income (Loss)

(unaudited) (millions)	Three months ended March 31	
	2019	2018 ^{1,2}
Management and asset servicing fees	\$ 4.3	\$ 1.8
Incentive fees	2.9	1.2
Administrative fees	-	1.6
Net gains on investments	-	0.1
Total revenue	7.2	4.7
Salaries and benefits	(5.1)	(4.4)
Professional fees	(0.8)	(0.7)
General, administration and other expenses	(0.9)	(0.6)
Interest expense on the Revolving Loan Facility from Westaim	(0.2)	(0.2)
Total expenses	(7.0)	(5.9)
Profit (loss) and comprehensive profit (loss)	\$ 0.2	\$ (1.2)
Company's share of profit (loss) of Associates (51%)	\$ 0.1	\$ (0.6)

¹ Includes the accounts of WAHII, ASOF-ON GP and ASOF-OFF II GP prepared in accordance with US GAAP with no material reconciling differences to IFRS.

² Adjusted to conform to the presentation of the current year.

The management, asset servicing and incentive fees were generated from the various segregated client accounts and managed funds of Arena Investors. Effective January 1, 2019, investment management fees, asset servicing fees and incentive fees replaced administrative fees that were charged to AFHC and AOC in 2018 and prior years.

C. OTHER INVESTMENTS

The Company's investment in ASOF LP, a fund managed by Arena Investors, LP, with a fair value of \$2.5 million at March 31, 2019 and \$2.5 million at December 31, 2018, was included in other assets in the consolidated statements of financial position. The Company's unrealized gain on its investment in ASOF LP was nominal in the three months ended March 31, 2019 and 2018, respectively.

4. FINANCING

Preferred Securities

On April 3, 2017, the Company announced that it had entered into an agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, "Fairfax"), had agreed subject to the execution of definitive documentation to make an investment of up to C\$100 million in Westaim in exchange for the issuance by Westaim of 5% interest bearing notes (the "Preferred Securities") and common share purchase warrants (the "Warrants") (collectively, the "Private Placement").

4. FINANCING (continued)

The Preferred Securities are denominated in C\$, each issuable for a principal amount of C\$10 and carry interest at a rate of 5% per annum. The Preferred Securities are subordinate secured securities that will mature on May 26, 2116 but may be repaid, in whole or in part, by the Company at any time after June 2, 2022 and at any time after June 2, 2020 if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the date on which the applicable redemption notice is given is at least C\$5.60.

On June 2, 2017, the Company closed a subscription by Fairfax of C\$50 million of Preferred Securities. The proceeds raised from the Fairfax financing were used by Westaim to make interest bearing loans to the Arena Group. See discussion in Section 3, *Investments* of this MD&A for additional information on these loans. The Company had discretion until January 1, 2018 to require Fairfax to purchase all or part of 5,000,000 additional Preferred Securities, and exercised its discretion not to do so. There were 5,000,000 Preferred Securities outstanding at March 31, 2019 and December 31, 2018.

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US\$ at rates of exchange at the end of each reporting period and any resulting unrealized foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. At March 31, 2019 and December 31, 2018, the US\$ converted amount of the Preferred Securities was \$37.4 million and \$36.6 million, respectively. The Company recorded an unrealized foreign exchange loss of \$0.8 million and an unrealized foreign exchange gain of \$1.1 million relating to the Preferred Securities in the three months ended March 31, 2019 and 2018, respectively. The carrying amount of the Preferred Securities approximated fair value at March 31, 2019.

Interest on the Preferred Securities amounted to \$0.5 million in each of the three months ended March 31, 2019 and 2018, respectively. At March 31, 2019, interest of \$0.5 million (December 31, 2018 - \$0.5 million) was accrued in the consolidated statements of financial position.

On December 21, 2017, the Company entered into a foreign exchange forward contract to sell US\$15.8 million and buy C\$20 million to manage part of the Canadian dollar currency exposure arising from the Preferred Securities. The contract matured on December 21, 2018 and resulted in a realized foreign exchange loss of \$1.0 million. On December 20, 2018, the Company entered into a new foreign exchange forward contract to sell US\$26.3 million and buy C\$35 million to manage part of the Canadian dollar currency exposure arising from the Preferred Securities. The contract has a term to maturity of less than one year and may be renewed at market rates. The Company has not designated this foreign exchange forward contract as an accounting hedge. Unrealized loss on the foreign exchange forward contract at March 31, 2019 was \$0.1 million and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position (December 31, 2018 - \$0.6 million). A gain on the foreign exchange contract in the amount of \$0.5 million and a loss on the foreign exchange contract in the amount of \$0.4 million in the three months ended March 31, 2019 and 2018, respectively, was recorded under foreign exchange in the consolidated statements of profit and comprehensive income. In connection with foreign exchange forward contracts which the Company may enter into from time to time, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$4.4 million (December 2018 - \$4.4 million) as security. The security shall remain in effect for the duration of the outstanding foreign exchange forward contract.

Warrants

In conjunction with the private placement of Preferred Securities, Westaim also issued to Fairfax 28,571,430 Warrants, each exercisable for one Westaim common share at an exercise price of C\$3.50. The Warrants vest proportionately based upon the aggregate percentage of Preferred Securities purchased by Fairfax, with 14,285,715 having vested on June 2, 2017. The remaining 14,285,715 unvested Warrants were cancelled on January 31, 2018. Each vested Warrant is exercisable on or prior to June 2, 2022, but the expiry date will be extended to June 2, 2024 if the volume-weighted average trading price of Westaim's common shares for the 10 day period ending on June 2, 2022 is less than C\$5.60. After June 2, 2020, the Company can also elect to require early exercise of the Warrants if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the election is at least C\$5.60.

The Warrants are subject to a cashless exercise at the discretion of Fairfax and are classified as a derivative liability in accordance with IFRS and measured at FVTPL. Subsequent changes in fair value of the vested Warrants and the related foreign exchange impact are reported in the consolidated statements of profit and comprehensive income for the period in which they arise.

Changes to the derivative warrant liability are as follows:

(millions)	Three months ended March 31, 2019	Year ended December 31, 2018
Opening balance	\$ 2.4	\$ 6.7
Change in fair value - gain	(0.2)	(3.8)
Unrealized foreign exchange gain	-	(0.5)
Ending balance	\$ 2.2	\$ 2.4

4. FINANCING (continued)

At March 31, 2019 and December 31, 2018, a liability of \$2.2 million and \$2.4 million, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position. The Company recognized unrealized gains of \$0.2 million and \$2.0 million in the three months ended March 31, 2019 and 2018, respectively, resulting from a change in the fair value of the vested Warrants. The Company also recorded unrealized foreign exchange gains with respect to the vested Warrants of \$nil and \$0.2 million in the three months ended March 31, 2019 and 2018, respectively, under foreign exchange in the consolidated statements of profit and comprehensive income.

The fair value of the vested Warrants at March 31, 2019 of \$2.2 million (December 31, 2018 - \$2.4 million) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.54% (December 31, 2018 - 1.87%), an expiration date between April 1, 2019 and June 2, 2024 (December 31, 2018: January 1, 2019 and June 2, 2024), a volatility of the underlying common shares of the Company of 23.73% (December 31, 2018 - 23.42%), a closing price of common shares of C\$2.57 (December 31, 2018 - C\$2.58) and a strike price of C\$3.50. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

5. ANALYSIS OF FINANCIAL RESULTS

Details of the Company's operating results are as follows:

(millions)	Three months ended March 31	
	2019	2018
Revenue		
Interest income	\$ 0.7	\$ 0.7
Advisory fee income	0.7	0.4
	<u>\$ 1.4</u>	<u>\$ 1.1</u>
Net results of investments	11.8	4.4
Expenses		
Salaries and benefits	1.0	1.0
General, administrative and other	0.2	0.4
Professional fees	0.2	0.3
Site restoration provision	0.8	(0.1)
Share-based compensation	0.3	-
Foreign exchange	0.3	(0.5)
Interest on preferred securities	0.5	0.5
Derivative warrants	(0.2)	(2.0)
	<u>\$ 3.1</u>	<u>\$ (0.4)</u>
Profit and comprehensive income	\$ 10.1	\$ 5.9

5.1 Revenue

Revenue for the three months ended March 31, 2019 of \$1.4 million (2018 - \$1.1 million) consisted of interest income of \$0.7 million (2018 - \$0.7 million) and advisory fees of \$0.7 million (2018 - \$0.4 million). In the three months ended March 31, 2019, the Company earned interest on loans made to the Arena Group of \$0.7 million (2018 - \$0.7 million). In the same period, the Company earned advisory fees from HIIG of \$0.3 million (2018 - \$0.3 million) and from the Arena Group of \$0.4 million (2018 - \$0.1 million).

5.2 Net Results of Investments

Net results of investments were a gain of \$11.8 million for the three months ended March 31, 2019 (2018 - \$4.4 million), consisting of an unrealized gain on the Company's investments in private entities of \$11.7 million (2018 - \$5.0 million), an unrealized gain on other investments of \$nil (2018 - \$nil) and the Company's share of profit of its Associates of \$0.1 million (2018 - share of loss of \$0.6 million).

See discussion in Section 3, *Investments* of this MD&A.

5. ANALYSIS OF FINANCIAL RESULTS (continued)

Investments in Private Entities

The Company's investments in private entities are accounted for at FVTPL. In the three months ended March 31, 2019, the Company recorded an unrealized gain of \$8.2 million on its investment in the HIIG Partnership (2018 - \$0.3 million), an unrealized gain of \$2.3 million on its investment in Arena Finance (2018 - \$3.9 million), and an unrealized gain of \$1.2 million on its investment in Arena Origination (2018 - \$0.8 million).

Investment in Associates

The Company's investment in Associates is accounted for using the equity method. In the three months ended March 31, 2019, the Associates earned management and asset servicing fees of \$4.3 million (2018 - \$1.8 million), incentive fees of \$2.9 million (2018 - \$1.2 million), administrative fees of \$nil (2018 - \$1.6 million), net gain on investment of \$nil (2018 - \$0.1 million), offset by salaries and benefits of \$5.1 million (2018 - \$4.4 million), professional fees of \$0.8 million (2018 - \$0.7 million), general, administrative and other expenses of \$0.9 million (2018 - \$0.6 million), and interest expense on the Revolving Loan Facility from Westaim of \$0.2 million (2018 - \$0.2 million) resulting in a profit of \$0.2 million (2018 - loss of \$1.2 million).

The total of the Company's 51% share of profit of the Associates in the three months ended March 31, 2019 amounted to \$0.1 million and its share of the Associates' loss in the three months ended March 31, 2018 amounted to \$0.6 million.

5.3 Expenses

Salaries and benefits, general, administrative and other expenses and professional fees in the three months ended March 31, 2019 were comparable to the corresponding period in the prior year.

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. Variations in the Company's site restoration provision expense from period to period are generally attributed to changes in the discount and inflation rates used to arrive at the site restoration provision. Reimbursements of site restoration costs are recorded when received.

Changes in share-based compensation expense from period to period result from the vesting of RSUs, the issuance of DSUs in lieu of director fees, as well as movement in the Company's share price which affects the per unit valuation of outstanding RSUs and DSUs. Share-based compensation expense in the three months ended March 31, 2019 and 2018 also included compensation expense for stock options of \$0.3 million and \$0.6 million, respectively. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

The Company holds C\$ denominated assets and liabilities and the Company's operating results include foreign exchange gains or losses arising from the revaluation of the Company's C\$ denominated net liabilities into US\$ at period end exchange rates. The following is a breakdown of the major components of the foreign exchange gain (loss) in the three months ended March 31, 2019 and 2018:

	Three months ended March 31	
(millions)	2019	2018
Foreign exchange gains (losses) relating to:		
- site restoration provision	\$ -	\$ 0.1
- liabilities for RSUs and DSUs	(0.2)	0.2
- Preferred securities	(0.8)	1.1
- AFHC and AOC loans receivable	0.3	(0.7)
- derivative warrant liability	-	0.2
- foreign exchange forward contract	0.5	(0.4)
- other	(0.1)	-
	\$ (0.3)	\$ 0.5

In the three months ended March 31, 2019, interest on preferred securities was \$0.5 million (2018 - \$0.5 million), and unrealized gain resulting from a change in the fair value of the vested Warrants was \$0.2 million (2018 - \$2.0 million). See discussion in Section 4, *Financing* of this MD&A for additional information on these expense items.

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6. ANALYSIS OF FINANCIAL POSITION

The Company's assets, liabilities and shareholders' equity as at the dates indicated below consisted of the following:

(millions)	March 31, 2019	December 31, 2018
Assets		
Cash	\$ 6.3	\$ 7.8
AFHC and AOC loans receivable	15.0	14.7
Other assets	3.2	3.5
Investments	383.2	371.4
	<u>\$ 407.7</u>	<u>\$ 397.4</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 8.1	\$ 9.6
Preferred securities	37.4	36.6
Derivative warrant liability	2.2	2.4
Site restoration provision	4.4	3.6
	<u>52.1</u>	<u>52.2</u>
Shareholders' equity	<u>355.6</u>	<u>345.2</u>
Total liabilities and shareholders' equity	<u>\$ 407.7</u>	<u>\$ 397.4</u>

6.1 Cash

At March 31, 2019, the Company had cash of \$6.3 million compared to \$7.8 million at December 31, 2018. At March 31, 2019 and December 31, 2018, cash consisted of cash on deposit, including restricted cash on deposit of \$4.4 million.

6.2 Loans Receivable

On June 9, 2017, the Company used the proceeds from the Fairfax financing to loan C\$30.0 million to AFHC and C\$20.0 million to AOC on market terms. At December 31, 2018, C\$20,000 in principal repayments had been made by AFHC and on February 22, 2019, AFHC increased the loan by C\$5,000 resulting in an outstanding loan of C\$15,000 to AFHC at March 31, 2019 (C\$10,000 to AFHC at December 31, 2018). At December 31, 2018, C\$10,000 in principal repayments had been made by AOC and on February 22, 2019, AOC made a principal repayment of C\$5,000 resulting in an outstanding loan of C\$5,000 to AOC at March 31, 2019 (C\$10,000 to AOC at December 31, 2018). For additional information on these loans, see discussion in Section 3, *Investments* of this MD&A. At March 31, 2019, the carrying amount of the loans totaled \$15.0 million (December 2018 - \$14.7 million).

6.3 Other Assets

Other assets were \$3.2 million and \$3.5 million at March 31, 2019 and December 31, 2018, respectively. Other assets at March 31, 2019 included the Company's portfolio investment in ASOF LP with a fair value of \$2.5 million (December 31, 2018 - \$2.5 million), receivables from related parties of \$0.4 million (December 31, 2018 - \$0.7 million), capital assets of \$0.1 million (December 31, 2018 - \$0.1 million) and other receivables of \$0.2 million (December 31, 2018 - \$0.2 million).

Depreciation expense for the capital assets was nominal for the three months ended March 31, 2019 and 2018.

6.4 Investments

Investments in Private Entities

The Company's investments in private entities consist of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination, which are accounted for at FVTPL. The fair values of the HIIG Partnership, Arena Finance and Arena Origination at March 31, 2019 were determined to be \$170.3 million, \$166.2 million and \$36.0 million, respectively (December 31, 2018 - \$162.1 million, \$163.9 million and \$34.8 million, respectively). See discussion in Section 3, *Investments* of this MD&A.

Investment in Associates

The Company's investment in associates consists of the Company's indirect investment in Arena Investors. This investment is accounted for using the equity method. The carrying value of the Company's investment in the Associates at March 31, 2019 was \$10.7 million (December 31, 2018 - \$10.6 million). See discussion in Section 3, *Investments* of this MD&A.

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were \$8.1 million and \$9.6 million at March 31, 2019 and December 31, 2018, respectively. Accounts payable and accrued liabilities at March 31, 2019 included liabilities related to accrued employee bonuses of \$0.4 million (December 31, 2018 - \$1.6 million), RSUs of \$5.8 million (December 31, 2018 - \$5.7 million), DSUs of \$1.1 million (December 31, 2018 - \$1.0 million), interest accrued on the Preferred Securities of \$0.5 million (December 31, 2018 - \$0.5 million), unrealized loss on the foreign exchange forward contract of \$0.1 million (December 31, 2018 - \$0.6 million) and other accrued liabilities of \$0.2 million (December 31, 2018 - \$0.2 million). See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

6.6 Preferred Securities

On June 2, 2017, the Company closed the sale to Fairfax of 5,000,000 Preferred Securities for C\$50.0 million. The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The C\$ principal amount of the Preferred Securities was converted to US\$ at the period end exchange rate, resulting in a carrying amount of the Preferred Securities at March 31, 2019 of \$37.4 million (December 31, 2018 - \$36.6 million). See discussion in Section 4, *Financing* of this MD&A.

6.7 Derivative Warrant Liability

In conjunction with the purchase by Fairfax of C\$50.0 million in Preferred Securities on June 2, 2017, Westaim issued to Fairfax 28,571,430 Warrants, with 14,285,715 Warrants having vested on June 2, 2017. The remaining 14,285,715 unvested warrants were cancelled on January 31, 2018. The Warrants are subject to a cashless exercise at the discretion of Fairfax and are classified as a derivative liability and measured at FVTPL. At March 31, 2019, a liability of \$2.2 million (December 31, 2018 - \$2.4 million) representing the estimated fair value of the vested Warrants had been accrued in the consolidated statements of financial position. See discussion in Section 4, *Financing* of this MD&A.

6.8 Site Restoration Provision

The site restoration provision of \$4.4 million at March 31, 2019 and \$3.6 million at December 31, 2018 relates to future site restoration costs associated with soil and groundwater reclamation and remediation costs relating to industrial sites previously owned by the Company.

The Company conducts periodic reviews of the underlying assumptions supporting the provision, taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The amount of the provision is the present value of the estimated future restoration costs discounted using interest rates of high quality government bonds in relation to the estimated timing of cash outflows.

Future reimbursements of costs resulting from indemnifications provided to the Company by previous owners of the industrial sites have not been recognized in the Company's consolidated financial statements. Reimbursements are recorded when received.

6.9 Shareholders' Equity

The details of shareholders' equity are as follows:

(millions)	March 31, 2019	December 31, 2018
Common shares	\$ 382.2	\$ 382.2
Contributed surplus	16.8	16.5
Accumulated other comprehensive loss	(2.2)	(2.2)
Deficit	(41.2)	(51.3)
Shareholders' equity	\$ 355.6	\$ 345.2

Common Shares

The Company had 143,186,718 common shares outstanding at March 31, 2019 and December 31, 2018.

Contributed Surplus

The Company had \$16.8 million in contributed surplus at March 31, 2019 (December 31, 2018 - \$16.5 million). The increase in contributed surplus of \$0.3 million resulted from compensation expense relating to stock options in the three months ended March 31, 2019.

6. ANALYSIS OF FINANCIAL POSITION (continued)

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of \$2.2 million at March 31, 2019 and December 31, 2018 comprised cumulative exchange differences from currency translation as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

Deficit

The decrease in deficit of \$10.1 million from December 31, 2018 to March 31, 2019 is due to the profit for the three months ended March 31, 2019.

7. OUTLOOK

The focus of Arena's management team is to continue to expand Arena's diversified portfolio of quality senior ranking credit investments, increase its pipeline of investment opportunities, and grow its AUM primarily by attracting new third-party investors. Arena's investments are performing at or above expectations and Arena had 47 employees as at March 31, 2019.

Following the catastrophe losses experienced by the insurance industry in 2017 and 2018 due to adverse weather conditions in the United States and globally, the Company believes that the industry is at the start of a cycle of increasing insurance rates and improved terms. This expected improvement in industry conditions, combined with operational enhancement initiatives undertaken by HIIG and a measured increase in the retention of premium, is expected to result in an improvement in HIIG's financial performance.

The Company is continuing to seek additional investment opportunities to create shareholder value through partnering with other aligned and experienced management teams to build profitable businesses that generate attractive returns over the long term.

8. LIQUIDITY AND CAPITAL RESOURCES

Capital Management Objectives

The Company's capital currently consists of the Preferred Securities and common shareholders' equity.

The Company's guiding principles for capital management are to maintain the stability and safety of the Company's capital for its stakeholders through an appropriate capital mix and a strong balance sheet.

The Company monitors the mix and adequacy of its capital on a continuous basis. The Company employs internal metrics. The capital of the Company is not subject to any restrictions. Units of the HIIG Partnership cannot be issued without the prior approval of the unitholders and, in connection with any such issuance, the holders of units have pre-emptive rights entitling them to purchase their pro rata share of any units that may be so issued.

Share Capital

The Company's authorized share capital consists of an unlimited number of common shares, Class A preferred shares and Class B preferred shares.

At March 31, 2019 and December 31, 2018, the Company had 143,186,718 common shares outstanding, with a stated capital of \$382.2 million.

There were no Class A or Class B preferred shares outstanding at March 31, 2019 and December 31, 2018.

Dividends

No dividends were paid in the three months ended March 31, 2019 and 2018.

Share-based Compensation Plans

The Company's long-term equity incentive plan (the "Incentive Plan") provides for grants of RSUs, DSUs, stock appreciation rights and other share-based awards. The Company also has a stand-alone incentive stock option plan (the "Option Plan").

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

At March 31, 2019, the Company had 10,428,337 stock options outstanding (December 31, 2018 – 10,428,337 stock options outstanding). On April 1, 2016, 2,752,940 options were granted to certain officers and employees of the Company. These options have a term of seven years, vest in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and have an exercise price of C\$3.25. At March 31, 2019, 1,835,293 of these 2,752,940 outstanding options had vested. On April 3, 2017, 3,860,397 additional options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on December 31, 2017, December 31, 2018 and December 31, 2019, and have an exercise price of C\$3.00. At March 31, 2019, 2,573,598 of these 3,860,397 additional options had vested. On January 18, 2018, 3,815,000 additional options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on December 31, 2018, December 31, 2019 and December 31, 2020, and have an exercise price of C\$3.10. At March 31, 2019, 1,271,667 of these 3,815,000 additional options had vested.

In the three months ended March 31, 2019, compensation expense relating to options was \$0.3 million (2018 - \$0.6 million), respectively, with a corresponding increase to contributed surplus.

The Company also had 3,034,261 RSUs outstanding at March 31, 2019 (December 31, 2018 - 3,034,261 RSUs outstanding). On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. At March 31, 2019, all of these RSUs had vested, of which 265,937 RSUs had been exercised and 2,109,063 RSUs are outstanding. On April 1, 2016, 925,198 additional RSUs were granted to certain officers and employees of the Company. At March 31, 2019, all of the RSUs had vested and 925,198 units are outstanding. The RSUs, at the election of the holder, can be settled in common shares of the Company or cash based on the prevailing market price of the common shares on the settlement date.

At March 31, 2019, 548,039 DSUs were vested and outstanding (December 31, 2018 – 518,855 DSUs were vested and outstanding). DSUs are issued to certain directors in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant. With respect to the DSUs that are outstanding, they are paid out in cash no later than the end of the calendar year following the year the participant ceases to be a director. In the three months ended March 31, 2019 and 2018, no DSUs were exercised.

At March 31, 2019, accounts payable and accrued liabilities included amounts related to outstanding RSUs of \$5.8 million (December 31, 2018 - \$5.7 million) and outstanding DSUs of \$1.1 million (December 31, 2018 - \$1.0 million).

Market for Securities

Westaim's common shares trade on the TSXV under the symbol "WED".

Cash Flow Objectives

The Company manages its liquidity with a view to ensuring that there is sufficient cash to meet all financial commitments and obligations as they fall due. The Company has sufficient funds to meet its financial obligations. As part of pursuing one or more new opportunities, the Company may from time to time issue shares from treasury.

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8. LIQUIDITY AND CAPITAL RESOURCES (continued)

The following tables illustrate the duration of the financial assets of the Company compared to its financial obligations:

March 31, 2019 (millions)	One year or less	One to five years	Later than five years	Total
Financial assets:				
Cash	\$ 6.3	\$ -	\$ -	\$ 6.3
AFHC and AOC loans receivable	-	15.0	-	15.0
Other assets (excluding capital assets)	0.6	-	2.5	3.1
Investments	-	28.3	354.9	383.2
Total financial assets	6.9	43.3	357.4	407.6
Financial obligations:				
Accounts payable and accrued liabilities	1.2	-	6.9	8.1
Preferred securities	-	-	37.4	37.4
Site restoration provision	-	-	4.4	4.4
Total financial obligations	1.2	-	48.7	49.9
Financial assets net of financial obligations	\$ 5.7	\$ 43.3	\$ 308.7	\$ 357.7

December 31, 2018 (millions)	One year or less	One to five years	Later than five years	Total
Financial assets:				
Cash	\$ 7.8	\$ -	\$ -	\$ 7.8
AFHC and AOC loans receivable	-	14.7	-	14.7
Other assets (excluding capital assets)	0.9	-	2.5	3.4
Investments	-	28.3	343.1	371.4
Total financial assets	8.7	43.0	345.6	397.3
Financial obligations:				
Accounts payable and accrued liabilities	2.9	-	6.7	9.6
Preferred securities	-	-	36.6	36.6
Site restoration provision	-	-	3.6	3.6
Total financial obligations	2.9	-	46.9	49.8
Financial assets net of financial obligations	\$ 5.8	\$ 43.0	\$ 298.7	\$ 347.5

The Company's investment guidelines stress preservation of capital and market liquidity to support payment of liabilities. The matching of the duration of financial assets and liabilities is monitored with a view to ensuring that all obligations will be met.

9. RELATED PARTY TRANSACTIONS

Related parties include key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel or their close family members. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and include executive officers and directors of the Company.

Compensation expenses related to the Company's key management personnel are as follows:

	Three months ended March 31	
(millions)	2019	2018
Salaries and benefits	\$ 0.8	\$ 0.9
Share-based compensation	0.3	-
	\$ 1.1	\$ 0.9

Fees paid to Hartford Consulting, Inc. (the "Consultant"), a company owned by William R. Andrus, a director of HIIG, for insurance industry related consulting services and compensation expense relating to RSUs issued to the Consultant were both nominal in the three months ended March 31, 2019 and 2018. At March 31, 2019, a liability of \$0.1 million (December 31, 2018 - \$0.1 million) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

9. RELATED PARTY TRANSACTIONS (continued)

The Company earned and received interest on loans to related parties as follows:

(millions)	Three months ended March 31	
	2019	2018
Term loan to Arena Origination	\$ 0.2	\$ 0.2
Demand loan to AOC	0.1	0.2
Demand loan to AFHC	0.2	0.1
Revolving Loan Facility to Arena Investors	0.2	0.2
	\$ 0.7	\$ 0.7

The Company earned advisory fees from the Arena Group of \$0.4 million and \$0.1 million in the three months ended March 31, 2019 and 2018, respectively. The Company also earned advisory fees from HIIG of \$0.3 million in each of the three months ended March 31, 2019 and 2018.

10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Management used net asset value as the primary valuation technique in determining the fair value of the Company's investments in private entities at March 31, 2019. Management determined that this valuation technique produced the best indicator of the fair value of the HIIG Partnership, Arena Finance and Arena Origination at March 31, 2019. The significant unobservable inputs used in the valuation of the HIIG Partnership, Arena Finance and Arena Origination at March 31, 2019 were the equity of each of the entities at March 31, 2019 and the multiple applied. For a detailed description of the valuation of the Company's investments in private entities, see note 6 to the Company's audited annual consolidated financial statements for the years ended December 31, 2018 and 2017. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had an active market for the investment existed, and the differences could be material.

The fair value of the vested Warrants is estimated using the Monte Carlo pricing model which contains various assumptions made by management. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

Other key estimates include the Company's provision for site restoration, fair value of share-based compensation, and unrecognized deferred tax assets. Details of these items are disclosed in note 10, note 13 and note 15, respectively, to the Company's audited annual consolidated financial statements for the years ended December 31, 2018 and 2017.

11. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS

A description of the Company's accounting policies is disclosed in note 2 to the audited annual consolidated financial statements for the years ended December 31, 2018 and 2017.

A description of the Company's recently adopted and pending accounting pronouncements are as follows:

(a) Adopted in the current period

On January 13, 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16") which replaced IAS 17 "Leases". As required, the Company adopted IFRS 16, effective January 1, 2019. IFRS 16 eliminates the distinction between operating and finance leases for lessees, requiring instead that the Company recognize a right-of-use asset and a lease liability at lease commencement for all leases, with certain exceptions permitted through elections and practical expedients on the transition date. The adoption of IFRS 16 did not have a material impact on the Company's consolidated financial statements. The Company adopted the modified retrospective approach of adoption whereby comparative periods were not restated.

11. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS (continued)

In June 2017, the IASB published IFRIC 23, "*Uncertainty over Income Tax Treatments*" ("IFRIC 23") effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The adoption of IFRIC 23 did not have a material impact on the consolidated financial statements.

12. QUARTERLY FINANCIAL INFORMATION

	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
(millions)	2019	2018	2018	2018	2018	2017	2017	2017
Revenue	\$ 1.4	\$ 1.1	\$ 1.2	\$ 1.1	\$ 1.1	\$ 1.2	\$ 1.1	\$ 0.7
Net results of investments - gain	11.8	2.4	5.3	4.4	4.4	9.0	4.3	3.3
Net (expenses) recovery of expenses	(3.1)	3.2	(2.1)	(5.6)	0.4	(3.4)	0.8	(13.5)
Profit (loss) and comprehensive income (loss)	\$ 10.1	\$ 6.7	\$ 4.4	\$ (0.1)	\$ 5.9	\$ 6.8	\$ 6.2	\$ (9.5)

The Company's quarterly financial results do not follow any special trends and are not generally subject to seasonal variation but are instead impacted by general market and economic conditions, regulatory risks and foreign exchange fluctuations. In addition, the value of the derivative warrant liability, site restoration obligations and share-based compensation are impacted by fluctuations in the trading price of the Company's shares, discount rates, and foreign exchange fluctuations.

13. RISKS

The Company is subject to a number of risks which could affect its business, prospects, financial condition, results of operations and cash flows, including risks relating to lack of significant revenues, regulatory risks, foreign exchange risks and risks relating to the businesses of HIIG and Arena. A detailed description of the risk factors associated with the Company and its business is contained in the Company's Annual Information Form dated March 27, 2019 for its fiscal year ended December 31, 2018 which is available on SEDAR at www.sedar.com.

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES

ARENA FINANCE

The investments of AFHC and AFHC's subsidiaries shown by investment strategy are as follows:

Investments by Strategy				March 31, 2019		
(unaudited)						
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments
Corporate Private Credit	26	\$ 50.5	\$ 55.3	32.6%	23.7%	8.9%
Real Estate Private Credit and Real Estate Assets	20	26.9	26.7	15.7%	15.7%	-
Commercial and Industrial Assets	23	57.7	59.8	35.2%	25.4%	9.8%
Structured Finance	3	5.0	5.0	3.0%	3.0%	-
Consumer Assets	11	17.3	16.2	9.6%	9.6%	-
Other Securities	26	7.8	6.6	3.9%	1.7%	2.2%
	109	\$ 165.2	\$ 169.6	100.0%	79.1%	20.9%

Investments by Strategy				December 31, 2018		
(unaudited)						
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments
Corporate Private Credit	20	\$ 41.6	\$ 45.9	28.0%	22.5%	5.5%
Real Estate Private Credit and Real Estate Assets	19	24.2	24.3	14.8%	14.8%	-
Commercial and Industrial Assets	23	64.2	66.1	40.2%	40.0%	0.2%
Structured Finance	3	2.9	2.9	1.8%	1.8%	-
Consumer Assets	11	19.8	18.4	11.2%	11.2%	-
Other Securities	27	8.2	6.5	4.0%	1.5%	2.5%
	103	\$ 160.9	\$ 164.1	100.0%	91.8%	8.2%

Investments in Corporate Private Credit, Real Estate Private Credit and Real Estate Assets, and Structured Finance relate to loans issued to privately held entities. Investments in Other Securities are net of short positions and comprise publicly traded corporate bonds, equity securities, bank debt, structured convertible notes and derivatives.

The investments of AFHC and AFHC's subsidiaries shown by geographic breakdown are as follows:

Investments by Geographic Breakdown				March 31, 2019			December 31, 2018		
(unaudited)									
(millions except for percentage)	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets									
North America	\$ 133.5	\$ 137.6	81.1%	\$ 132.6	\$ 135.9	82.8%			
Europe	12.3	13.7	8.1%	9.8	11.7	7.1%			
Asia/Pacific	7.7	7.8	4.6%	6.3	6.0	3.7%			
Latin America	3.9	3.9	2.3%	4.0	4.0	2.4%			
	157.4	163.0	96.1%	152.7	157.6	96.0%			
Other Securities ¹									
North America	0.6	0.4	0.2%	0.6	0.1	0.1%			
Europe	3.7	3.0	1.8%	4.4	3.6	2.2%			
Asia/Pacific	0.7	0.6	0.4%	0.5	0.5	0.3%			
Other	2.8	2.6	1.5%	2.7	2.3	1.4%			
	7.8	6.6	3.9%	8.2	6.5	4.0%			
	\$ 165.2	\$ 169.6	100.0%	\$ 160.9	\$ 164.1	100.0%			

¹ Net of short positions.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

The investments of AFHC and AFHC's subsidiaries shown by industry are as follows:

Investments by Industry (unaudited)	March 31, 2019			December 31, 2018		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
(millions except for percentage)						
Loans / Private Assets						
Corporate Private Credit						
Business Services	\$ 17.6	\$ 19.2	11.3%	\$ 10.7	\$ 11.9	7.2%
Consumer Products	1.0	1.0	0.6%	0.9	0.9	0.6%
Financial Services	3.6	3.7	2.2%	3.7	3.7	2.3%
Healthcare Services	2.9	3.0	1.7%	2.3	2.3	1.4%
Oil and Gas ⁽¹⁾	12.4	13.9	8.2%	11.4	12.9	7.9%
Other Assets	10.7	12.2	7.2%	10.2	11.8	7.2%
Retail	2.3	2.3	1.4%	2.4	2.4	1.4%
	50.5	55.3	32.6%	41.6	45.9	28.0%
Real Estate Private Credit and Real Estate Assets						
Commercial	0.4	0.4	0.2%	0.4	0.4	0.2%
Hospitality	9.0	8.9	5.2%	7.0	7.3	4.4%
Land						
- Commercial Development	5.3	5.3	3.2%	5.3	5.4	3.3%
Land						
- Multi-Family Development	2.6	2.6	1.5%	2.6	2.6	1.6%
Land						
- Single-Family Development	2.7	2.7	1.6%	2.6	2.5	1.5%
Residential	6.1	6.0	3.5%	5.5	5.3	3.3%
Retail	0.8	0.8	0.5%	0.8	0.8	0.5%
	26.9	26.7	15.7%	24.2	24.3	14.8%
Commercial and Industrial Assets						
Commercial & Industrial	1.9	1.9	1.1%	1.9	1.9	1.1%
Lease/Equipment	6.3	7.0	4.1%	9.5	10.9	6.7%
Other Assets	49.5	50.9	30.0%	52.8	53.3	32.4%
	57.7	59.8	35.2%	64.2	66.1	40.2%
Structured Finance						
Other Assets	5.0	5.0	3.0%	2.9	2.9	1.8%
	5.0	5.0	3.0%	2.9	2.9	1.8%
Consumer Assets						
Consumer	17.3	16.2	9.6%	19.8	18.4	11.2%
	17.3	16.2	9.6%	19.8	18.4	11.2%
Total Loans / Private Assets	157.4	163.0	96.1%	152.7	157.6	96.0%
Other Securities ⁽²⁾						
Consumer Products	0.2	0.2	0.1%	3.0	1.8	1.1%
Financial Services	0.4	0.3	0.2%	0.2	0.2	0.1%
Foreign Exchange Forwards	-	0.1	0.1%	-	(0.1)	(0.1)%
Healthcare Services	-	0.2	0.1%	-	0.1	0.1%
Industrial	0.1	0.1	0.1%	0.2	0.2	0.1%
Information Technology	0.8	0.7	0.4%	0.8	0.7	0.5%
Oil and Gas	0.9	0.9	0.5%	0.9	0.9	0.5%
Telecommunications	5.4	4.1	2.4%	3.1	2.7	1.7%
	7.8	6.6	3.9%	8.2	6.5	4.0%
	\$ 165.2	\$ 169.6	100.0%	\$ 160.9	\$ 164.1	100.0%

¹ AFHC's exposure to commodity price risk in its private loans is generally mitigated as borrowers are typically required to hedge the commodity price risk by selling product forward and/or employing the use of other derivatives to substantially reduce all risk.

² Net of short positions.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of the Loan and Private Asset positions of AFHC and AFHC's subsidiaries are as follows:

Details of Loan and Private Asset Positions (unaudited) (millions except for percentage)							March 31, 2019	
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Corporate Private Credit								
CPC-2209	Other Assets	\$ 6.5	\$ 7.4	\$ 8.9	Europe	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3198	Oil and Gas	3.8	3.8	5.5	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3222	Oil and Gas	4.5	4.4	4.1	North America	First Lien	13.59%	100.0%+
CPC-3677	Business Services	3.7	3.7	4.0	North America	First Lien	11.10%	51.0%
CPC-3349	Business Services	5.3	3.7	3.8	Asia/Pacific	Second Lien	12.00%	55.0%
CPC-2514	Other Assets	3.4	3.3	3.3	Latin America	First Lien	12.49%	36.0%
CPC-2364	Retail	2.4	2.3	2.3	North America	First Lien ⁽⁵⁾	11.33%	45.0%
CPC-1361TL	Healthcare Services	2.3	2.3	2.3	North America	First Lien	12.99%	48.0%
CPC-1266TL	Business Services	2.3	2.3	2.3	North America	First Lien	9.49%	43.3%
CPC-2208	Business Services	2.2	2.1	2.2	North America	Second Lien	11.75%	13.0%
CPC-3316	Business Services	2.1	2.1	2.1	North America	Second Lien	10.49%	65.0%
CPC-3199	Oil and Gas	1.9	1.8	2.0	North America	First Lien	15.00%	63.0%
CPC-2752	Financial Services	1.6	1.6	1.6	North America	First Lien	14.50%	47.0%
CPC-1927	Financial Services	1.4	1.3	1.3	North America	First Lien	15.00%	42.0%
CPC-3376	Business Services	1.3	1.4	1.3	North America	Second Lien	10.99%	25.0%
CPC-2104	Business Services	-	-	1.2	North America	First Lien	n/a ⁽⁶⁾	n/a ⁽⁶⁾
CPC-2170	Oil and Gas	2.2	1.2	1.2	North America	First Lien ⁽⁷⁾	5.75%	100.0%+
CPC-3107	Business Services	1.1	1.1	1.1	North America	Second Lien	12.44%	27.0%
CPC-3824	Oil and Gas	1.9	1.0	0.9	North America	First Lien	10.35%	35.0%
CPC-2397	Financial Services	0.7	0.7	0.8	North America	First Lien	20.10%	90.0%
CPC-1265TL	Consumer Products	0.7	0.7	0.7	North America	First Lien	9.60%	27.6%
CPC-3083	Business Services	0.7	0.7	0.7	North America	Equity	n/a ⁽⁸⁾	n/a ⁽⁸⁾
CPC-3391	Healthcare Services	0.6	0.6	0.7	North America	First Lien	10.12%	16.0%
CPC-3108	Business Services	0.4	0.5	0.5	North America	Second Lien	10.74%	7.0%
CPC-1265RC	Consumer Products	0.4	0.3	0.3	North America	First Lien	9.60%	27.6%
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-1266RC	Business Services	0.4	-	-	North America	First Lien	9.49%	43.3%
Subtotal / Weighted average %		54.0	50.5	55.3			12.06%	52.5%
Real Estate Private Credit and Real Estate Assets								
REPC-1207	Hospitality	4.3	4.9	4.8	Europe	First Mortgage	7.00%	43.0%
REPC-1068S4	Residential	3.6	3.6	3.7	North America	First Mortgage ⁽⁵⁾	12.99%	61.0%
REPC-2277	Land							
	- Commercial Development	3.1	3.1	3.1	North America	First Mortgage	15.00%	50.0%
REPC-2692	Land							
	- Single-Family Development	3.8	2.7	2.7	Asia/Pacific	First Mortgage	13.50%	33.0%
REPC-2683	Land							
	- Multi-Family Development	2.6	2.6	2.6	North America	First Mortgage	13.24%	59.0%
REPC-2592	Land							
	- Commercial Development	1.9	1.9	2.0	North America	First Mortgage	11.24%	79.0%
REPC-2214	Hospitality	1.3	1.3	1.3	North America	First Mortgage	11.24%	100.0%+
REPC-1766	Residential	1.0	1.1	0.9	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
REPC-2560	Hospitality	0.9	0.9	0.9	North America	First Mortgage	11.24%	100.0%+
REPC-2497	Hospitality	0.9	0.9	0.9	North America	First Mortgage	11.24%	100.0%+
REPC-2187	Retail	0.8	0.8	0.8	North America	First Mortgage	10.69%	82.0%
REPC-3037	Hospitality	0.7	0.7	0.7	North America	First Mortgage	10.75%	77.0%
REPC-1068	Residential	0.7	0.7	0.7	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
REPC-4097	Residential	2.9	0.6	0.6	Asia/Pacific	First Mortgage	11.00%	66.0%
REPC-2159	Commercial	0.4	0.4	0.4	North America	First Mortgage	12.00%	10.4%
REPC-3035	Hospitality	0.3	0.3	0.3	North America	First Mortgage	12.49%	63.0%
REPC-1017	Land							
	- Commercial Development	0.1	0.1	0.1	North America	First Mortgage	15.00%	66.0%
REPC-1047	Land							
	- Commercial Development	0.1	0.1	0.1	North America	First Mortgage	15.00%	53.0%
REPC-1042	Residential	0.1	0.1	0.1	North America	First Mortgage	15.00%	32.0%
REPC-1015	Land							
	- Commercial Development	0.2	0.1	-	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
Subtotal / Weighted average %		29.7	26.9	26.7			11.63%	60.6%

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of Loan and Private Asset Positions (continued)							March 31, 2019	
(unaudited)								
(millions except for percentage)								
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Commercial and Industrial Assets								
CI-3045	Other assets	8.6	8.6	9.1	North America	Asset Pool	n/a ⁽¹⁰⁾	66.0%
CI-1800	Other assets	7.2	7.2	7.3	North America	First Lien	14.00%	28.9%
CI-2253	Other assets	6.4	6.4	7.3	North America	First Lien	14.00%	92.0%
CI-2686	Other assets	6.2	5.4	5.4	North America	First Lien	18.74%	80.0%
CI-3978	Other assets	4.8	4.8	4.7	North America	Hard Asset	n/a ⁽¹¹⁾	n/a ⁽¹¹⁾
CI-2651	Other assets	4.0	4.3	4.3	North America	Hard Asset	8.00%	75.0%
CI-2201	Lease/Equipment	3.2	3.2	3.7	North America	Hard Asset	n/a ⁽¹¹⁾	n/a ⁽¹¹⁾
CI-3044	Other assets	3.0	2.9	2.9	North America	First Lien	n/a ⁽¹²⁾	75.0%
CI-1999	Other assets	2.8	2.8	2.7	North America	First Lien	14.00%	100.0%+
CI-1519	Other assets	3.0	2.5	2.5	North America	Second Lien	15.00%	38.4%
CI-2808	Other assets	2.3	2.2	2.3	North America	First Lien	14.00%	80.0%
CI-1520	Commercial & Industrial	1.9	1.9	1.9	North America	First Lien	n/a ⁽¹³⁾	41.0%
CI-2866	Lease/Equipment	1.4	1.4	1.4	North America	Hard Asset	11.29%	80.0%
CI-2203	Lease/Equipment	1.2	1.2	1.2	North America	Hard Asset	n/a ⁽¹¹⁾	n/a ⁽¹¹⁾
CI-2064	Other assets	1.6	0.9	0.9	North America	First Lien	13.49%	74.0%
CI-4091	Other assets	0.7	0.7	0.7	Asia/Pacific	Asset Pool	n/a ⁽¹⁰⁾	80.0%
CI-2000	Other assets	0.2	0.2	0.5	North America	Equity	n/a ⁽⁸⁾	n/a ⁽⁸⁾
CI-1716	Lease/Equipment	0.1	0.1	0.5	North America	Hard Asset	n/a ⁽¹¹⁾	n/a ⁽¹¹⁾
CI-1035	Other assets	0.5	0.4	0.3	North America	First Lien	12.24%	100.0%+
CI-2323	Lease/Equipment	0.1	0.4	0.2	North America	Hard Asset	n/a ⁽¹¹⁾	n/a ⁽¹¹⁾
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.99%	100.0%+
Subtotal / Weighted average %		59.4	57.7	59.8			13.94%	69.6%
Structured Finance								
SF-2228	Other assets	3.0	2.9	2.9	North America	First Lien	16.00%	80.0%
SF-2239	Other assets	1.9	1.9	1.9	North America	First Lien	n/a ⁽¹²⁾	37.0%
SF-1038	Other assets	0.2	0.2	0.2	North America	First Lien	n/a ⁽¹³⁾	18.0%
Subtotal / Weighted average %		5.1	5.0	5.0			16.00%	61.1%
Consumer Assets								
CA-1839	Consumer	3.4	3.4	3.3	North America	First Lien	18.00%	66.0%
CA-1052F	Consumer	2.8	2.8	2.6	North America	First Lien	15.66%	100.0%
CA-2620	Consumer	1.8	1.7	2.3	North America	First Lien	n/a ⁽¹⁴⁾	25.0%
CA-1788REOS3	Consumer	1.3	1.3	1.2	North America	First Lien	n/a ⁽¹⁴⁾	80.0%
CA-2139	Consumer	1.0	1.1	1.0	North America	First Lien	n/a ⁽¹⁴⁾	100.0%+
CA-1788/1933	Consumer	0.6	0.6	0.9	North America	First Lien	n/a ⁽¹⁴⁾	80.0%
CA-2204	Consumer	4.3	0.8	0.8	North America	First Lien	15.60%	80.0%
CA-2373	Consumer	0.4	0.4	0.8	North America	First Lien	12.00%	52.0%
CA-1933REO	Consumer	0.8	0.8	0.7	North America	First Lien	n/a ⁽¹⁴⁾	80.0%
CA-2199	Consumer	0.6	0.6	0.7	North America	First Lien	12.00%	95.0%
CA-2762	Consumer	0.6	0.6	0.6	Latin America	Asset Pool	n/a ⁽¹⁵⁾	n/a ⁽¹⁵⁾
CA-2729	Consumer	0.8	0.8	0.5	North America	First Lien	n/a ⁽¹²⁾	100.0%+
CA-1788REO	Consumer	0.4	0.4	0.3	North America	First Lien	n/a ⁽¹⁴⁾	80.0%
CA-4007	Consumer	0.3	0.3	0.3	North America	Second Lien	16.00%	54.0%
CA-1934	Consumer	0.2	0.2	0.2	North America	First Lien	n/a ⁽¹⁴⁾	80.0%
CA-1052S	Consumer	1.5	1.5	-	North America	First Lien	15.66%	100.0%+
Subtotal / Weighted average %		20.8	17.3	16.2			15.96%	75.4%
Total / Weighted average %		\$ 169.0	\$ 157.4	\$ 163.0			12.96%	63.3%

¹ Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.

² Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at March 31, 2019. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

³ Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of March 31, 2019.

⁴ Investment is not a loan. Metric is not applicable.

⁵ Denotes subordinate position within the structure.

⁶ Investment is remaining profit participation on a paid off loan.

⁷ The first lien term loan is primed by a debtor-in-possession loan, of which the Arena group is a participant.

⁸ Investment is a preferred equity investment.

⁹ Investment represents owned real estate acquired through lender default.

¹⁰ Investment represents a credit pool purchase with no stated interest rate.

¹¹ Investment represents an aircraft purchased. Coupon and LTV not applicable to hard assets.

¹² Investment with no stated coupon rate.

¹³ Investment in litigation claim proceeds with no stated coupon rate.

¹⁴ Interest not accrued on loans purchased as non-performing.

¹⁵ Investment represents an unsecured credit pool purchase with no stated interest rate.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of the Loan and Private Asset positions of AFHC and AFHC's subsidiaries are as follows:

Details of Loan and Private Asset Positions (unaudited) (millions except for percentage)							December 31, 2018	
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Corporate Private Credit								
CPC-2209	Other Assets	\$ 6.9	\$ 6.9	\$ 8.5	Europe	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3198	Oil and Gas	3.7	3.7	4.8	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3222	Oil and Gas	4.6	4.5	4.5	North America	First Lien	13.88%	59.0%
CPC-3349	Business Services	4.4	3.7	3.5	Asia/Pacific	Second Lien	12.00%	54.0%
CPC-2514	Other Assets	3.4	3.3	3.3	Latin America	First Lien	12.50%	37.0%
CPC-2364	Retail	2.5	2.4	2.4	North America	First Lien ⁽⁵⁾	11.54%	55.0%
CPC-1266TL	Business Services	2.3	2.3	2.4	North America	First Lien	9.50%	44.0%
CPC-1361TL	Healthcare Services	2.3	2.3	2.3	North America	First Lien	13.00%	62.0%
CPC-2208	Business Services	2.2	2.1	2.2	North America	Second Lien	11.75%	13.0%
CPC-3316	Business Services	2.1	2.1	2.1	North America	Second Lien	10.50%	72.0%
CPC-3199	Oil and Gas	1.9	1.8	2.0	North America	First Lien	15.00%	40.0%
CPC-2752	Financial Services	1.6	1.6	1.6	North America	First Lien	14.50%	40.0%
CPC-1927	Financial Services	1.4	1.4	1.4	North America	First Lien	15.00%	49.0%
CPC-2170	Oil and Gas	2.2	1.2	1.4	North America	First Lien ⁽⁶⁾	5.75%	87.0%
CPC-2104	Business Services	-	-	1.2	North America	First Lien	n/a ⁽⁷⁾	n/a ⁽⁷⁾
CPC-2397	Financial Services	0.7	0.7	0.7	North America	First Lien	20.31%	90.0%
CPC-1265TL	Consumer Products	0.7	0.7	0.7	North America	First Lien	9.81%	25.0%
CPC-3083	Business Services	0.5	0.5	0.5	North America	Equity	n/a ⁽⁸⁾	n/a ⁽⁸⁾
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-1265RC	Consumer Products	0.4	0.2	0.2	North America	First Lien	9.81%	25.0%
CPC-1266RC	Business Services	0.4	-	-	North America	First Lien	9.50%	44.0%
Subtotal / Weighted average %		44.4	41.6	45.9			12.39%	50.7%
Real Estate Private Credit and Real Estate Assets								
REPC-1068S4	Residential	3.7	3.7	3.7	North America	First Mortgage ⁽⁵⁾	13.00%	61.0%
REPC-1207	Hospitality	3.1	2.9	3.2	Europe	First Mortgage	7.00%	43.0%
REPC-2277	Land							
	- Commercial Development	3.1	3.1	3.1	North America	First Mortgage	15.00%	50.0%
REPC-2683	Land							
	- Multi-Family Development	2.6	2.6	2.6	North America	First Mortgage	13.25%	59.0%
REPC-2692	Land							
	- Single-Family Development	2.5	2.6	2.5	Asia/Pacific	First Mortgage	13.50%	33.0%
REPC-2592	Land							
	- Commercial Development	1.9	1.9	2.0	North America	First Mortgage	11.25%	79.0%
REPC-2214	Hospitality	1.3	1.3	1.3	North America	First Mortgage	11.25%	67.0%
REPC-1766	Residential	0.9	1.1	0.9	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
REPC-2560	Hospitality	0.9	0.9	0.9	North America	First Mortgage	11.25%	68.0%
REPC-2497	Hospitality	0.9	0.9	0.9	North America	First Mortgage	11.25%	82.0%
REPC-2187	Retail	0.8	0.8	0.8	North America	First Mortgage	10.70%	82.0%
REPC-3037	Hospitality	0.7	0.7	0.7	North America	First Mortgage	10.75%	77.0%
REPC-1068	Residential	0.6	0.6	0.6	North America	First Mortgage	n/a ⁽¹⁰⁾	n/a
REPC-2159	Commercial	0.4	0.4	0.4	North America	First Mortgage	12.00%	10.0%
REPC-3035	Hospitality	0.3	0.3	0.3	North America	First Mortgage	12.50%	63.0%
REPC-1017	Land							
	- Commercial Development	0.1	0.1	0.2	North America	First Mortgage	15.00%	66.0%
REPC-1047	Land							
	- Commercial Development	0.1	0.1	0.1	North America	First Mortgage	15.00%	53.0%
REPC-1042	Residential	0.1	0.1	0.1	North America	First Mortgage	15.00%	32.0%
REPC-1015	Land							
	- Commercial Development	0.2	0.1	-	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
Subtotal / Weighted average %		24.2	24.2	24.3			11.98%	57.1%

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of the Loan and Private Asset positions of AFHC and AFHC's subsidiaries are as follows:

Details of Loan and Private Asset Positions (continued)							December 31, 2018	
(unaudited)								
(millions except for percentage)								
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Commercial and Industrial Assets								
CI-3045	Other assets	8.3	8.3	8.2	North America	Asset Pool	n/a ⁽¹¹⁾	66.0%
CI-2253	Other assets	7.0	7.0	7.9	North America	First Lien	14.00%	92.0%
CI-1811	Other assets	5.8	5.8	5.8	North America	Second Lien	15.00%	89.0%
CI-1800	Other assets	5.1	5.1	5.2	North America	First Lien	14.00%	26.0%
CI-3978	Other assets	4.8	4.8	4.8	North America	Hard Asset	n/a	n/a
CI-2686	Other assets	6.2	4.8	4.8	North America	First Lien	18.75%	80.0%
CI-2201	Lease/Equipment	3.8	3.9	4.3	North America	Hard Asset	n/a ⁽¹²⁾	n/a ⁽¹²⁾
CI-2651	Other assets	4.0	4.3	4.3	North America	Hard Asset	8.00%	75.0%
CI-3044	Other assets	3.0	2.8	2.8	North America	First Lien	n/a	75.0%
CI-1999	Other assets	2.8	3.0	2.7	North America	First Lien	14.00%	100.0%
CI-2866	Lease/Equipment	2.5	2.5	2.5	North America	Hard Asset	11.29%	80.0%
CI-1519	Other assets	3.0	2.5	2.5	North America	Second Lien	15.00%	38.0%
CI-2808	Other assets	2.4	2.4	2.4	North America	First Lien	14.00%	80.0%
CI-1793	Lease/Equipment	1.3	1.3	2.0	North America	Hard Asset	n/a ⁽¹²⁾	n/a ⁽¹²⁾
CI-1520	Commercial & Industrial	1.9	1.9	1.9	North America	First Lien	n/a ⁽¹³⁾	41.0%
CI-2203	Lease/Equipment	1.4	1.4	1.4	North America	Hard Asset	n/a ⁽¹²⁾	n/a ⁽¹²⁾
CI-2064	Other assets	1.5	1.2	1.3	North America	First Lien	13.50%	76.0%
CI-1716	Lease/Equipment	0.2	0.2	0.6	North America	Hard Asset	n/a ⁽¹²⁾	n/a ⁽¹²⁾
CI-2000	Other assets	0.2	0.2	0.3	North America	Equity	n/a ⁽⁸⁾	n/a ⁽⁸⁾
CI-1035	Other assets	0.4	0.4	0.3	North America	First Lien	11.63%	100.0%
CI-2323	Lease/Equipment	0.2	0.2	0.1	North America	Hard Asset	n/a ⁽¹²⁾	n/a ⁽¹²⁾
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.38%	100.0%
Subtotal / Weighted average %		66.0	86.9	66.1			14.42%	72.2%

Details of Loan and Private Asset Positions (continued)							December 31, 2018	
(unaudited)								
(millions except for percentage)								
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Structured Finance								
SF-2228	Other assets	2.4	2.4	2.4	North America	First Lien	16.00%	80.0%
SF-2261	Other assets	0.3	0.3	0.3	North America	First Lien	18.00%	78.0%
SF-1038	Other assets	0.2	0.2	0.2	North America	First Lien	n/a ⁽¹⁵⁾	5.0%
Subtotal / Weighted average %		2.9	2.9	2.9			16.22%	75.3%

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA FINANCE

Details of Loan and Private Asset Positions (continued)							December 31, 2018	
(unaudited)								
(millions except for percentage)								
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Consumer Assets								
CA-1839	Consumer	3.7	3.7	3.7	North America	First Lien	18.00%	66.0%
CA-1052F	Consumer	2.9	2.9	2.7	North America	First Lien	15.66%	100.0%
CA-2620	Consumer	2.6	2.4	2.6	North America	First Lien	n/a ⁽¹⁰⁾	25.0%
CA-2204	Consumer	4.3	1.4	1.4	North America	First Lien	15.81%	80.0%
CA-1788REOS3	Consumer	1.3	1.3	1.2	North America	First Lien	n/a ⁽¹⁰⁾	78.0%
CA-2373	Consumer	0.9	0.9	1.3	North America	First Lien	12.00%	52.0%
CA-1788/1933	Consumer	0.8	0.8	1.2	North America	First Lien	n/a ⁽¹⁰⁾	78.0%
CA-2139	Consumer	1.0	1.1	1.0	North America	First Lien	n/a ⁽¹⁰⁾	100.0%
CA-1933REO	Consumer	0.8	0.8	0.7	North America	First Lien	n/a ⁽¹⁰⁾	78.0%
CA-2762	Consumer	0.7	0.7	0.7	Latin America	Asset Pool	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CA-2199	Consumer	0.5	0.5	0.5	North America	First Lien	12.00%	95.0%
CA-2729	Consumer	0.6	0.6	0.4	North America	First Lien	n/a ⁽¹⁵⁾	100.0%
CA-1934	Consumer	0.2	0.2	0.3	North America	First Lien	n/a ⁽¹⁰⁾	78.0%
CA-1788REO	Consumer	0.4	0.4	0.3	North America	First Lien	n/a ⁽¹⁰⁾	78.0%
CA-4007	Consumer	0.3	0.3	0.3	North America	Second Lien	16.00%	54.0%
CA-3196	Consumer	0.3	0.3	0.1	North America	First Lien	n/a ⁽¹⁵⁾	100.0%
CA-1052S	Consumer	1.5	1.5	-	North America	First Lien	15.66%	100.0%
Subtotal / Weighted average %		22.8	19.8	18.4			15.93%	71.6%
Total / Weighted average %		\$ 160.3	\$ 152.7	\$ 157.6			13.31%	64.3%

¹ Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.

² Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2018. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

³ Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 2018.

⁴ Investment is not a loan. Metric is not applicable.

⁵ Denotes subordinate position within the structure.

⁶ The first lien term loan is primed by a debtor-in-possession loan, of which the Arena group is a participant.

⁷ Investment is remaining profit participation on a paid off loan.

⁸ Investment is a preferred equity investment.

⁹ Investment represents owned real estate acquired through lender default.

¹⁰ Interest not accrued on loans purchased as non-performing.

¹¹ Investment represents a credit pool purchase with no stated interest rate.

¹² Investment represents an aircraft purchased. Coupon and LTV not applicable to hard assets.

¹³ Investment in litigation claim proceeds with no stated coupon rate.

¹⁴ Investment represents an unsecured credit pool purchase with no stated interest rate.

¹⁵ Investment with no stated coupon rate.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA ORIGINATION

The investments of AOC shown by investment strategy are as follows:

Investments by Strategy (unaudited)				March 31, 2019		
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments
Investments by strategy:						
Corporate Private Credit	4	\$ 6.1	\$ 6.2	19.9%	17.4%	2.5%
Real Estate Private Credit and Real Estate Assets	8	15.2	15.0	47.9%	47.9%	-
Commercial and Industrial Assets	2	0.8	0.7	2.3%	2.3%	-
Consumer Assets	4	5.0	5.0	16.0%	16.0%	-
Other Securities	20	4.8	4.4	13.9%	7.5%	6.4%
	38	\$ 31.9	\$ 31.3	100.0%	91.1%	8.9%

Investments by Strategy (unaudited)				December 31, 2018		
(millions except for number of positions and percentage)	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments	% Equity investments
Investments by strategy:						
Corporate Private Credit	9	\$ 10.2	\$ 10.3	43.2%	39.9%	3.3%
Real Estate Private Credit and Real Estate Assets	4	7.9	6.0	25.1%	25.1%	-
Commercial and Industrial Assets	1	0.5	0.4	1.6%	1.6%	-
Structured Finance	1	1.3	1.3	5.4%	5.4%	-
Consumer Assets	3	2.1	2.1	8.9%	8.9%	-
Other Securities	20	4.8	3.8	15.8%	9.6%	6.2%
	38	\$ 26.8	\$ 23.9	100.0%	90.5%	9.5%

Investments in Corporate Private Credit, Real Estate Private Credit and Real Estate Assets, and Structured Finance relate to loans issued to privately held entities. Investments in Other Securities are net of short positions and comprise publicly traded corporate bonds, equity securities, bank debt, structured convertible notes and derivatives.

The investments of AOC shown by geographic breakdown are as follows:

Investments by Geographic Breakdown (unaudited)				March 31, 2019			December 31, 2018		
(millions except for percentage)	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets									
North America	\$ 26.3	\$ 26.1	83.5%	\$ 18.8	\$ 18.6	77.9%			
Asia/Pacific	0.8	0.8	2.6%	0.8	0.8	3.3%			
Europe	-	-	-	2.4	0.7	3.0%			
	27.1	26.9	86.1%	22.0	20.1	84.2%			
Other Securities ¹									
North America	2.5	2.3	7.2%	2.4	1.7	6.9%			
Asia/Pacific	1.3	1.3	4.2%	1.3	1.3	5.4%			
Europe	1.0	0.8	2.5%	1.1	0.8	3.5%			
	4.8	4.4	13.9%	4.8	3.8	15.8%			
	\$ 31.9	\$ 31.3	100.0%	\$ 26.8	\$ 23.9	100.0%			

¹ Net of short positions.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA ORIGINATION

The investments of AOC shown by industry are as follows:

Investments by Industry (unaudited)	March 31, 2019			December 31, 2018		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
(millions except for percentage)						
Loans / Private Assets						
Corporate Private Credit						
Business services	\$ 3.1	\$ 3.2	10.2%	\$ 6.6	\$ 6.7	28.0%
Financial services	-	-	-	0.4	0.4	1.9%
Healthcare Services	-	-	-	0.9	0.9	3.6%
Oil and Gas ⁽¹⁾	3.0	3.0	9.7%	2.3	2.3	9.7%
	6.1	6.2	19.9%	10.2	10.3	43.2%
Real Estate Private Credit and Real Estate Assets						
Commercial	5.9	5.7	18.2%	6.9	5.0	20.9%
Land						
- Commercial Development	1.0	1.0	3.2%	1.0	1.0	4.2%
Land						
- Multi-Family Development	4.2	4.2	13.4%	-	-	-
Residential	4.1	4.1	13.1%	-	-	-
	15.2	15.0	47.9%	7.9	6.0	25.1%
Commercial and Industrial Assets						
Other assets	0.8	0.7	2.3%	0.5	0.4	1.6%
	0.8	0.7	2.3%	0.5	0.4	1.6%
Structured Finance						
Other assets	-	-	-	1.3	1.3	5.4%
	-	-	-	1.3	1.3	5.4%
Consumer Assets						
Consumer	5.0	5.0	16.0%	2.1	2.1	8.9%
	5.0	5.0	16.0%	2.1	2.1	8.9%
Total Loans / Private Assets	27.1	26.9	86.1%	22.0	20.1	84.2%
Other Securities ⁽²⁾						
Consumer Products	0.8	0.4	1.4%	0.8	0.5	1.9%
Financial Services	0.2	0.2	0.6%	0.1	0.1	0.2%
FX Forwards	-	0.1	0.2%	-	(0.4)	(1.7)%
Healthcare Services	-	0.1	0.2%	-	-	0.2%
Industrial	3.5	3.3	10.5%	3.6	3.3	13.8%
Information Technology	-	-	-	0.1	0.1	0.3%
Oil and Gas	0.2	0.2	0.8%	0.2	0.2	0.9%
Telecommunications	0.1	0.1	0.2%	-	-	0.2%
	4.8	4.4	13.9%	4.8	3.8	15.8%
	\$ 31.9	\$ 31.3	100.0%	\$ 26.8	\$ 23.9	100.0%

¹ AOC's exposure to commodity price risk in its private loans is generally mitigated as borrowers are typically required to hedge the commodity price risk by selling product forward and/or employing the use of other derivatives to substantially reduce all risk.

² Net of short positions.

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14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA ORIGINATION

Details of the Loan and Private Asset positions of AOC are as follows:

Details of Loan and Private Asset Positions							March 31, 2019	
(unaudited)								
(millions except for percentage)								
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Corporate Private Credit								
CPC-4108	Oil and Gas	2.9	2.7	2.7	North America	First Lien	14.21%	37.8%
CPC-3083TL	Business Services	2.6	2.3	2.4	North America	Second Lien	13.49%	87.0%
CPC-3349EQY	Business Services	1.2	0.8	0.8	Asia/Pacific	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3373	Oil and Gas	0.3	0.3	0.3	North America	First Lien	10.00%	14.0%
Subtotal / Weighted average %		7.0	6.1	6.2			13.68%	58.3%
Real Estate Private Credit and Real Estate Assets								
Land								
REPC-3812	- Multi-Family Development	6.6	4.2	4.2	North America	First Mortgage ⁽⁶⁾	11.50%	42.0%
REPC-3700	Commercial	4.4	3.9	4.0	North America	First Mortgage	15.49%	64.0%
REPC-1942	Commercial	2.0	2.0	1.7	North America	Real Property	n/a ⁽⁵⁾	n/a ⁽⁵⁾
REPC-4133	Residential	1.6	1.6	1.6	North America	First Mortgage	9.83%	58.0%
REPC-4111	Residential	1.2	1.2	1.2	North America	First Mortgage	9.50%	68.0%
REPC-4220	Residential	1.1	1.1	1.1	North America	First Mortgage	12.00%	72.0%
Land								
REPC-3655	- Commercial Development	1.0	1.0	1.0	North America	First Mortgage ⁽⁶⁾	11.50%	55.0%
REPC-4216	Residential	0.2	0.2	0.2	North America	First Mortgage	9.00%	65.0%
Subtotal / Weighted average %		18.1	15.2	15.0			12.32%	56.7%
Commercial and Industrial Assets								
CI-1999	Other assets	0.5	0.5	0.4	North America	First Lien	14.00%	100.0%+
CI-4285	Other assets	0.3	0.3	0.3	North America	First Lien	n/a ⁽⁷⁾	80.0%
Subtotal / Weighted average %		0.8	0.8	0.7			14.00%	103.7%
Consumer Assets								
CA-3595	Consumer	3.5	3.4	3.4	North America	First Lien	16.10%	75.0%
CA-3178	Consumer	5.7	1.1	1.1	North America	First Lien	15.60%	80.0%
CA-2470	Consumer	3.3	0.4	0.4	North America	First Lien	11.17%	80.0%
CA-1998	Consumer	0.1	0.1	0.1	North America	First Lien	7.00%	70.0%
Subtotal / Weighted average %		12.6	5.0	5.0			15.43%	76.4%
Total / Weighted average %		\$ 38.5	\$ 27.1	\$ 26.9			13.30%	62.5%

¹ Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.

² Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at March 31, 2019. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

³ Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of March 31, 2019.

⁴ Investment is an equity interest in an operating company.

⁵ Investment represents owned real estate acquired through lender default.

⁶ Denotes subordinate position within the structure.

⁷ Investment is a working capital advance with no stated coupon rate or maturity date.

The Westaim Corporation
Management's Discussion and Analysis
Three months ended March 31, 2019
(Currency amounts in United States dollars unless otherwise indicated)

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

ARENA ORIGINATION

Details of the Loan and Private Asset positions of AOC are as follows:

Details of Loan and Private Asset Positions (unaudited) (millions except for percentage)							December 31, 2018	
Ref. no.	Investments by industry	Principal ⁽¹⁾	Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon (including PIK) ⁽²⁾	LTV ⁽³⁾
Corporate Private Credit								
CPC-3083TL	Business Services	2.5	2.2	2.3	North America	Second Lien	13.50%	87.0%
CPC-3824	Oil and Gas	4.0	2.0	2.0	North America	First Lien	10.56%	32.0%
CPC-3376	Business Services	1.6	1.6	1.6	North America	Second Lien	12.50%	31.0%
CPC-3107	Business Services	1.4	1.4	1.4	North America	Second Lien	12.45%	27.0%
CPC-3391	Healthcare Services	0.9	0.9	0.9	North America	First Lien	10.13%	16.0%
CPC-3349EQY	Business Services	0.8	0.8	0.8	Asia/Pacific	Second Lien	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3108	Business Services	0.6	0.6	0.6	North America	Second Lien	10.75%	9.0%
CPC-2752A	Financial Services	0.4	0.4	0.4	North America	First Lien	14.50%	40.0%
CPC-3373	Oil and Gas	0.5	0.3	0.3	North America	First Lien	10.00%	15.0%
Subtotal / Weighted average %		12.7	10.2	10.3			12.00%	41.0%
Real Estate Private Credit and Real Estate Assets								
REPC-3700	Commercial	2.7	2.7	2.7	North America	First Mortgage	15.50%	44.0%
REPC-1942	Commercial Land	1.8	1.8	1.6	North America	Real Property	n/a ⁽⁵⁾	n/a ⁽⁵⁾
REPC-3655	- Commercial Development	1.0	1.0	1.0	North America	First Mortgage ⁽⁶⁾	11.50%	55.0%
REPC-2736EUR	Commercial	2.5	2.4	0.7	Europe	First Mortgage	15.00%	100.0%+
Subtotal / Weighted average %		8.0	7.9	6.0			14.51%	55.6%
Commercial and Industrial Assets								
CI-1999	Other assets	0.5	0.5	0.4	North America	First Lien	14.00%	100.0%+
Subtotal / Weighted average %		0.5	0.5	0.4			14.00%	100.0%
Structured Finance								
SF-2228DD1	Other assets	1.7	1.3	1.3	North America	First Lien	16.00%	80.0%
Subtotal / Weighted average %		1.7	1.3	1.3			16.00%	80.0%
Consumer Assets								
CA-1998	Consumer	1.2	1.1	1.1	North America	First Lien	7.87%	70.0%
CA-3178	Consumer	5.7	0.9	0.9	North America	First Lien	15.81%	80.0%
CA-2470	Consumer	3.2	0.1	0.1	North America	First Lien	11.17%	80.0%
Subtotal / Weighted average %		10.1	2.1	2.1			11.29%	74.6%
Total / Weighted average %		\$ 33.0	\$ 22.0	\$ 20.1			12.88%	52.8%

¹ Principal represents the total funding commitment of a loan which, if applicable, is inclusive of any unfunded portion of the commitment at the end of the reporting period. Where a loan is issued at a discount, the cost amount includes the accreted discount as of the end of the reporting period. A loan may also be acquired at a cost lower than the par value of the principal outstanding.

² Some investments bear interest at a rate that may be determined by reference to London Interbank Offered Rate ("LIBOR") or Prime which reset daily, monthly, quarterly, or semi-annually and may be subject to a floor. For each, the Company has provided the current contractual interest rate in effect at December 31, 2018. Interest rates listed are inclusive of PIK, where applicable. PIK is interest paid in kind through an increase in the principal amount of the loan. The internal rate of return for many investments is generally greater than or equal to the total coupon (additional yield resulting from original issue discounts and/or some form of profit sharing, e.g. warrants). In the event that the internal rate of return on the investment is less than the stated rate, the lower rate is noted.

³ Loan to value ("LTV") represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 2018.

⁴ Investment is an equity interest in an operating company.

⁵ Investment represents owned real estate acquired through lender default.

⁶ Denotes subordinate position within the structure.

15. NON-GAAP MEASURES

(a) Book value per share

Book value per share is computed as book value divided by the adjusted number of common shares. Management believes book value per share is a useful financial performance measure of the Company as, the relative increase or decrease from period to period in book value per share should approximate over the long term the relative increase or decrease in the intrinsic value of the Company's businesses, in large part because book value reflects the fair value of the Company's primary investments which are accounted for at fair value through profit or loss under IFRS. However, book value is not necessarily equivalent to the net realizable value of the Company's assets per share.

The table below provides the reconciliation of the Company's shareholders' equity at the end of the period, determined on an IFRS basis, to book value, and the number of common shares outstanding at the end of the period to the adjusted number of common shares:

(millions except share and per share data)	March 31, 2019	December 31, 2018	March 31, 2018
Book value (in US\$):			
Shareholders' equity per IFRS	\$ 355.6	\$ 345.2	\$ 332.5
Adjustments:			
RSU liability ¹	5.8	5.7	6.5
Derivative warrant liability ²	2.2	2.4	4.5
Assumed exercise proceeds of in-the-money options ³	-	-	-
	<u>\$ 363.6</u>	<u>\$ 353.3</u>	<u>\$ 343.5</u>
Number of common shares:			
Number of common shares outstanding	143,186,718	143,186,718	143,186,718
Adjustments for assumed exercise of:			
Outstanding RSUs ¹	3,034,261	3,034,261	3,034,261
In-the-money options ³	-	-	-
Adjusted number of common shares	<u>146,220,979</u>	<u>146,220,979</u>	<u>146,220,979</u>
Book value per share - in US\$	\$ 2.49	\$ 2.42	\$ 2.35
Book value per share - in C\$ ⁴	\$ 3.33	\$ 3.30	\$ 3.03
Westaim TSXV closing share price - in C\$	\$ 2.57	\$ 2.58	\$ 2.83

¹ See note 13 to the Company's unaudited consolidated financial statements for the three months ended March 31, 2019 and 2018. Liability related to RSUs converted from C\$ to US\$ at period end exchange rates. RSUs are exercisable for common shares or cash at no cost to the holders. Adjustment made to reflect a reclassification of the RSU liability to shareholders' equity assuming all outstanding RSUs were exercised for common shares.

² See note 9 to the Company's unaudited consolidated financial statements for the three months ended March 31, 2019 and 2018. Derivative warrant liability converted from C\$ to US\$ at period end exchange rates. Adjustment made as the non-cash fair value change in the derivative warrant liability from period to period is not indicative of the change in the intrinsic value of the Company. Vested Warrants not included in the adjusted number of common shares as none of them were in-the-money at March 31, 2019 and December 31, 2018.

³ See note 13 to the Company's unaudited consolidated financial statements for the three months ended March 31, 2019 and 2018. Exercise price of options denominated in C\$ and assumed exercise proceeds of in-the-money options at period end converted to US\$ at period end exchange rates. Adjustment made as exercise of in-the-money options would have resulted in an infusion of capital to the Company.

⁴ Book value per share converted from US\$ to C\$ at period end exchange rates. Period end exchange rates: 1.3354 at March 31, 2019, 1.3643 at December 31, 2018 and 1.28925 at March 31, 2018.

(b) Net Returns on AFHC and AOC Investment Portfolios

Net Returns are the aggregate of investment income, net of gains (losses) on investments less interest expense, management, asset servicing and incentive fees, and other operating and deal expenses of AFHC and AOC divided by average carrying values for AFHC and AOC, respectively, for the period.

16. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION

Certain portions of this MD&A, as well as other public statements by the Company, contain forward-looking statements. In particular, the words "strategy", "may", "will", "continue", "developed", "objective", "potential", "exploring", "could", "expect", "expected", "expects", "tends", "indicates", and words and expressions of similar import, are intended to identify forward-looking statements. Such forward-looking statements include but are not limited to statements concerning: strategies, alternatives and objectives to maximize value for shareholders; expectations and assumptions relating to the Company's business plan; 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 the Company can give no assurance that these expectations are correct. By their nature, these statements are subject to inherent risks and uncertainties that may be general or specific. A variety of material factors, many of which are beyond the Company's control, may affect the operations, financial position, performance and results of the Company and its business, and could cause actual results to differ materially from the expectations expressed in any of these forward-looking statements.

The Company's actual results 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 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 US\$ to C\$ exchange rate; the potential treatment of the Company as a passive foreign investment company for U.S. federal income tax purposes; Arena's limited operating record and history of operating losses; 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; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters; the cyclical nature of the property and casualty 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; and other risk factors set forth herein or in the Company's annual report or other public filings.

The Company disclaims any intention or obligation to revise forward-looking statements whether as a result of new information, future developments or otherwise except as required by law. All forward-looking statements are expressly qualified in their entirety by this cautionary statement.

The Westaim Corporation
Consolidated Statements of Financial Position
(unaudited)

	March 31		December 31	
(thousands of United States dollars)	2019		2018	
ASSETS				
Cash	\$	6,310	\$	7,836
Loans receivable (note 4)		14,977		14,660
Other assets (note 5)		3,197		3,451
Investments (note 6)		383,215		371,452
	\$	407,699	\$	397,399
LIABILITIES				
Accounts payable and accrued liabilities (note 7)	\$	8,047	\$	9,605
Preferred securities (note 8)		37,442		36,649
Derivative warrant liability (note 9)		2,242		2,382
Site restoration provision (note 10)		4,441		3,584
		52,172		52,220
Commitments and contingent liabilities (note 11)				
SHAREHOLDERS' EQUITY				
Share capital (note 12)		382,182		382,182
Contributed surplus (note 13)		16,787		16,516
Accumulated other comprehensive loss (note 2n)		(2,227)		(2,227)
Deficit		(41,215)		(51,292)
		355,527		345,179
	\$	407,699	\$	397,399

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

The Westaim Corporation

Consolidated Statements of Profit and Comprehensive Income

(unaudited)

	Three Months Ended March 31	
(thousands of United States dollars except share and per share data)	2019	2018
Revenue		
Investment income (note 14)	\$ 718	\$ 740
Fee income (note 14)	688	360
	1,406	1,100
Net results of investments		
Unrealized gain on investments in private entities (note 6)	11,627	4,854
Share of profit (loss) of associates (note 6)	136	(585)
Unrealized gain on other investments (note 5)	55	67
	11,818	4,336
Net expenses		
Salaries and benefits	969	1,019
General, administrative and other	377	297
Professional fees	162	317
Site restoration provision (note 10)	780	(71)
Share-based compensation (note 13)	301	4
Foreign exchange	288	(468)
Interest on preferred securities (note 8)	462	478
Derivative warrants (note 9)	(192)	(2,038)
	3,147	(462)
Profit and comprehensive income	\$ 10,077	\$ 5,898
Earnings per share - basic and diluted (note 16)	\$ 0.07	\$ 0.04
Common shares outstanding	143,187	143,187

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

The Westaim Corporation
Consolidated Statements of Changes in Equity
(unaudited)

Three months ended March 31, 2019					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2019	\$ 382,182	\$ 16,516	\$ (2,227)	\$ (51,292)	\$ 345,179
Stock option plan expense (note 13)	-	271	-	-	271
Profit and comprehensive income	-	-	-	10,077	10,077
Balance at March 31, 2019	\$ 382,182	\$ 16,787	\$ (2,227)	\$ (41,215)	\$ 355,527

Three months ended March 31, 2018					
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2018	\$ 382,182	\$ 14,172	\$ (2,227)	\$ (68,085)	\$ 326,042
Stock option plan expense (note 13)	-	577	-	-	577
Profit and comprehensive income	-	-	-	5,898	5,898
Balance at March 31, 2018	\$ 382,182	\$ 14,749	\$ (2,227)	\$ (62,187)	\$ 332,517

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

The Westaim Corporation
Consolidated Cash Flow Statements
(unaudited)

(thousands of United States dollars)	Three Months Ended March 31	
	2019	2018
Operating activities		
Profit	\$ 10,077	\$ 5,898
Unrealized gain on investments in private entities (note 6)	(11,627)	(4,854)
Share of (profit) loss of associates (note 6)	(136)	585
Unrealized gain on other investments (note 5)	(55)	(67)
Share-based compensation (note 13)	301	4
Site restoration provision (note 10)	780	(71)
Lease expense	(3)	(3)
Depreciation and amortization	11	10
Unrealized foreign exchange (gain) loss	280	(478)
Change in fair value of derivative warrant liability (note 9)	(192)	(2,038)
Net change in other non-cash balances		
Other assets	300	(111)
Accounts payable and accrued liabilities	(1,175)	(439)
Cash used in operating activities	(1,439)	(1,564)
Investing activities		
Loans made to subsidiaries (note 4)	(3,789)	-
Repayment of loans made to subsidiaries (note 4)	3,703	740
Purchase of capital assets	(1)	(1)
Loans made to associates (note 6)	-	(750)
Cash used in investing activities	(87)	(11)
Net decrease in cash	(1,526)	(1,575)
Cash, beginning of period	7,836	7,813
Cash, end of period	\$ 6,310	\$ 6,238
Cash is composed of:		
Cash	\$ 6,310	\$ 6,238
Supplemental disclosure of cash flow information:		
Interest paid	\$ 462	\$ 502

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three months ended March 31, 2019 and 2018

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

1 Nature of Operations

The Westaim Corporation ("Westaim" or the "Company") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). The Company's head office is located at Suite 1700, 70 York Street, Toronto, Ontario, Canada. These consolidated financial statements were authorized for issue by the Board of Directors of the Company on May 8, 2019.

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the global financial services industry. The Company's principal investments consist of Houston International Insurance Group, Ltd. (through Westaim HIIG Limited Partnership) and the Arena Group (as described in note 6). The Company's common shares are traded on the TSX Venture Exchange (the "TSXV") under the symbol WED.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Westaim Management Limited Partnership ("Management LP"), Westaim Management GP Inc. ("Management GP"), Westaim HIIG GP Inc. ("HIIG GP") and The Westaim Corporation of America ("WCA").

All currency amounts are expressed in thousands of United States dollars ("US\$"), the functional and presentation currency of the Company, except per share data, unless otherwise indicated.

2 Summary of Significant Accounting Policies

The significant accounting policies used to prepare these consolidated financial statements are as follows:

(a) Basis of preparation

These consolidated financial statements are prepared in compliance with International Accounting Standard ("IAS") 34 *"Interim Financial Reporting"*.

The Company meets the definition of an investment entity under IFRS 10 *"Consolidated Financial Statements"* ("IFRS 10") and measures its investments in relevant subsidiaries at fair value through profit or loss ("FVTPL"), instead of consolidating those subsidiaries in its consolidated financial statements. Entities accounted for at FVTPL consist of Westaim HIIG Limited Partnership (the "HIIG Partnership"), Arena Finance Company Inc. ("Arena Finance") and Westaim Origination Holdings, Inc. ("Arena Origination").

The financial statements of entities controlled by the Company which provide investment-related services are consolidated. These entities consist of its wholly-owned subsidiaries, Management LP, Management GP, HIIG GP and WCA. The financial results of these entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. The Company controls an entity when the Company has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Assessment of control is based on the substance of the relationship between the Company and the entity and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable or convertible. Intercompany balances and transactions are eliminated upon consolidation.

Investment in associates is accounted for using the equity method in accordance with IAS 28 *"Investments in Associates and Joint Ventures"* ("IAS 28") and consists of investments in corporations or limited partnerships where the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. The Company's investment in associates consist of its investments in Westaim Arena Holdings II, LLC ("WAHII") (through WCA), and is reported under investments in the consolidated statements of financial position, with the Company's share of profit (loss) and comprehensive income (loss) of the Associates reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

(b) Functional and presentation currency

The US\$ is the functional and presentation currency of the Company. IAS 21 *"The Effects of Changes in Foreign Exchange Rates"* describes functional currency as the currency of the primary economic environment in which an entity operates. A significant majority of the Company's revenues and costs are earned and incurred in US\$, respectively.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three months ended March 31, 2019 and 2018

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

2 Summary of Significant Accounting Policies (continued)

(c) Use of estimates

The preparation of financial statements requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the reporting period in which they are determined. Key estimates include the fair value of investments in private entities, provision for site restoration, fair value of share-based compensation, fair value of derivative warrant liability, and unrecognized deferred tax assets.

(d) Judgments made by management

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include determining that the Company meets the definition of an investment entity under IFRS 10, valuation techniques for fair value determination of investments in private entities, applying the equity method of accounting for associates and determining that the Company's functional currency is the US\$. For additional information on these judgments, see note 6 for investments in private entities and associates and note 2(b) for functional currency.

(e) Foreign currency translation

Transactions in foreign currencies are translated into US\$ at rates of exchange prevailing at the time of such transactions. Monetary assets and liabilities transacted in foreign currencies are translated into US\$ at rates of exchange at the end of the reporting period. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value was measured. Any resulting foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income.

From time to time, the Company may enter into foreign exchange forward contracts to manage certain foreign currency exposures arising from foreign currency denominated transactions. The Company has not designated any foreign exchange forward contracts as accounting hedges. Any resulting foreign exchange gain or loss arising from the foreign exchange forward contracts is included in the consolidated statements of profit and comprehensive income.

(f) Revenue recognition

Investment income includes interest income and dividend income. Interest income is recognized on an accrual basis and dividend income is recognized on the ex-dividend date. Advisory and management fees are recorded as fee income over time as these services are performed.

(g) Cash and cash equivalents

Cash and cash equivalents generally consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less. At March 31, 2019, the Company's cash consisted of cash on deposit, including restricted cash on deposit of \$4,375 (December 31, 2018 – C\$4,375) (see note 8).

(h) Capital assets

The Company's capital assets are included in other assets and are reported at cost less accumulated depreciation. Depreciation is calculated based on the estimated useful life of the particular assets which is 3 to 10 years for furniture and equipment. Leasehold improvements are depreciated using the straight-line method over the lesser of the term of the lease or the estimated useful life of the assets. At the end of each reporting period, management reviews the carrying amounts of capital assets for any indication of impairment. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use.

(i) Leases

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys a right to control the use of an identified asset, the Company assesses whether, i) the contract involves an identified asset, which is physically distinct and cannot be substituted by the supplier and ii) the Company has the right to obtain substantially all of the economic benefits from the use of the asset during the period of use, the Company has the right to operate the lease and the Company designed the asset in a way that predetermines how and for what purpose the asset will be used.

This policy is applied to contracts entered into or changed on or after January 1, 2019.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three months ended March 31, 2019 and 2018

(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

2 Summary of Significant Accounting Policies (continued)

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made on or before the commencement date, plus any costs incurred to dismantle and remove the underlying asset or restore the underlying asset or the site on which it is located, less any lease incentives received.

The right of use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is measured using the straight line method from the commencement date to the earlier of the end of the useful life of the right of use asset or the end of the lease term.

The lease liability is initially measured at the present value of the future lease payments not paid at the commencement date and the lease payments are discounted using the interest rate implicit in the lease, if the rate can be readily determined or the lessee's incremental borrowing rate if the rate cannot be determined.

The Company has elected not to recognize right of use assets and lease liabilities for short term leases of less than a term of 12 months and leases of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight line basis over the term of the lease.

(j) Investments

The Company's investments in private entities are classified as FVTPL and are carried at fair value. At initial recognition, investments in private entities are measured at cost, which is representative of fair value, and subsequently, at each reporting date, recorded at fair value with gains and losses arising from changes in fair values being recorded in the consolidated statements of profit and comprehensive income for the period in which they arise. Transaction costs on the investments are expensed as incurred.

Investments in associates are initially recorded at cost and subsequently adjusted to recognize the Company's share of profit (loss) and other comprehensive income (loss) of the Associates and any dividends and/or distributions received from the Associates. Transaction costs on investments in associates are capitalized.

Investments in financial assets and instruments that are not traded in an active market, including private entities, are generally valued initially at the cost of acquisition on the basis that such cost is a reasonable estimate of fair value. Such investments are subsequently revalued using accepted industry valuation techniques. The Company considers a variety of methods and makes assumptions that are based on market conditions existing at each period end date. Valuation techniques used may include initial acquisition cost, net asset value, discounted cash flow analysis, comparable recent arm's length transactions, comparable publicly traded company metrics, reference to other instruments that are substantially the same, option pricing models and other valuation techniques commonly used by market participants. Any sale, size or other liquidity restrictions on the investment are also considered by management in its determination of fair value. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had an active market for the investments existed, and the differences could be material.

The Company may use internally developed models, which are usually based on valuation methods and techniques generally recognized as accepted within the industry. Valuation models are used primarily to value unlisted equity and debt securities for which no market quotes exist or where markets were or have been inactive during the financial period. Some of the inputs to these models may not be observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

Management is responsible for performing fair value measurements included in the Company's consolidated financial statements for each reporting period. The Company prepares a detailed valuation for each reporting period describing the valuation processes and procedures undertaken by management. The applicable valuation memoranda are provided to members of the Company's audit committee and all Level 3 valuation results are reviewed with the audit committee as part of its review of the Company's consolidated financial statements.

(k) Income taxes

Income tax expense is recognized in the consolidated statements of profit and comprehensive income. Current tax is based on taxable income which differs from profit and comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

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2 Summary of Significant Accounting Policies (continued)

Deferred tax assets are generally recognized for all deductible temporary income tax differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities are determined based on the enacted or substantively enacted tax laws and rates that are anticipated to apply in the year of realization. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects to recover or settle the carrying amount of the related assets and liabilities. The carrying amount of the deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Income tax assets and liabilities are offset when the Company intends to settle on a net basis and there is a legally enforceable right to do so.

(l) Warrants

Warrants subject to a cashless exercise at the discretion of the holder are classified as a derivative liability and measured at FVTPL. Change in the fair value of the warrants is reported in the consolidated statements of profit and comprehensive income for the period in which they arise.

(m) Site restoration provision

Future site restoration costs relate to industrial sites previously owned by the Company and are estimated taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The estimated amount of future restoration costs is reviewed periodically based on available information. The amount of the provision is the present value of the estimated future restoration costs discounted using interest rates of a high quality government bond in relation to the estimated cash outflows.

Future reimbursements of costs resulting from indemnifications provided to the Company by previous owners of the industrial sites have not been recognized in these consolidated financial statements. Reimbursements of site restoration costs are recorded when received.

(n) Contributed surplus

The cost of stock options are recognized over the period from the issue date to the vesting date and recorded as contributed surplus. When share capital of the Company is repurchased by the Company, the amount by which the average carrying value of the shares exceeds the cost to repurchase the shares is included in contributed surplus.

(o) Accumulated other comprehensive loss

Accumulated other comprehensive loss consists of cumulative exchange differences from currency translation.

(p) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 13. The value attributed to stock options at issuance are recognized in income as an expense over the period from the issue date to the vesting date with a corresponding increase in contributed surplus. Any consideration paid by stock option holders for the purchase of stock is credited to share capital.

Obligations related to Deferred Share Units ("DSUs") and Restricted Share Units ("RSUs") are recorded as liabilities at fair value. At each reporting date they are re-measured at fair value with reference to the fair value of the Company's stock price and the number of units that have vested. The corresponding share-based compensation expense or recovery is recognized over the vesting period. When a change in value occurs, it is recognized in share-based compensation and foreign exchange gain or loss in the applicable financial period.

(q) Earnings per share

Basic earnings per share is calculated by dividing profit by the weighted average number of common shares outstanding during the reporting period.

Diluted earnings per share is calculated by dividing profit by the weighted average number of shares outstanding during the reporting period after adjusting both amounts for the effects of all dilutive potential common shares, which consist of options, RSUs and Warrants. Anti-dilutive potential common shares are not included in the calculation of diluted earnings per share.

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3 Accounting Pronouncements

(a) *Adopted in the current period*

On January 13, 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16") which replaced IAS 17 "Leases". As required, the Company adopted IFRS 16, effective January 1, 2019. IFRS 16 eliminates the distinction between operating and finance leases for lessees, requiring instead that the Company recognize a right-of-use asset and a lease liability at lease commencement for all leases, with certain exceptions permitted through elections and practical expedients on the transition date. The adoption of IFRS 16 did not have a material impact on the Company's consolidated financial statements. The Company adopted the modified retrospective approach of adoption whereby comparative periods were not restated.

In June 2017, the IASB published IFRIC 23, "*Uncertainty over Income Tax Treatments*" ("IFRIC 23") effective for annual periods beginning on or after January 1, 2019. The interpretation requires an entity to assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings and to exercise judgment in determining whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity also has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, assuming that the taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so. The adoption of IFRIC 23 did not have a material impact on the Company's consolidated financial statements.

4 Loans Receivable

On June 9, 2017, the Company used the proceeds from the Fairfax Financing (as defined in note 8) to loan Canadian dollars ("C\$") 30,000 to AFHC (as defined in note 6) and C\$20,000 to AOC (as defined in note 6) (collectively, the "Arena Loans") on market terms. The Arena Loans are denominated in C\$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of AFHC and AOC. The Arena Loans carry interest at a rate of 4.5% per annum plus the greater of (i) 3-month LIBOR and (ii) 1%, with the applicable rate adjusted at the beginning of each quarter. Interest is due at the end of each calendar quarter.

At December 31, 2018, C\$20,000 in principal repayments had been made by AFHC and on February 22, 2019, AFHC increased the loan by C\$5,000 resulting in an outstanding loan of C\$15,000 to AFHC at March 31, 2019 (C\$10,000 to AFHC at December 31, 2018).

At December 31, 2018, C\$10,000 in principal repayments had been made by AOC and on February 22, 2019, AOC made a principal repayment of C\$5,000 resulting in an outstanding loan of C\$5,000 to AOC at March 31, 2019 (C\$10,000 to AOC at December 31, 2018).

The Arena Loans are recorded under loans receivable in the consolidated statements of financial position. The Arena Loans are translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. At March 31, 2019 and December 31, 2018, the carrying amount of the Arena Loans, which approximated fair value, totaled \$14,977 and \$14,660, respectively. The Company recorded a foreign exchange gain relating to the Arena Loans of \$317 and a foreign exchange loss of \$656 for the three months ended March 31, 2019 and 2018, respectively.

Interest on the Arena Loans earned and received by the Company totaled \$269 and \$353 for the three months ended March 31, 2019 and 2018, respectively, and was included in investment income in the consolidated statements of profit and comprehensive income.

5 Other Assets

Other assets consist of the following:

	March 31, 2019	December 31, 2018
Capital assets	\$ 61	\$ 71
Investment in Arena Special Opportunities Fund, LP (a)	2,524	2,469
Receivables from related parties (b)	425	727
Accounts receivable and other	187	184
	<u>\$ 3,197</u>	<u>\$ 3,451</u>

- (a) The Company's investment in Arena Special Opportunities Fund, LP ("ASOF LP"), a fund managed by Arena Investors, LP (see note 6), is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At March 31, 2019 and December 31, 2018, the fair value of the Company's interest in ASOF LP was determined by Arena Investors (as defined in note 6) to be \$2,524 and \$2,469, respectively. The Company reported unrealized gains of \$55 and \$67 in the three months ended March 31, 2019 and 2018, respectively, with respect to the investment in the consolidated statements of profit and comprehensive income.

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5 Other Assets (continued)

- (b) Receivables from related parties totaled \$425 at March 31, 2019 and \$727 at December 31, 2018 and included certain expenses paid by the Company on behalf of the Arena Group from time to time which are subject to reimbursement.

6 Investments

The carrying values of the Company's investments in private entities and associates included under investments in the consolidated statements of financial position are as follows:

	March 31, 2019	December 31, 2018
Investments in private entities	\$ 372,470	\$ 360,843
Investment in associates	10,745	10,609
	\$ 383,215	\$ 371,452

The Company's principal investments consist of its investments in HIIG (through the HIIG Partnership) and the Arena Group. Investments in private entities are measured at FVTPL and investment in associates is accounted for using the equity method.

	Place of establishment	Principal place of business	Ownership interest as at March 31, 2019
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim
Investment in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ^{1,2}

¹ Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to Bernard Partners, LLC ("BP LLC") described below under "Investment in Associates".

² Effective January 1, 2019, Westaim's 51% interest and BP LLC's 49% interest in each of ASOF-ON GP and ASOF-OFF II GP were transferred to WAHII. As a result, ASOF-ON GP and ASOF-OFF GP are now subsidiaries of WAHII.

	Place of establishment	Principal place of business	Ownership interest as at December 31, 2018
Investments in private entities:			
- HIIG Partnership	Ontario, Canada	Ontario, Canada	58.5% owned by Westaim ¹
- Arena Finance	Ontario, Canada	Ontario, Canada	100% owned by Westaim ²
- Arena Origination	Delaware, U.S.	New York, U.S.	100% owned by Westaim ²
Investment in Associates:			
- WAHII	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ³
- ASOF-ON GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim, indirectly through WCA ³
- ASOF-OFF II GP	Delaware, U.S.	New York, U.S.	51% beneficially owned by Westaim ³

¹ On September 30, 2018, Westaim HIIG Holdings Inc. an incorporated wholly-owned subsidiary, transferred all of its ownership interest in the HIIG Partnership to the Company and was dissolved. No book gain or loss was recorded upon the transfer. Following the transfer, the Company owns, directly 58.5% of the HIIG Partnership.

² On December 31, 2018, all outstanding Class M units held by BP LLC described below under "Investments in Arena Finance and Arena Origination" were redeemed. The redemption payments in respect of the M units were paid to BP LLC during the quarter ending March 31, 2019.

³ Legal equity ownership is 100%, and beneficial ownership denotes profit percentage subject to change over time pursuant to the earn-in rights granted to BP LLC described below under "Investment in Associates".

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6 Investments (continued)

The HIIG Partnership, Arena Finance and Arena Origination are investment entities, as defined in IFRS 10, and account for their investments in subsidiaries at FVTPL instead of consolidating them. The subsidiaries of the HIIG Partnership, Arena Finance and Arena Origination are as follows:

	Place of establishment	Principal place of business	Ownership interest as at March 31, 2019 and December 31, 2018
HIIG Partnership:			
- Houston International Insurance Group, Ltd. ("HIIG")	Delaware, U.S.	Texas, U.S.	75.1% owned by HIIG Partnership
Arena Finance:			
- Arena Finance Holdings Co., LLC ("AFHC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Finance
- Arena Finance National, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC
- Arena Finance Global, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC
- Arena Finance Markets GP, LLC	Delaware, U.S.	New York, U.S.	100% owned by AFHC
- Arena Finance Markets, LP	Delaware, U.S.	New York, U.S.	100% owned by AFHC
Arena Origination:			
- Arena Origination Co., LLC ("AOC")	Delaware, U.S.	New York, U.S.	100% owned by Arena Origination

Houston International Insurance Group, Ltd.

The Company's investment in HIIG (through the HIIG Partnership) is recorded as an investment in private entities and is measured at FVTPL in the Company's financial statements. See "Investments in Private Entities" below for a further description of the Company's investment in the HIIG Partnership.

Arena Group

The Arena Group consists of the following three businesses:

- Arena Investors – WAHII, through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. The Company's investment in Arena Investors is accounted for using the equity method in the Company's consolidated financial statements. See "Investment in Associates" below.
- Arena Finance – Arena Finance, through AFHC and AFHC's subsidiaries, is a specialty finance company that primarily purchases fundamentals-based, asset-oriented credit investments for its own account. The Company's investment in Arena Finance is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.
- Arena Origination – Arena Origination, through AOC, facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to Arena Finance, clients of Arena Investors and/or other third parties. The Company's investment in Arena Origination is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

Arena Investors, Arena Finance and Arena Origination and related entities are collectively referred to as the "Arena Group".

INVESTMENTS IN PRIVATE ENTITIES

The Company's investments in private entities are classified as FVTPL and are carried at fair value under investments in the consolidated statements of financial position. Changes in fair value are reported under "Net results of investments" in the consolidated statements of profit and comprehensive income.

The table below summarizes the fair value hierarchy under which the Company's investments in private entities are valued. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). Inputs are considered as observable if they are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumption that market participants would use when pricing the asset or liability.

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6 Investments (continued)

The Company's investments in private entities are as follows:

As at March 31, 2019	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 170,282	-	-	\$ 170,282
- Arena Finance	166,213	-	-	166,213
- Arena Origination	35,975	-	-	35,975
	<u>\$ 372,470</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 372,470</u>

As at December 31, 2018	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG Partnership	\$ 162,118	-	-	\$ 162,118
- Arena Finance	163,888	-	-	163,888
- Arena Origination	34,837	-	-	34,837
	<u>\$ 360,843</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,843</u>

Changes in investments in private entities included in Level 3 of the fair value hierarchy are as follows:

Three months ended March 31, 2019	Opening balance	Unrealized gain	Ending balance
Investments in private entities:			
- HIIG Partnership	\$ 162,118	\$ 8,164	\$ 170,282
- Arena Finance	163,888	2,325	166,213
- Arena Origination	34,837	1,138	35,975
	<u>\$ 360,843</u>	<u>\$ 11,627</u>	<u>\$ 372,470</u>

Three months ended March 31, 2018	Opening balance	Unrealized gain	Ending balance
Investments in private entities:			
- HIIG Partnership	\$ 157,107	\$ 217	\$ 157,324
- Arena Finance	151,315	3,886	155,201
- Arena Origination	34,956	751	35,707
	<u>\$ 343,378</u>	<u>\$ 4,854</u>	<u>\$ 348,232</u>

There were no transfers among Levels 1, 2 and 3 during the three months ended March 31, 2019 and 2018.

Investment in Houston International Insurance Group, Ltd.

The Company indirectly owns a significant interest in HIIG, through the HIIG Partnership, an Ontario limited partnership managed by HIIG GP, a wholly-owned subsidiary of Westaim. HIIG is a U.S. based diversified specialty insurance company providing coverage primarily in the United States but also globally for certain risks.

At March 31, 2019, the Company owned approximately 58.5% of the HIIG Partnership, representing an approximate 43.9% indirect ownership interest in HIIG.

Westaim controls the HIIG Partnership through its ownership of approximately 58.5% of the HIIG Partnership and through its control of HIIG GP, the general partner of the HIIG Partnership; and the HIIG Partnership exercises control over HIIG and its insurance subsidiaries through its ownership of approximately 75.1% of the issued and outstanding common shares of HIIG ("HIIG Shares") at March 31, 2019. The amount of dividends paid to HIIG by its subsidiaries which carry on an insurance business may be subject to restrictions imposed by the insurance regulators in the United States, thereby limiting the amount of dividends HIIG can pay to its shareholders, including the HIIG Partnership. Payment of dividends from HIIG to the HIIG Partnership may also be restricted as a result of covenants in credit facilities entered into by HIIG from time to time.

The Company, through HIIG GP, entered into a management services agreement (the "HIIG MSA") with HIIG commencing on July 31, 2014, whereby HIIG GP was entitled to receive from HIIG an advisory fee of \$1,000 annually for the first three years of the agreement and \$500 annually for two years thereafter relating to advisory services provided under the HIIG MSA. The HIIG MSA was amended as of July 1, 2017 such that HIIG GP is entitled to receive from HIIG an advisory fee of \$1,000 annually for the final two years of the agreement.

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6 Investments (continued)

FVTPL

The investment in HIIG (through the HIIG Partnership) is accounted for at FVTPL. The fair value of the Company's investment in the HIIG Partnership was determined to be \$170,282 at March 31, 2019 and \$162,118 at December 31, 2018.

Management used a multiple of net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in the HIIG Partnership of \$170,282 at March 31, 2019. The fair value of the HIIG Partnership at March 31, 2019 was derived from a valuation of the HIIG Shares owned by the HIIG Partnership and other net assets of the HIIG Partnership at March 31, 2019. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the HIIG Shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the HIIG Shares as at March 31, 2019 and December 31, 2018, given that this is the valuation technique which a market participant would employ.

The significant unobservable inputs used in the valuation were the multiple applied and the adjusted book value of HIIG as at March 31, 2019. Management applied a multiple of 1.1x to the adjusted book value of HIIG at March 31, 2019 (December 31, 2018 - 1.1x). The adjusted book value of HIIG as at March 31, 2019 reflected 100% of HIIG stockholders' equity obtained from the unaudited financial statements of HIIG for the three months ended March 31, 2019 prepared in accordance with United States generally accepted accounting principles ("US GAAP"), adjusted for a reclassification of a stock notes receivable from employees relating to their purchase of HIIG Shares. The adjusted book value contained certain significant judgments and estimates made by management of HIIG including the provision for loss and loss adjustment expenses, the valuation of goodwill and intangible assets, and the valuation allowance recorded against deferred income tax assets.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the discounted cash flow method, the review of comparable arm's length transactions involving other specialty insurance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair value of the Company's investment in the HIIG Partnership at the end of each reporting period.

The Company recorded unrealized gains on its investment in the HIIG Partnership of \$8,164 and \$217 in the three months ended March 31, 2019 and 2018, respectively.

For purposes of assessing the sensitivity of HIIG stockholders' equity on the valuation of the Company's investment in the HIIG Partnership, if HIIG stockholders' equity at March 31, 2019 was higher by \$1,000, the fair value of the Company's investment in the HIIG Partnership at March 31, 2019 would have increased by approximately \$483 (December 31, 2018 - \$483) and the unrealized gain on investments in private entities for the three months ended March 31, 2019 would have increased by approximately \$483 (for the three months ended March 31, 2018 - \$484). If HIIG stockholders' equity at March 31, 2019 was lower by \$1,000, an opposite effect would have resulted.

Investments in Arena Finance and Arena Origination

The Company owns a 100% interest in Arena Finance, a specialty finance company, and Arena Origination, a specialty finance origination company, which form part of the Arena Group. Through its ownership of all of the common shares of Arena Finance and Arena Origination, Westaim exercises control over each of these businesses.

On August 31, 2015, Arena Finance and Bernard Partners, LLC ("BP LLC"), a limited liability company controlled by certain members of the Arena Group management team, entered into a limited liability company agreement in respect of AFHC under which BP LLC was issued Class M units of AFHC which were convertible into Class A units, entitling BP LLC to acquire an equity interest of up to 20% (16.67% on a fully-diluted basis) in AFHC. On December 31, 2018, the Company through AFHC redeemed all Class M units outstanding for the "in the money" amount of \$620 and this amount was recorded as a liability on AFHC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$620 was paid to BP LLC during the quarter ended March 31, 2019.

A similar agreement was entered into between Arena Origination and BP LLC with respect to AOC. On December 31, 2018, the Company through AOC redeemed all Class M units outstanding for the "in the money" amount of \$104 and this amount was recorded as a liability on AOC's financial statements at December 31, 2018 and therefore reflected in its fair value. The liability of \$104 was paid to BP LLC during the quarter ended March 31, 2019.

In connection with the capitalization of Arena Origination, the Company granted a term loan with a balance of \$10,000 outstanding at March 31, 2019 and December 31, 2018. The loan has a seven year term to August 31, 2022, is unsecured and carries interest at a rate of 7.25% per annum, with interest due on or before January 1 of each year during the term.

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6 Investments (continued)

FVTPL

The investments in Arena Finance and Arena Origination are accounted for at FVTPL and are included in investments in private entities. The fair values of the Company's investments in Arena Finance and Arena Origination were determined to be \$166,213 and \$35,975, respectively, at March 31, 2019 and \$163,888 and \$34,837, respectively, at December 31, 2018.

Management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the shareholder's equity of Arena Finance at March 31, 2019 in the amount of \$166,213 approximated the fair value of the Company's investment in Arena Finance. The same primary valuation technique was applied to Arena Origination where 100% (or 1.0x) of the shareholder's equity at March 31, 2019, in the amount of \$25,975 and the fair value of the term loan of \$10,000, totaling \$35,975, approximated the fair value of the Company's investment in Arena Origination. Management determined that the net asset value valuation technique produced the best indicator of the fair value of Arena Finance and Arena Origination at March 31, 2019. This same valuation technique was used to determine the fair value of the Company's investment in Arena Finance and Arena Origination of \$163,888 and \$34,837, respectively, at December 31, 2018.

The significant unobservable inputs used in the valuation of Arena Finance and Arena Origination at March 31, 2019 were the shareholder's equity of each of the entities at March 31, 2019 and the multiple applied. Management applied a multiple of 1.0x as the shareholder's equity of Arena Finance and Arena Origination reflected the net assets of the respective entity which were carried at fair value at March 31, 2019, as described below. The shareholder's equity contained certain significant judgments and estimates made by management of Arena Finance and Arena Origination, including the determination of the fair value of their subsidiaries' investments as noted below.

The carrying values of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities of Arena Finance and Arena Origination and their subsidiaries approximate their fair values due to the short maturity of these financial instruments. The subsidiaries of Arena Finance and Arena Origination also make investments in equity securities, corporate bonds, private loans and other private investments, warrants and derivative instruments. When an investment is acquired or originated, its fair value is generally the value of the consideration paid or received. Subsequent to initial recognition, the subsidiaries of Arena Finance and Arena Origination determine the fair value of the investments using the following valuation techniques and inputs:

- Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange. Equity securities traded on inactive markets and certain foreign equity securities are valued using significant other observable inputs, if available, and include broker quotes or evaluated price quotes received from pricing services. If the inputs are not observable or available on a timely basis, the values of these securities are determined using valuation methodologies for Level 3 investments described below.
- Corporate bonds are valued using various inputs and techniques, which include third-party pricing services, dealer quotations, and recently executed transactions in securities of the issuer or comparable issuers. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. Values for high-yield bonds are based primarily on pricing services and dealer quotations from relevant market makers. The dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds, and sector-specific trends. If these inputs are not observable or timely, the values of corporate bonds and convertible bonds are determined using valuation methodologies for Level 3 investments described below.
- Private loans and other private investments are valued using valuation methodologies for Level 3 investments. When valuing private loans, factors evaluated include the impact of changes in market yields, credit quality of the borrowers and estimated collateral values. If there is sufficient credit coverage, a yield analysis is performed by projecting cash flows for the instrument and discounting the cash flows to present value using a market-based, risk adjusted rate. On each valuation date, an analysis of market yields is also performed to determine if any adjustments to the fair values are necessary. Techniques used to value collateral, real estate, and other hard assets include discounted cash flows, with the discount rate being the primary unobservable input, recent transaction pricing and third party appraisals. Private investments held through joint ventures are valued net of each respective joint venture waterfall and other joint venture assets and liabilities.
- Warrants that are actively traded on a securities exchange are valued based on quoted prices. Warrants that are traded over-the-counter or are privately issued are valued based on observable market inputs, if available. If these inputs are not observable or timely, the values of warrants are determined using valuation methodologies for Level 3 investments described below.

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6 Investments (continued)

- Listed derivative instruments, such as listed options, that are actively traded on a national securities exchange are valued based on quoted prices from the applicable exchange. Derivative instruments that are not listed on an exchange are valued using pricing inputs observed from actively quoted markets. If the pricing inputs used are not observable and/or the market for the applicable derivative instruments is inactive, the values of the derivative instruments are determined using valuation methodologies for Level 3 investments described below.

Where pricing inputs are unobservable and there is little, if any, market activity for Level 3 investments, fair values are determined by management of the subsidiaries of Arena Finance and Arena Origination using valuation methodologies that consider a range of factors, including but not limited to the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value may require significant judgment by management of the subsidiaries of Arena Finance and Arena Origination. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

Management considers other secondary valuation methodologies as a way to ensure no significant contradictory evidence exists that would suggest an adjustment to the fair value as determined by the primary valuation methodology used. In order to do this, the Company may also consider valuation techniques including the review of comparable arm's length transactions involving other specialty finance companies and comparable publicly traded company valuations. For greater certainty, these secondary valuation techniques were not used to arrive at the fair values of the Company's investments in Arena Finance and Arena Origination at the end of each reporting period.

The Company recorded unrealized gains on its investment in Arena Finance of \$2,325 and \$3,886 in the three months ended March 31, 2019 and 2018, respectively. The operating results of Arena Finance included interest expense on the demand loan from Westaim to AFHC of \$163 and \$116 in the three months ended March 31, 2019 and 2018, respectively.

The Company recorded unrealized gains on its investment in Arena Origination of \$1,138 and \$751 in the three months ended March 31, 2019 and 2018, respectively. The operating results of Arena Origination included interest expense on the term loan from Westaim to Arena Origination and the demand loan from Westaim to AOC totaling \$285 and \$416 in the three months ended March 31, 2019 and 2018, respectively.

For purposes of assessing the sensitivity of the shareholder's equity of Arena Finance and Arena Origination on the valuation of the Company's investment in these entities which is wholly-owned by the Company, if the shareholder's equity of either Arena Finance or Arena Origination at March 31, 2019 was higher by \$1,000, the fair value of the Company's investment in the respective entity at March 31, 2019 would have increased by \$1,000 (December 31, 2018 - \$1,000) and the unrealized gain on investments in private entities for the three months ended March 31, 2019 would have increased by \$1,000 (for the three months ended March 31, 2018 - \$1,000). If the shareholder's equity of either Arena Finance or Arena Origination at March 31, 2019 was lower by \$1,000, an opposite effect would have resulted.

INVESTMENT IN ASSOCIATES

Arena Investors includes the Company's indirect investment in WAHII and its subsidiaries (through WCA). In 2018, Arena Investors included the Company's indirect investment in WAHII (through WCA), ASOF-ON GP (through WCA), and its direct investment in ASOF-OFF II GP. Effective January 1, 2019, Westaim and BP LLC, transferred their interests in ASOF-ON GP and ASOF-OFF II GP, respectively to WAHII. WAHII is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to carry on the third-party investment management business of the Arena Group.

On August 31, 2015, agreements were entered into between the Company (through WCA) and BP LLC in respect of WAHII and ASOF-ON GP and between Westaim and BP LLC in respect of ASOF-OFF II GP (the "Associate Agreements"). BP LLC's initial profit sharing percentage is 49%, and under the Associate Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the Associates and share up to 75% of the profit of the Associates based on achieving certain assets under management ("AUM") and cash flow (measured by the margin of trailing twelve months earnings before interest, income taxes, depreciation and amortization to trailing twelve month revenues) thresholds in accordance with the Associate Agreements.

The Company concluded that based on the contractual rights and obligations under the Associate Agreements, the Company does not exercise control but exercises significant influence over the Associates. The Company's investment in Associates is therefore accounted for using the equity method in accordance with IAS 28.

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6 Investments (continued)

The following summarized financial information represents amounts within the financial statements of the Associates:

	March 31, 2019	December 31, 2018
Financial information of Associates:		
Assets	\$ 16,129	\$ 20,100
Liabilities	(31,095)	(35,334)
Net liabilities	\$ (14,966)	\$ (15,234)
Company's share	\$ (7,505)	\$ (7,641)
Revolving Loan Facility with Westaim	18,250	18,250
Carrying amount of the Company's investment in associates	\$ 10,745	\$ 10,609
	Three months ended March 31, 2019	Three months ended March 31, 2018 ¹
Financial information of Associates:		
Revenue	\$ 7,212	\$ 4,752
Operating expenses ²	(6,944)	(5,900)
Profit (loss) and comprehensive income (loss)	\$ 268	\$ (1,148)
Company's share of profit (loss) of associates (51%)	\$ 136	\$ (585)

¹ Adjusted to conform to the presentation of the current year.

² Includes interest expense on the loan granted by the Company (through WCA) to WAHII of \$236 and \$190 in the three months ended March 31, 2019 and 2018, respectively.

The following table shows the continuity of the carrying amount of the Company's investment in Associates:

	March 31, 2019	December 31, 2018
Carrying amount of investment in Associates:		
Opening balance	\$ 10,609	\$ 7,960
Company's share of profit (loss) of associates (51%)	136	(1,101)
Addition - Revolving Loan Facility with Westaim	-	3,750
Ending balance	\$ 10,745	\$ 10,609

On March 6, 2019, the Company (through WCA) amended a revolving loan facility to the Associates (the "Revolving Loan Facility") from the limit of \$20,000 to \$25,000 in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility has a term of 36 months to December 21, 2020 and bears interest at a rate of 5.25% per annum. WAHII had drawn down the loan facility by \$18,250 at March 31, 2019 and December 31, 2018. The loan facility is secured by all the assets of WAHII. The Company earned and received interest on the Revolving Loan Facility of \$236 and \$190 for the three months ended March 31, 2019 and 2018, respectively.

The total of the Company's 51% share of profit of the Associates was \$136 and share of loss was \$585 in the three months ended March 31, 2019 and 2018, respectively, and was reported under "Share of profit (loss) of associates" in the consolidated statements of profit and comprehensive income.

7 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	March 31, 2019	December 31, 2018
RSUs (note 13)	\$ 5,839	\$ 5,738
DSUs (note 13)	1,055	981
Interest on Preferred Securities (note 8)	462	462
Fair value of foreign exchange forward contract (note 8)	75	630
Other accounts payable and accrued liabilities	616	1,794
Ending balance	\$ 8,047	\$ 9,605

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8 Preferred Securities

On April 3, 2017, the Company announced that it had entered into an agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, "Fairfax"), had agreed to make an investment of up to C\$100,000 in Westaim in exchange for the issuance by Westaim of 5% interest bearing notes (the "Preferred Securities") and common share purchase warrants (the "Warrants") (see note 9) (collectively, the "Private Placement").

The Preferred Securities are denominated in C\$, each issuable for a principal amount of C\$10 and carry interest at a rate of 5% per annum. The Preferred Securities are subordinate secured securities that will mature on May 26, 2116 but may be repaid, in whole or in part, by the Company at any time after June 2, 2022 and at any time after June 2, 2020 if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the date on which the applicable redemption notice is given is at least C\$5.60.

On June 2, 2017, the Company closed the subscription by Fairfax of C\$50,000 of Preferred Securities (the "Fairfax Financing"). The proceeds raised from the Fairfax Financing were used by Westaim to make interest bearing loans to the Arena Group (see note 4). The Company had discretion until January 1, 2018 to require Fairfax to purchase all or part of 5,000,000 additional Preferred Securities, and exercised its discretion not to do so. There were 5,000,000 Preferred Securities outstanding at March 31, 2019 and December 31, 2018.

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit and comprehensive income. The carrying amount of the Preferred Securities, which approximated fair value, was \$37,442 and \$36,649 at March 31, 2019 and December 31, 2018, respectively. The Company recorded an unrealized foreign exchange loss relating to the Preferred Securities of \$793 and an unrealized foreign exchange gain of \$1,094 in the three months ended March 31, 2019 and 2018, respectively.

Interest on the Preferred Securities amounted to \$462 and \$478 in the three months ended March 31, 2019 and 2018, respectively. Accrued interest was \$462 at March 31, 2019 and December 31, 2018 and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

On December 21, 2017, the Company entered into a foreign exchange forward contract to sell US\$15.8 million and buy C\$20 million to manage part of the foreign currency exposure arising from the Preferred Securities. The contract matured on December 21, 2018 and resulted in a realized foreign exchange loss of \$966. On December 20, 2018, the Company entered into a new foreign exchange forward contract to sell US\$26.3 million and buy C\$35 million to manage part of the Canadian dollar currency exposure arising from the Preferred Securities. The contract has a term to maturity of less than one year and may be renewed at market rates. The Company has not designated this foreign exchange forward contract as an accounting hedge. A loss was accrued on the foreign exchange forward contract in the amount of \$75 and \$630 at March 31, 2019 and December 31, 2018, respectively and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. The foreign exchange gain was \$555 and the foreign exchange loss was \$437 for the three months ended March 31, 2019 and 2018, respectively, and was reported under foreign exchange in the consolidated statements of profit and comprehensive income. In connection with foreign exchange forward contracts which the Company may enter into from time to time, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$4,375 (December 31, 2018 - \$4,375) as security. The security shall remain in effect for the duration of the outstanding foreign exchange forward contract.

9 Derivative Warrant Liability

In connection with the Private Placement (see note 8), Westaim issued to Fairfax 28,571,430 Warrants, each exercisable for one Westaim common share at an exercise price of C\$3.50. The Warrants vest proportionately based upon the aggregate percentage of Preferred Securities purchased by Fairfax, with 14,285,715 having vested on June 2, 2017. The remaining 14,285,715 unvested Warrants were cancelled on January 31, 2018. Each vested Warrant is exercisable on or prior to June 2, 2022, but the expiry date will be extended to June 2, 2024 if the volume-weighted average trading price of Westaim's common shares for the 10 day period ending on June 2, 2022 is less than C\$5.60. After June 2, 2020, the Company can also elect to require early exercise of the Warrants if the volume-weighted average trading price of Westaim's common shares for any 10 day period prior to the election is at least C\$5.60.

The Warrants are subject to a cashless exercise at the discretion of Fairfax and are classified as a derivative liability in accordance with IFRS and measured at FVTPL. The fair value of the vested Warrants at initial recognition was recorded as an expense in the consolidated statements of profit and comprehensive income. Subsequent changes in fair value of the vested Warrants are reported in the consolidated statements of profit and comprehensive income for the period in which they arise.

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9 Derivative Warrant Liability (continued)

Changes to the derivative warrant liability are as follows:

	Three months ended March 31, 2018	Year ended December 31, 2018
Opening balance	\$ 2,382	\$ 6,678
Change in fair value - (gain)	(192)	(3,812)
Unrealized foreign exchange - loss (gain)	52	(484)
Ending balance	\$ 2,242	\$ 2,382

The Company recognized unrealized gains resulting from a change in the fair value of the vested Warrants of \$192 and \$2,038 in the three months ended March 31, 2019 and 2018, respectively. The Company also recorded an unrealized foreign exchange loss with respect to the vested Warrants of \$52 and an unrealized foreign exchange gain of \$183 in the three months ended March 31, 2019 and 2018, respectively, under foreign exchange in the consolidated statements of profit and comprehensive income. At March 31, 2019 and December 31, 2018, a liability of \$2,242 and \$2,382, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position.

The fair value of the vested Warrants at March 31, 2019 of \$2,242 (December 31, 2018 - \$2,382) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.54% (December 31, 2018 - 1.87%), an expiration date between April 1, 2019 and June 2, 2024 (December 31, 2018: January 1, 2019 and June 2, 2024), a volatility of the underlying common shares of the Company of 23.73% (December 31, 2018 - 23.42%), a closing price of common shares of C\$2.57 (December 31, 2018 - C\$2.58) and a strike price of C\$3.50. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

A sensitivity analysis is performed within the Monte Carlo pricing model, which produces a probability distribution of possible outcomes by identifying which inputs impact the outcome the most.

10 Site Restoration Provision

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 ultimate environmental costs are uncertain as they are dependent on the future use of the land and future laws and regulations.

Changes to the site restoration provision are as follows:

	Three months ended March 31, 2019	Year ended December 31, 2018
Opening balance	\$ 3,584	\$ 3,770
Changes due to:		
Estimates of future expenditures	131	102
Inflation	-	(36)
Passage of time and discount rates	649	33
Unrealized foreign exchange loss (gain)	77	(285)
Ending balance	\$ 4,441	\$ 3,584

Estimates of future expenditures could change as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs and regulatory requirements.

Cash flows are estimated to take place over the next 100 years, with the majority to take place later than 50 years after March 31, 2019. To calculate the site restoration provision, the estimated cash outflows were adjusted for inflation and discounted to March 31, 2019. For inflation and discounting calculations, all cash flows later than 50 years are treated as if the cash flow would occur at 100 years. Inflation is estimated at 1.70% (December 31, 2018 - 1.70%) per annum over the next 100 years. Discount rates are based on risk free rates which range from 1.67% to 1.89% (December 31, 2018 - 1.87% to 2.18%) over the next 30 years. The 30-year risk free rate is used for discounting cash flows that are estimated to occur later than 30 years after March 31, 2019.

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11 Commitments and Contingent Liabilities

- (a) In connection with foreign exchange forward contract which the Company entered into on December 20, 2018, the Company has obtained a credit facility under which the Company has pledged cash on deposit of \$4,375 (December 31, 2018 - \$4,375) as security (see note 8).
- (b) On April 18, 2018, the Company extended its operating lease for office premises in Toronto with lease terms expiring on November 30, 2024. At March 31, 2019, the Company had a total commitment of \$1,522 for future occupancy cost payments including payments due not later than one year of \$276 and payments due later than one year of \$1,246. At December 31, 2018, the Company had a total commitment of \$1,567 for future occupancy cost payments including payments due not later than one year of \$293 and payments due later than one year of \$1,274.

12 Share Capital

The Company's authorized share capital consists of an unlimited number of common shares with no par value, Class A preferred shares with no par value and Class B preferred shares with no par value.

At March 31, 2019 and December 31, 2018, the Company had a total of 143,186,718 common shares issued and outstanding, with a stated capital of \$382,182. There were no changes in share capital in the three months ended March 31, 2019 and year ended December 31, 2018.

No shares of the Company are held by the Company, and there were no Class A preferred shares or Class B preferred shares outstanding at March 31, 2019 and December 31, 2018.

13 Share-based Compensation

The Company's long-term equity incentive plan (the "Incentive Plan") provides for grants of RSUs, DSUs, stock appreciation rights and other share-based awards. The Company also has a stand-alone incentive stock option plan (the "Option Plan").

The Option Plan is a "rolling plan" which provides that the aggregate number of common shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of common shares outstanding or 14,318,671 as at March 31, 2019. However, each of the Incentive Plan and the Option Plan provide that under no circumstances shall there be common shares issuable under such plan, together with all other security-based compensation arrangements of the Company, which exceed 10% of the aggregate number of common shares outstanding.

In certain circumstances such as a change of control of the Company or the sale of substantially all of the assets of the Company, all outstanding options and RSUs will vest immediately.

Stock Options - Changes to the number of stock options are as follows:

	Three months ended March 31, 2019		Three months ended March 31, 2018	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	10,428,337	C\$ 3.10	6,613,337	C\$ 3.10
Granted	-	C\$ -	3,815,000	C\$ 3.10
Ending balance	10,428,337	C\$ 3.10	10,428,337	C\$ 3.10
Options exercisable at end of period	5,680,558	C\$ 3.10	2,204,445	C\$ 3.10

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13 Share-based Compensation (continued)

As at March 31, 2019					
Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of stock options exercisable	Exercisable Weighted Average Exercise Price
C\$ 3.10	3,815,000	5.81	C\$ 3.10	1,271,667	C\$ 3.10
C\$ 3.00	3,860,397	5.01	C\$ 3.00	2,573,598	C\$ 3.00
C\$ 3.25	2,752,940	4.00	C\$ 3.25	1,835,293	C\$ 3.25
	10,428,337	5.04	C\$ 3.10	5,680,558	C\$ 3.10

As at December 31, 2018					
Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of stock options exercisable	Exercisable Weighted Average Exercise Price
C\$ 3.10	3,815,000	6.05	C\$ 3.10	1,271,667	C\$ 3.10
C\$ 3.00	3,860,397	5.26	C\$ 3.00	2,573,598	C\$ 3.00
C\$ 3.25	2,752,940	4.25	C\$ 3.25	1,835,293	C\$ 3.25
	10,428,337	5.28	C\$ 3.10	5,680,558	C\$ 3.10

On April 1, 2016, 2,752,940 options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on April 1, 2017, April 1, 2018 and April 1, 2019, and have an exercise price of C\$3.25. The fair value of the options granted on April 1, 2016 was C\$0.7332 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 0.61%, an average life of 4.0 years, a volatility of 46.49%, and a grant date share price of C\$2.54 converted to US\$ at an exchange rate of \$1.3047.

On April 3, 2017, 3,860,397 additional options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on December 31, 2017, December 31, 2018 and December 31, 2019, and have an exercise price of C\$3.00. The fair value of the options granted on April 3, 2017 was C\$0.8616 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.00%, an average life of 4.0 years, a volatility of 35.45%, and a grant date share price of C\$2.98 converted to US\$ at an exchange rate of \$1.3386.

On January 18, 2018, 3,815,000 additional options were granted to certain officers and employees of the Company. The options have a term of seven years, vest in three equal instalments on December 31, 2018, December 31, 2019 and December 31, 2020, and have an exercise price of C\$3.10. The fair value of the options granted on January 18, 2018 was C\$0.7185 per option estimated using the Black-Scholes option pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 1.92%, an average life of 4.0 years, a volatility of 25.35%, and a grant date share price of C\$3.10 converted to US\$ at an exchange rate of \$1.2429.

The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of options by the holders.

Compensation expense relating to options was \$271 and \$577 in the three months ended March 31, 2019 and 2018, respectively, with a corresponding increase to contributed surplus.

Restricted Share Units - RSUs vest on specific dates and are payable when vested with either cash or common shares of the Company, at the option of the holder. In certain circumstances such as a change of control of the Company or the sale of substantially all of the assets of the Company, RSUs vest immediately.

Changes to the number of RSUs are as follows:

	Three months ended March 31	
	2019	2018
Opening balance	3,034,261	3,034,261
Exercised	-	-
Ending balance	3,034,261	3,034,261

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. At December 31, 2018, all of these RSUs had vested, of which 265,937 RSUs had been exercised and 2,109,063 RSUs were outstanding.

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13 Share-based Compensation (continued)

On April 1, 2016, an additional 925,198 RSUs were granted to certain officers and employees of the Company. These RSUs vest in three equal instalments on April 1, 2017, April 1, 2018 and December 31, 2018. At March 31, 2019, all of these RSUs had vested and none have been exercised.

There were 3,034,261 RSUs outstanding at March 31, 2019 and December 31, 2018. No RSUs were granted or exercised in the three months ended March 31, 2019 and 2018.

Compensation expense relating to RSUs was a recovery of \$23 and \$482 for the three months ended March 31, 2019 and 2018, respectively. At March 31, 2019, a liability of \$5,839 (December 31, 2018 - \$5,738) had been accrued with respect to outstanding RSUs in the consolidated statements of financial position.

Deferred Share Units - DSUs are issued to certain directors of the Company in lieu of director fees, at their election, at the market value of the Company's common shares at the date of grant and are paid out in cash no later than the end of the calendar year following the year the participant ceases to be a director.

Changes to the number of DSUs are as follows:

	Three months ended March 31	
	2019	2018
Opening balance	518,855	416,529
Granted	29,184	-
Ending balance	548,039	416,529

In the three months ended March 31, 2019, 29,184 DSUs were issued in lieu of director fees of \$56 and in the three months ended March 31, 2018, no DSUs were issued. No DSUs were exercised in the three months ended March 31, 2019 and 2018.

Compensation expense relating to DSUs, including the impact of the change in the market value of the Company's common share was an expense of \$53 and a recovery of \$91 in the three months ended March 31, 2019 and 2018, respectively. At March 31, 2019, a liability of \$1,055 (December 31, 2018 - \$981) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

14 Related Party Transactions

Related parties include key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel or their close family members. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and include executive officers and current and former directors of the Company.

Compensation expenses related to the Company's key management personnel are as follows:

	Three months ended March 31	
	2019	2018
Salaries and benefits	\$ 845	\$ 901
Share-based compensation	298	10
	\$ 1,143	\$ 911

Fees paid to Hartford Consulting, Inc. (the "Consultant"), a company owned by William R. Andrus, a director of HIIG, for insurance industry related consulting services were \$34 and \$35 in the three months ended March 31, 2019 and 2018, respectively. Compensation relating to RSUs issued to the Consultant was a recovery of \$nil and \$13 for the three months ended March 31, 2019 and 2018, respectively, and the amounts were included in the consolidated statements of profit and comprehensive income under share-based compensation expense. At March 31, 2019, a liability of \$114 (December 31, 2018 - \$112) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

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14 Related Party Transactions (continued)

The Company earned and received interest on loans to related parties as follows:

	Three months ended March 31	
	2019	2018
Term loan to Arena Origination (note 6)	\$ 179	\$ 179
Demand loans to AFHC and AOC (note 4 and 6)	269	353
Revolving Loan Facility (note 6)	236	190
	\$ 684	\$ 722
Interest earned on bank balances	34	18
	\$ 718	\$ 740

The Company earned advisory fees of \$250 from HIIG and \$438 from the Arena Group in the three months ended March 31, 2019 and \$250 from HIIG and \$110 from the Arena Group for the three months ended March 31, 2018. Advisory fees are included in fee income in the consolidated statements of profit and comprehensive income.

On December 31, 2018, all outstanding M units of AFHC and AOC held by BP LLC were redeemed. The financial statements of AFHC and AOC contain a liability for the redemption payment of the M units to BP LLC in the amount of \$620 and \$104, respectively. The redemption payments were paid to BP LLC on March 27, 2019.

15 Income Taxes

Income taxes are recognized for deferred income taxes attributed to estimated differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. Deferred tax assets / (liabilities) recognized in profit or loss are as follows:

	Three months ended March 31	
	2019	2018
Unrealized gain on investments in private entities	\$ (1,541)	\$ (643)
Non-capital loss carry-forwards	1,541	643
	\$ -	\$ -

As the realization of any related tax benefits is not probable, no deferred income tax assets have been recognized for the following:

	March 31, 2019	December 31, 2018
Non-capital loss carry-forwards	\$ 30,383	\$ 30,237
Capital loss carry-forwards	5,232	5,121
Deductible temporary differences	14,419	13,928
Corporate minimum tax credits	332	325
Investment tax credits	3,402	3,330

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2039, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2031	\$ 293	2019	\$ 720
2033	2,868	2020	616
2034	3,653	2021	482
2035	3,172	2022	243
2036	252	2023	131
2037	10,242	Beyond 2023	1,210
2038	8,402		\$ 3,402
2039	3,620		
	<u>\$ 30,383</u>		

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15 Income Taxes (continued)

The following is a reconciliation of income taxes calculated at the statutory income tax rate to the income tax expense included in the consolidated statements of profit and comprehensive income:

	Three months ended March 31	
	2019	2018
Profit before income tax	\$ 10,077	\$ 5,898
Statutory income tax rates	26.5%	26.5%
Income taxes at statutory income tax rates	2,670	1,563
Variations due to:		
Non-taxable portion of unrealized gain on investments in private entities	(1,541)	(643)
Tax losses allocated from the HIIG Partnership	(13)	(5)
Non-deductible (non-taxable) items	35	(439)
Difference between statutory and foreign tax rates	4	(5)
Unrecognized temporary differences	72	(600)
Unrecognized tax losses	(1,227)	129
Income tax expense	\$ -	\$ -

16 Earnings per Share

The Company had 10,428,337 stock options, 3,034,261 RSUs and 14,285,715 Warrants outstanding at March 31, 2019 and 2018. The RSUs were included in the calculation of diluted earnings per share for the three months ended March 31, 2019 as they were dilutive. The stock options and Warrants for the three months ended March 31, 2019 and the stock options, RSUs and Warrants for the three months ended March 31, 2018 were excluded in the calculation of diluted earnings per share as they were not dilutive.

Earnings per share, basic and diluted, are as follows:

	Three months ended March 31	
	2019	2018
Basic earnings per share:		
Profit	\$10,077	\$ 5,898
Weighted average number of common shares outstanding	143,186,718	143,186,718
Basic earnings per share	\$ 0.07	\$ 0.04
Diluted earnings per share:		
Profit	\$ 10,077	\$ 5,898
Dilutive RSU recovery	(23)	-
Profit on a diluted basis	\$10,054	\$ 5,898
Weighted average number of common shares outstanding	143,186,718	143,186,718
Dilutive impact of RSUs	3,034,261	-
Weighted average number of common shares outstanding on a diluted basis	146,220,979	143,186,718
Diluted earnings per share	\$ 0.07	\$ 0.04

17 Capital Management

The Company's capital currently consists of the Preferred Securities and common shareholders' equity.

The Company's guiding principles for capital management are to maintain the stability and safety of the Company's capital for its stakeholders through an appropriate capital mix and a strong balance sheet.

The Company monitors the mix and adequacy of its capital on a continuous basis. The Company employs internal metrics. The capital of the Company is not subject to any restrictions. Units of the HIIG Partnership cannot be issued without the prior approval of the unitholders and, in connection with any such issuance, the holders of units have pre-emptive rights entitling them to purchase their pro rata share of any units that may be so issued.

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18 Financial Risk Management

The Company is exposed to a number of risks due to its business operations. The Company's consolidated statement of financial position at March 31, 2019 consists of short-term financial assets and financial liabilities with maturities of less than one year, loans receivable, investments in private entities and associates, Preferred Securities, derivative warrant liability and the site restoration provision. The most significant identified risks which arise from holding financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and equity risk. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company's credit risk arises primarily from its cash and cash equivalents. The Company manages such risk by maintaining bank accounts with Schedule 1 banks in Canada and a major bank in the United States.

Loans receivable by the Company were made to subsidiaries which the Company controls and the loans are secured by underlying assets of the subsidiaries. Therefore, credit risk related to these loans is nominal.

Liquidity risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Company has made investments in private entities and associates which do not typically have an active market. Private investment transactions can be highly structured and the Company takes measures, where possible, to create defined liquidity events and as part of its strategy, the Company has sought to create or accelerate such liquidity events. However, such liquidity events are rarely expected in the first two or three years of making an investment and may not be realized as expected.

At March 31, 2019, the Company's short-term financial liabilities amounted to \$1,153 (December 31, 2018 - \$2,886), and the Company had cash resources to meet these financial obligations.

Currency risk

The Company's C\$ denominated monetary liabilities exceed C\$ denominated monetary assets, including its C\$35 million (December 2018 – C\$35 million) foreign exchange forward contract. A 10% strengthening of the C\$ against the US\$ would have increased the foreign exchange loss for the three months ended March 31, 2019 by approximately \$158. A similar weakening of the C\$ would have resulted in an opposite effect.

From time to time, the Company may enter into foreign exchange forward contracts to manage certain foreign currency exposures arising from foreign currency denominated transactions. The Company has not designated any foreign exchange forward contracts as accounting hedges.

Interest rate risk

The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to interest rates on its cash and cash equivalents, loans receivable, or the Preferred Securities. The Company is subject to interest rate risks indirectly as a result of its investments in HIIG (through the HIIG Partnership), Arena Finance and Arena Origination as certain underlying investments made by these entities are sensitive to interest rate movements.

Equity risk

There is no active market for the Company's investments in HIIG (through the HIIG Partnership) and the Arena Group. The Company holds these investments for strategic and not trading purposes. The fair values of these investments recorded in the Company's consolidated financial statements have been arrived at using industry accepted valuation techniques. Due to the inherent uncertainty of valuation, these fair values may not be indicative of the actual values which can be realized upon a liquidity event for these investments.

19 Subsequent Events

Effective April 1, 2019, the Company converted the term loan of \$10,000 to Westaim Origination Holdings, Inc. ("WOH"), the parent of Arena Origination, for additional common shares of Arena Origination.



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