WESTAIM

Second Quarter Report to Shareholders
for the quarter ended June 30, 2020

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The "Company" in this Management's Discussion and Analysis ("MD&A") refers to The Westaim Corporation ("Westaim") on a consolidated basis. This MD&A, which has been approved by the Board of Directors of Westaim, should be read in conjunction with the Company's unaudited consolidated financial statements including notes for the three and six months ended June 30, 2020 and 2019 as set out on pages 38 to 62 of this quarterly report. Financial data in this MD&A has been derived from the unaudited consolidated financial statements for the three and six months ended June 30, 2020 and 2019 and is intended to enable the reader to assess the Company's results of operations for the three and six months ended June 30, 2020 and financial condition as at June 30, 2020. 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 August 13, 2020. Additional information relating to the Company 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.

During the fourth quarter of 2019, management reduced the number of businesses reported under the Arena Group (hereinafter defined) to Arena Investors (hereinafter defined) and Arena FINCOs (hereinafter defined) to simplify and improve the comparability of investment results. Comparative figures have been reclassified to conform to the presentation of the current period. See Section 3, *Investments* of this MD&A.

IFRS for Investment Entities
The Company 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
The Company 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 the Company'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 and six months ended June 30, 2020 and 2019 (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 the Company's historical financial statements including the notes thereto and the related MD&A as well as the Company'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 and six months ended June 30, 2020 and 2019 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 the Company's historical financial statements including the notes thereto and the related MD&A as well as the Company's other public filings.

During the fourth quarter of 2019, management consolidated the Arena Group's financial information into Arena FINCOs (defined hereinafter) and Arena Investors (defined hereinafter) to simplify and improve the comparability of the Arena Group's results. Comparative figures have been reclassified to conform to the presentation of the current period.

The Arena Financial Information has been primarily provided by the management of 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 26, 2020 for its fiscal year ended December 31, 2019 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.

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 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 June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Revenue and net change in unrealized value of investments	$ 3.7	$ 11.3	$ (20.1)	$ 24.5
Net expenses	(3.7)	(3.5)	(0.4)	(6.6)
Income tax expense	(0.1)	-	(0.1)	-
(Loss) profit and comprehensive (loss) income	$ (0.1)	$ 7.8	$ (20.6)	$ 17.9
(Loss) Earnings per share – basic	$ -	$ 0.05	$ (0.14)	$ 0.12
(Loss) Earnings per share – diluted	$ -	$ 0.05	$ (0.15)	$ 0.12
At June 30:				
Shareholders' equity	$ 334.3	$ 363.6	$ 334.3	$ 363.6
Number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Book value per share - in US$ [1]	$ 2.32	$ 2.55	$ 2.32	$ 2.55
Book value per share - in C$ [1]	$ 3.15	$ 3.34	$ 3.15	$ 3.34

[1] Non-GAAP measure. See Section 15, *Non-GAAP Measures* of this MD&A. Period end exchange rates: 1.35865 at June 30, 2020 and 1.30840 at June 30, 2019.

Three months ended June 30, 2020 and 2019

The Company reported a loss and comprehensive loss of $0.1 million for the three months ended June 30, 2020 (2019 – profit and comprehensive income of $7.8 million).

Revenue and net change in unrealized value of investments for the three months ended June 30, 2020 of $3.7 million (2019 - $11.3 million) consisted of interest income of $0.2 million (2019 - $0.6 million), advisory fees of $0.3 million (2019 - $0.6 million), an unrealized increase from the Company's investments in private entities of $3.6 million (2019 - $9.4 million), an unrealized gain on other investments of $nil; (2019 - $0.1 million) and the Company's share of loss of its associates (as hereinafter defined) of $0.4 million (2019 - profit of $0.6 million).

Net expenses for the three months ended June 30, 2020 of $3.7 million (2019 - $3.5 million) consisted of salaries and benefits of $0.9 million (2019 - $0.9 million), general, administrative and other expenses of $0.1 million (2019 - $0.4 million), professional fees of $0.3 million (2019 - $0.2 million), site restoration provision of $nil (2019 - $0.6 million), share-based compensation expense of $1.1 million (2019 - $0.5 million), a foreign exchange loss of $0.6 million (2019 - $0.3 million), interest on preferred securities of $0.4 million (2019 - $0.4 million) and an unrealized loss resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of $0.3 million (2019 - $0.2 million).

The Company reported income tax expense for the three months ended June 30, 2020 of $0.1 million (2019 - $nil).

Six months ended June 30, 2020 and 2019

The Company reported a loss and comprehensive loss of $20.6 million for the six months ended June 30, 2020 (2019 - profit and comprehensive income of $17.9 million).

(Currency amounts in United States dollars unless otherwise indicated)

2. OVERVIEW OF PERFORMANCE (continued)

Revenue and net change in unrealized value of investments for the six months ended June 30, 2020 of $(20.1) million (2019 - $24.5 million) consisted of interest income of $0.6 million (2019 - $1.3 million), dividend income paid to the Company from the Arena FINCOs (as hereinafter defined) of $22.7 million (2019 - $nil), advisory fees of $0.5 million (2019 - $1.3 million), an unrealized decrease from the Company's investments in private entities of $20.0 million less dividends paid to the Company of $22.7 million (2019 – unrealized increase of $21.1 million less dividends of $nil), an unrealized gain on other investments of $nil (2019 - $0.1 million) and the Company's share of loss of its associates (as hereinafter defined) of $1.2 million (2019 - profit of $0.7 million).

Net expenses for the six months ended June 30, 2020 of $0.4 million (2019 - $6.6 million) consisted of salaries and benefits of $1.8 million (2019 - $1.9 million), general, administrative and other expenses of $0.4 million (2019 - $0.6 million), professional fees of $0.7 million (2019 - $0.4 million), site restoration provision of $0.1 million (2019 - $1.4 million), share-based compensation recovery of $1.2 million (2019 - expense of $0.8 million), a foreign exchange gain of $1.0 million (2019 - loss of $0.6 million), interest on preferred securities of $0.9 million (2019 - $0.9 million) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of $1.3 million (2019 - $nil).

The Company reported income tax expense for the six months ended June 30, 2020 of $0.1 million (2019 - $nil).

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, and the Arena FINCOs and Arena Investors, collectively referred to as "Arena" or the "Arena Group", as follows:

	Place of establishment	Principal place of business	Ownership interest as at June 30, 2020	Ownership interest as at December 31, 2019
Investment in private entities:				
- HIIG	Delaware, U.S.	Texas, U.S.	44.0% owned by the Company[1]	44.0% owned by the Company[1]
- Arena FINCOs (as hereinafter defined)	Delaware, U.S.	New York, U.S.	100% owned by the Company	100% owned by the Company
Investment in associates:				
- Arena Investors (as hereinafter defined)	Delaware, U.S.	New York, U.S.	51% beneficially owned the Company [2]	51% beneficially owned the Company [2]

[1] As at June 30, 2020, the Company owned 44.0% of HIIG's preferred shares which are convertible into HIIG common shares representing 22.7% of the fully diluted HIIG common shares. The Company also owned 21.3% of the HIIG fully diluted common shares through the HIIG Partnership which is established and operates in Ontario, Canada. Accordingly, the Company's total look-through ownership interest in HIIG is 44.0%. At December 31, 2019, the Company owned 44.0% in look through interest in HIIG common shares through the HIIG Partnership. Based on the Company's control of the HIIG Partnership, and its ownership of preferred shares, the Company holds a 57.0% voting interest in HIIG.

[2] 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".

For additional information on the Company's corporate structure, see the Company's Annual Information Form dated March 26, 2020 for its fiscal year ended December 31, 2019 which is available on SEDAR at www.sedar.com.

<u>HIIG</u>

The Company owns a significant interest in HIIG, a U.S. based diversified specialty insurance holding company that underwrites select property, casualty, surety, and accident and health insurance coverages through its insurance and reinsurance subsidiaries. The Company's investment in HIIG is recorded in investments in private entities under investments in the Company's consolidated financial statements.

<u>Arena Group</u>

The Arena Group consists of the following businesses:

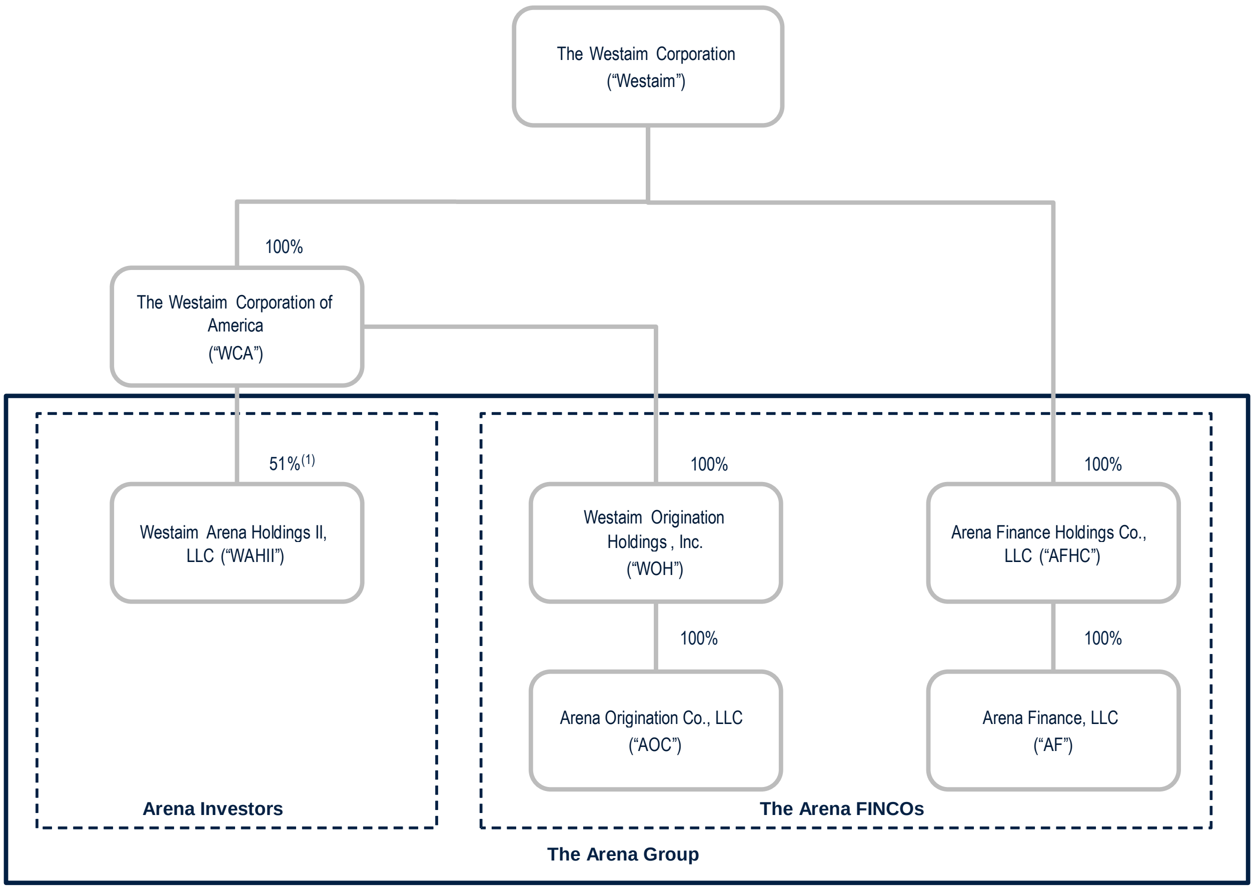
- **Arena Investors** – Westaim Arena Holdings II, LLC ("WAHII"), through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. WAHII is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to carry on the third-party investment management business of the Arena Group. The Company's investment in Arena Investors is accounted for using the equity method and consists of investments in corporations or limited partnerships where the Company has significant influence.

3. INVESTMENTS (continued)

- **Arena FINCOs** – The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. The Company's investments in the Arena FINCOs are recorded as investments in private entities included under investments in the Company's consolidated financial statements.

Arena Investors and the Arena FINCOs 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 26, 2020 for its fiscal year ended December 31, 2019 which is available on SEDAR at www.sedar.com.

Accounting for the Company's Investments

The Company's investments in private entities consist of its investments in HIIG and the Arena FINCOs.

The Company 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 FVTPL.

In determining the valuation of investments in private entities at June 30, 2020 and 2019, 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, 2019 and 2018.

3. INVESTMENTS (continued)

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

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

	Three months ended June 30, 2020					
(millions)	Opening Balance	Additions - Equity	Return of Capital	Increase in unrealized value before dividends	Dividends paid	Ending balance
Investments in private entities:						
- HIIG	$ 144.8	$ 44.0	$ -	$ 2.2	$ -	$ 191.0
- Arena FINCOs	167.6	-	-	1.4	-	169.0
	$ 312.4	$ 44.0	$ -	$ 3.6	$ -	$ 360.0

	Three months ended June 30, 2019[1]					
(millions)	Opening Balance	Additions - Equity	Repayment of term loan	Increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:						
- HIIG	$ 170.3	$ -	$ -	$ 5.1	$ -	$ 175.4
- Arena FINCOs	202.2	10.0	(10.0)	4.3	-	206.5
	$ 372.5	$ 10.0	$ (10.0)	$ 9.4	$ -	$ 381.9

[1] Adjusted to conform to the presentation of the current year

	Six months ended June 30, 2020					
(millions)	Opening Balance	Additions - Equity	Return of Capital	Decrease in unrealized value before dividends	Dividends paid	Ending balance
Investments in private entities:						
- HIIG	$ 165.0	$ 44.0	$ -	$ (18.0)	$ -	$ 191.0
- Arena FINCOs	205.8	-	(12.1)	(2.0)	(22.7)	169.0
	$ 370.8	$ 44.0	$ (12.1)	$ (20.0)	$ (22.7)	$ 360.0

	Six months ended June 30, 2019[1]					
(millions)	Opening Balance	Additions - Equity	Repayment of term loan	Increase in unrealized value before dividends	Dividends paid	Ending balance
Investments in private entities:						
- HIIG	$ 162.1	$ -	$ -	$ 13.3	$ -	$ 175.4
- Arena FINCOs	198.7	10.0	(10.0)	7.8	-	206.5
	$ 360.8	$ 10.0	$ (10.0)	$ 21.1	$ -	$ 381.9

[1] Adjusted to conform to the presentation of the current year

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

	Three months ended June 30		Six months ended June 30	
(millions)	2020	2019	2020	2019
Investment in Arena Investors				
Opening balance	$ 11.5	$ 10.7	$ 12.3	$ 10.6
Additions – Revolving loan from the Company	-	1.7	-	1.7
The Company's share of (loss) gain	(0.4)	0.6	(1.2)	0.7
Ending balance	$ 11.1	$ 13.0	$ 11.1	$ 13.0

3. INVESTMENTS (continued)

A. INVESTMENT IN HIIG

The Company's $191.0 million valuation of its investment in HIIG consists of the following:

	Three months ended June 30, 2020				Three months ended June 30, 2019		
(millions)	Opening Balance	Additions	Increase (decrease) in unrealized value of investment	Ending Balance	Opening Balance	Increase (decrease) in unrealized value of investment	Ending balance
Investment in HIIG:							
- HIIG Partnership - Share of HIIG Common Shares[1]	$ 144.2	$ -	$ (52.2)	$ 92.0	$169.5	$ 5.2	174.7
- HIIG Partnership - Share of Other Partnership Assets	0.6	-	(0.1)	0.5	0.8	(0.1)	0.7
- HIIG convertible preferred shares held by the Company directly	-	44.0	54.5	98.5	-	-	-
	$ 144.8	$ 44.0	$ 2.2	$ 191.0	$ 170.3	$ 5.1	$ 175.4

[1] The Company's share of HIIG common shares held by the HIIG Partnership

	Six months ended June 30, 2020				Six months ended June 30, 2019		
(millions)	Opening Balance	Additions	Increase (decrease) in unrealized value of investment	Ending Balance	Opening Balance	Increase (decrease) in unrealized value of investment	Ending balance
Investment in HIIG:							
- HIIG Partnership - Share of HIIG Common Shares[1]	$ 164.3	$ -	$ (72.3)	$ 92.0	$161.3	$ 13.4	174.7
- HIIG Partnership - Share of Other Partnership Assets	0.7	-	(0.2)	0.5	0.8	(0.1)	0.7
- HIIG convertible preferred shares held by the Company directly	-	44.0	54.5	98.5	-	-	-
	$ 165.0	$ 44.0	$ (18.0)	$ 191.0	$ 162.1	$ 13.3	$ 175.4

[1] The Company's share of HIIG common shares held by the HIIG Partnership

At June 30, 2020, the Company owned approximately 62.0% of the HIIG Partnership and the HIIG Partnership held HIIG common shares representing approximately 34.3% of the total fully diluted HIIG common shares outstanding. Therefore Westaim's look-through interest in common shares through the HIIG Partnership was 21.3%.

The convertible preferred shares of HIIG were acquired by Westaim on April 20, 2020, as HIIG completed a rights offering ("Rights Offering") that resulted in gross proceeds of $100.0 million to HIIG. As part of the rights offering, Westaim purchased $44.0 million (or 44%) of the HIIG preferred shares offered. The convertible preferred shares were initially convertible into HIIG common shares based on a conversion price equal to $1.74. The conversion price is subject to adjustment from time to time based on the occurrence of certain events. At June 30, 2020, the adjustments, if effective, would result in a conversion price of $1.41. The fair value of Westaim's ownership of the HIIG convertible preferred shares was $98.5 million.

The Company's interest in the HIIG Partnership, combined with its direct ownership of the HIIG preferred shares, which were convertible in to HIIG common shares representing 22.7% of the fully diluted HIIG common shares outstanding, resulted in a 44.0% look-through interest in HIIG as at June 30, 2020 (December 31, 2019 – 44.0%).

(i) Fair Value

The investment in HIIG is accounted for at FVTPL. The fair value of the Company's investment in HIIG was determined to be $191.0 million at June 30, 2020 and $165.0 million at December 31, 2019.

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 HIIG at June 30, 2020. The fair value of the investment in HIIG at June 30, 2020 was derived from a valuation of the HIIG common shares and other net assets held by the HIIG Partnership, and the HIIG convertible preferred shares owned by Westaim at June 30, 2020. 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 fully diluted common shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the HIIG fully diluted common shares as at June 30, 2020 and December 31, 2019 given that this is the valuation technique which a market participant would employ. The HIIG convertible preferred shares were valued at their common share equivalent on an as converted basis.

3. INVESTMENTS (continued)

In valuing HIIG's fully diluted common shares, using a multiple of net asset value as the primary valuation technique, fair value was determined to be 1.0x the adjusted stockholders' equity of HIIG as at June 30, 2020 (December 31, 2019 - 1.1x). The adjusted stockholders' equity of HIIG as at June 30, 2020 reflects the HIIG stockholders' equity obtained from the unaudited financial statements of HIIG as at and for the six months ended June 30, 2020 prepared in accordance with US GAAP, adjusted for a reclassification of a stock notes receivable from employees relating to their purchase of HIIG common and preferred shares. The adjusted shareholders' equity 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.

As at December 31, 2019 and the two prior years, the Company had concluded that an appropriate valuation for HIIG was 1.1x HIIG's adjusted stockholders' equity. During the six month period through to June 30, 2020, declines in multiples of book value have been observed for P&C insurance companies as evidenced in the financial markets. As a result, the Company felt it appropriate to reduce the fair value of HIIG to 1.0x adjusted stockholders' equity at March 31, 2020 and continuing to June 30, 2020 (1.1x at December 31, 2019) which resulted in an unrealized loss to the Company solely due to this reduction in the valuation multiple of $nil and $14.9 million in the three and six months ended June 30, 2020, respectively.

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 HIIG at the end of each reporting period.

The Company recorded an increase in unrealized value of $2.2 million and a decrease in unrealized value of $18.0 million in the three and six months ended June 30, 2020, respectively, and an increase in unrealized value of $5.1 million and $13.3 million in the three and six months ended June 30, 2019, respectively, on its investment in HIIG.

(ii) Select Financial Information of HIIG for the six months ended June 30, 2020 and 2019

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 LAE, net 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.

In the fourth quarter of 2019, the management of HIIG modified the reporting segments of HIIG to better describe its business. Comparative figures have been reclassified to conform to the presentation of the current period. The reporting segments of HIIG are as follows:

- Accident & Health - group medical insurance business written on an excess basis known as stop loss business including both aggregate and specific coverage provided to self-funded medical programs for 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 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 requiring underwriters with more specific knowledge and expertise.
- Non-continuing lines - represent lines of business no longer actively underwritten by HIIG.

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 and six months ended June 30, 2020 and 2019 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.

3. INVESTMENTS (continued)

(unaudited)	Three months ended June 30				Six months ended June 30			
(millions except for percentage)		2020		2019[1]		2020		2019[1]
Income Statement								
Gross written premiums	$	253.0	$	258.7	$	485.8	$	460.1
Net written premiums	$	110.9	$	123.2	$	210.9	$	225.0
Net earned premiums	$	94.8	$	94.5	$	192.9	$	174.2
Net (loss) income	$	0.9	$	6.9	$	(47.2)	$	20.6
Combined ratio[2]		140.9%		98.2%		118.8%		98.8%
Combined ratio net of LPT recoverable[3]		111.1%		98.2%		104.2%		98.8%
Combined ratio excluding the LPT[4]		98.7%		98.2%		98.1%		98.8%
Select Information								
Gross written premiums:								
Commercial	$	66.2	$	56.0	$	144.6	$	128.5
Specialty		96.6		99.6		168.7		148.7
Excess & Surplus		66.6		75.2		124.5		126.6
Accident & Health		23.6		27.8		48.0		55.9
Non-continuing lines		-		0.1		-		0.4
	$	253.0	$	258.7	$	485.8	$	460.1
Net written premiums:								
Commercial	$	28.1	$	30.2	$	61.6	$	73.8
Specialty		46.2		51.5		75.0		75.5
Excess & Surplus		27.1		31.0		55.3		54.6
Accident & Health		9.5		10.4		19.0		20.7
Non-continuing lines		-		0.1		-		0.4
	$	110.9	$	123.2	$	210.9	$	225.0
Net earned premiums:								
Commercial	$	27.7	$	30.7	$	57.1	$	56.1
Specialty		30.7		29.2		63.0		50.3
Excess & Surplus		26.9		23.1		53.7		44.4
Accident & Health		9.5		10.4		19.0		20.7
Non-continuing lines		-		1.1		0.1		2.7
	$	94.8	$	94.5	$	192.9	$	174.2
Net Loss and LAE ratio:								
Commercial		76.4%		74.8%		72.1%		74.9%
Specialty		67.2%		71.5%		64.9%		68.4%
Excess & Surplus		67.6%		58.2%		67.8%		60.9%
Accident & Health		84.8%		96.2%		84.9%		86.6%
Non-continuing lines		n.m.[5]		n.m.[5]		n.m.[5]		n.m.[5]
Net Loss and LAE ratio excluding the LPT[4]		**72.0%**		**73.6%**		**70.0%**		**72.2%**
LPT development not recoverable		12.4%		-		6.1%		-
Net Loss and LAE ratio[3]		**84.4%**		**73.6%**		**76.1%**		**72.2%**

Balance Sheet Information	June 30, 2020		December 31,2019	
Investments, cash and cash equivalents	$	739.4	$	797.7
Stockholders' equity	$	419.6	$	370.2

[1] Adjusted to conform to the presentation of the current year.
[2] Combined ratio excluding the impact of (i) the premium cost of the LPT; and (ii) the amount recoverable from the LPT reinsurer.
[3] Combined ratio and Net Loss and LAE ratio adjusted to include the amount recoverable from the LPT reinsurer.
[4] Combined ratio and Net Loss and LAE ratio excluding adverse development subject to the LPT.
[5] Not material or meaningful but included in aggregate numbers.

3. INVESTMENTS (continued)

Gross written premiums - Gross written premiums were $253.0 million for the three months ended June 30, 2020 compared to $258.7 million for the three months ended June 30, 2019 a decrease of 2.2%, and $485.8 million for the six months ended June 30, 2020 compared to $460.1 million for the six months ended June 30, 2019 an increase of 5.6%. The decrease in gross written premiums in the three months ended June 30, 2020 compared to the same period in the prior year was driven primarily by reductions in the Excess & Surplus and Accident & Health segments. The increase in gross written premiums in the six months ended June 30, 2020 compared to the same period in the prior year was driven primarily by growth in the Commercial and Specialty segments.

Net written premiums - Net written premiums were $110.9 million for the three months ended June 30, 2020 compared to $123.2 million for the three months ended June 30, 2019, a decrease of 10.0%, and $210.9 million for the six months ended June 30, 2020 compared to $225.0 million for the six months ended June 30, 2019, a decrease of 6.3%, resulting from a decrease in HIIG's net retention in the Commercial and Specialty segments. The Commercial segment net retention decreased due to additional reinsurance on the Workers' Compensation business. The Specialty segment net retention decreased due to increased Property excess of loss reinsurance costs.

Net earned premiums - Net earned premiums were $94.8 million for the three months ended June 30, 2020 compared to $94.5 million for the three months ended June 30, 2019, an increase of 0.3%, and $192.9 million for the six months ended June 30, 2020 compared to $174.2 million for the six months ended June 30, 2019, an increase of 10.7%. The increase in net earned premiums was due to HIIG's net written premium growth over the past 24 months.

Net development on prior year claims - In the second quarter of 2020, HIIG closed an LPT that provides reinsurance protection of approximately $127.4 million above the net ceded claim reserves, primarily related to 2017 and prior policy years, subject to co-participation payments required from HIIG above specific amounts. In the three and six months ended June 30, 2020, HIIG experienced prior period adverse development relating to reserves covered by the LPT of approximately $40.0 million pre-tax, of which $28.2 million is recoverable from the LPT reinsurer. The development of prior period loss and LAE expenses was as follows:

Net adverse (favourable) development on prior year claims reserves before income tax **(unaudited)** (millions)	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Development subject to the LPT	$ 40.0	$ -	$ 40.0	$ -
Recoverable from the LPT reinsurer	(28.2)	-	(28.2)	-
Net development subject to the LPT	**$ 11.8**	**$ -**	**$ 11.8**	**$ -**
Development not subject to the LPT	0.3	7.9	0.3	8.3
Net development	**$ 12.1**	**$ 7.9**	**$ 12.1**	$ 8.3

Combined ratio - The impact of prior period development and the LPT recovery on the combined ratio for the periods is outlined as follows:

Combined Ratio Analysis **(unaudited)** (millions)	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Combined ratio[1]	**140.9%**	**98.2%**	**118.8%**	**98.8%**
Less: LPT development recoverable from the LPT	29.8%	-	14.6%	-
Combined ratio net of LPT recoverable[2]	**111.1%**	**98.2%**	**104.2%**	**98.8%**
Less: LPT development not recoverable	12.4%	-	6.1%	-
Combined ratio excluding the LPT[3]	**98.7%**	**98.2%**	**98.1%**	**98.8%**

[1] Combined ratio excluding the impact of (i) the premium cost of the LPT; and (ii) the amount recoverable from the LPT reinsurer.
[2] Combined ratio adjusted to include the amount recoverable from the LPT reinsurer.
[3] Combined ratio excluding adverse development subject to the LPT.

3. INVESTMENTS (continued)

Operating results (all amounts net of income tax) - The Company included the cost of the LPT in its valuation of HIIG as at December 31, 2019. The operating result of HIIG was a net income of $0.9 million for the three months ended June 30, 2020 compared to net income of $6.9 million for the three months ended June 30, 2019. For the six months ended June 30, 2020, HIIG had a net loss of $47.2 million, or $12.9 million excluding the cost of the LPT that HIIG recorded in the first quarter of 2020. This compares to net income of $20.6 million for the six months ended June 30, 2019. The decrease of $6.0 million in net income for the three months ended June 30, 2020 was primarily attributable to a lower underwriting result of $9.7 million, including the recoverable from the LPT reinsurer, and higher investment income, unrealized and realized investment gains, net of interest expense and other of $3.7 million. The decrease of $33.5 million in net income excluding the cost of the LPT for the six months ended June 30, 2020 from the comparable period in 2019 was primarily attributable to a lower underwriting result of $8.1 million, including the recoverable from the LPT reinsurer, and lower investment income, unrealized and realized investment gains, net of interest expense and other of $25.4 million (including lower income from strategic investments of $7.5 million).

Stockholders' equity - HIIG stockholders' equity increased to $419.6 million at June 30, 2020 from $370.2 million at December 31, 2019. The increase of $49.4 million resulted from the proceeds of HIIG's rights offering for convertible preferred shares of $100.0 million, a favourable change in the fair value of investments recorded under accumulated other comprehensive income, net of income tax of $6.4 million, offset by an increase in the stockholder notes receivables of $9.8 million and a net loss for the period of $47.2 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.

Commercial and Industrial Assets
Commercial receivables, investments in entities (including start-up businesses) engaged, or to be engaged, in activities or investments such as distressed commercial and industrial loans, commercial and industrial assets such as small-scale asset-based loans, trade claims and vendor puts, specialized or other types of equipment leases and machinery, non-performing loans globally, hard assets (including airplanes and components, industrial machinery), commodities (physical and synthetic), reinsurance and premium finance within life and property casualty insurance businesses, legal-related finance including law firm loans, settled and appellate judgments and probate finance, royalties, trust certificates, intellectual property and other financial instruments that provide for the contractual or conditional payment of an obligation.

Structured Finance 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.

3. INVESTMENTS (continued)

Other Securities

Hedged and unhedged investments in public securities, 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.

The Arena FINCOs

The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. This company 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. The Arena FINCOs do not have a target range of investment; the size of the loans and/or other credit investments acquired depends on, among other things, any diversity requirements which may be imposed by any lender as well as their own investment policy. In the absence of such requirements, the Arena FINCOs are not subject to concentration limitations but the management of the Arena FINCOs will use their best judgment as to what is prudent in the circumstances.

The Arena FINCOs seek to capitalize on opportunities in both private and public investments subject to its investment policy.

Before acquiring or originating any such loans or other investments, the Arena FINCOs review 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. The Arena FINCOs originate and/or acquire 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$50 million to the Arena FINCOs (the "Arena FINCOs Demand Loan") on market terms. The Arena FINCOs Demand Loan was denominated in C$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of the Arena FINCOs. The Arena FINCOs Demand Loan carried 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 was due at the end of each calendar quarter. At June 30, 2020 and December 31, 2019, the outstanding Arena FINCO Demand Loan was C$nil. The Arena FINCOs Demand Loan was translated into US$ at rates of exchange at the end of each reporting period and any resulting unrealized foreign exchange gain or loss was included in the consolidated statements of (loss) profit and comprehensive (loss) income. The Company recorded a foreign exchange gain relating to the Arena FINCOs Demand Loan of $nil in each of the three and six months ended June 30, 2020 and $0.3 million and $0.6 million for the three and six months ended June 30, 2019, respectively.

In connection with the original capitalization of the Arena FINCOs, the Company granted a term loan (the "Arena FINCOs Term Loan") with a balance of $10.0 million at December 31, 2018. The Arena FINCOs Term Loan had a seven year term to August 31, 2022, was unsecured and carried interest at a rate of 7.25% per annum, with interest due on January 1 of each year during the term. On April 1, 2019, the Company converted the Arena FINCOs Term Loan of $10.0 million into additional common shares of WOH and as a result the balance of the 7.25% Arena FINCOs Term Loan was $nil at June 30, 2020 and December 31, 2019.

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

The Arena FINCOs paid cash dividends to Westaim in the amount of $22.7 million and a return of capital of $12.1 million in the six months ended June 30, 2020, resulting in a decrease in the Company's carrying value of the Arena FINCOs. No dividends and no return of capital were paid in each of the three months ended June 30, 2020 and the three and six months ended June 30, 2019.

Accounting for the Arena FINCOs

The Company's investment in the Arena FINCOs is accounted for at FVTPL and are included in investments in private entities. The fair value of the Company's investment in the Arena FINCOs was determined to be $169.0 million and $205.8 million at June 30, 2020 and December 31, 2019, respectively.

3. INVESTMENTS (continued)

Management used net asset value as the primary valuation technique and arrived at the fair value of the Company's investments in the Arena FINCOs of $169.0 million at June 30, 2020. 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 the Arena FINCOs at June 30, 2020, in the amount of $169.0 million approximated the fair value of the Company's investments in the Arena FINCOs. The Company's investments in the Arena FINCOs are composed largely of cash and cash equivalents and investments, carried at fair value at June 30, 2020. This same valuation technique was also used to determine the fair value of the Company's investments in the Arena FINCOs of $205.8 million at December 31, 2019.

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 investments in the Arena FINCOs at the end of each reporting period.

The Company recorded an increase in the unrealized value of its investments in the Arena FINCOs of $1.4 million and a decrease in the unrealized value of its investments of $2.0 million before dividends paid to the Company of $22.7 million in the three and six months ended June 30, 2020, respectively and an increase in the unrealized value of its investment in the Arena FINCOs of $4.3 million and $7.8 million in the three and six months ended June 30, 2019, respectively in the consolidated statements of (loss) profit and comprehensive (loss) income. In addition, Arena FINCOs returned capital in the amount of $12.1 million in the six months ended June 30, 2020. There were no dividends paid or capital returned in each of the three months ended June 30, 2020 and the three and six months ended June 30, 2019.

Select Financial Information of the Arena FINCOs

The Company considers certain financial results of the Arena FINCOs 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 the Arena FINCOs set out below is unaudited and has been derived from the financial statements of WOH, AOC, AFHC and the consolidated financial statements of AF and its subsidiaries for the three and six months ended June 30, 2020 and 2019, which have been prepared in accordance with IFRS or US GAAP. AOC financial statements and AF consolidated financial statements are the responsibility of the management of the Arena FINCOs. 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 the Arena FINCOs is as follows:

(unaudited)	June 30, 2020		December 31, 2019	
(millions except for percentage)	Fair value	Percentage of net assets at fair value	Fair value	Percentage of net assets at fair value
Cash and cash equivalents	$ 11.2	6.7%	$ 8.6	4.2%
Due from brokers, net	9.3	5.5%	1.6	0.8%
Investments:				
Loans / Private assets	128.6	76.0%	167.6	81.4%
Other Securities	15.2	9.0%	21.5	10.4%
	143.8	85.0%	189.1	91.8%
Other net assets	4.7	2.8%	6.5	3.2%
Net assets of the Arena FINCOs	$ 169.0	100.0%	$ 205.8	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 the Arena FINCOs' operations, the Arena FINCOs enter into currency hedges to reduce its currency exposure.

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

3. INVESTMENTS (continued)

A summary of the operating results of the Arena FINCOs attributable to the Company is as follows:

(unaudited) (millions)	Three months ended June 30 2020	2019[1]	Six months ended June 30 2020	2019[1]
Net operating results of the Arena FINCOs:				
Investment income	$ 1.2	$ 5.0	$ 3.6	$ 8.8
Net gains (losses) on investments	1.6	1.8	(2.8)	5.2
Interest expense on the Arena FINCOs term loan paid to the Company	-	(0.3)	-	(0.6)
Net investment income	2.8	6.5	0.8	13.4
Operating expenses:				
Management and asset servicing fees	(1.0)	(1.3)	(2.2)	(2.5)
Incentive fees	(0.1)	(0.5)	(0.1)	(1.0)
Other operating expenses	(0.2)	(0.3)	(0.4)	(0.7)
	1.5	4.4	(1.9)	9.2
Arena FINCOs holding companies' expenses:				
Advisory fees paid to the Company	(0.1)	(0.4)	(0.1)	(0.8)
Interest expense on the Arena FINCOs term loan paid to the Company	-	-	-	(0.2)
Income tax recovery (expense)	-	0.3	-	(0.4)
	(0.1)	(0.1)	-	(1.4)
Net operating results of the Arena FINCOs	$ 1.4	$ 4.3	$ (2.0)	$ 7.8

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

The Net Return on the investment portfolios of the Arena FINCOs was 0.9% and (1.1%) for the three and six months ended June 30, 2020, respectively, and 2.2% and 4.7% for the three and six months ended June 30, 2019, respectively. See Section 15, *Non-GAAP Measures* of this MD&A.

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

(unaudited) (millions)	Three months ended June 30 2020	2019	Six months ended June 30 2020	2019
Carrying value of the Arena FINCOs:				
Opening balance	$ 167.6	$ 202.2	$ 205.8	$ 198.7
Return of capital to the Company	-	-	(12.1)	-
Unrealized gain (loss) before dividends	1.4	4.3	(2.0)	7.8
Dividends paid to the Company	-	-	(22.7)	-
Ending balance	$ 169.0	$ 206.5	$ 169.0	206.5

Arena Investors

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.

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", preferred return 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 portfolios.

3. INVESTMENTS (continued)

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 June 30, 2020, the Arena Group had committed AUM of approximately $1.4 billion. The committed AUM included the net assets of the Arena FINCOs of approximately $169.0 million. As of December 31, 2019, the Arena Group had committed AUM of approximately $1.3 billion. The committed AUM included the net assets of the Arena FINCOs of approximately $206.0 million.

Rights Granted to BP LLC

On August 31, 2015, agreements were entered into between the Company and BP LLC in respect of WAHII (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 Agreements, BP LLC has the right to earn-in up to 75% equity ownership percentage in the associates 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.

Accounting for Arena Investors

On March 6, 2019, the Company amended a revolving loan facility to the associates (the "Arena Investors' Revolving Loan") from the limit of $20.0 million to $25.0 million in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility had a term of 36 months to December 21, 2020, which has been extended to March 31, 2023 and bears interest at a rate of 5.25% per annum. Arena Investors had drawn down the loan facility by $20.0 million at June 30, 2020 and December 31, 2019. The loan facility is secured by all the assets of Arena Investors.

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 $11.1 million and $12.3 million at June 30, 2020 and December 31, 2019, respectively. The total of the Company's 51% share of loss of $0.4 million and $1.2 million for the three and six months ended June 30, 2020, respectively, and share of profit of $0.6 million and $0.7 million for the three and six months ended June 30, 2019, respectively, was reported under "Net results of investments" in the consolidated statements of (loss) profit and comprehensive (loss) 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, 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 and six months ended June 30, 2020 and 2019, 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.

Select financial information of Arena Investors is as follows:

Statement of Financial Position

(unaudited) (millions)	June 30, 2020	December 31, 2019
Cash and cash equivalents	$ 2.3	$ 1.6
Restricted cash	5.0	6.5
Arena Investors' Revolving Loan from the Company	(20.0)	(20.0)
Other net liabilities	(5.0)	(3.5)
Net liabilities	$ (17.7)	$ (15.4)
Company's share	$ (8.9)	$ (7.7)
Arena Investors' Revolving Loan from the Company	20.0	20.0
Carrying amount of the Company's investment in associates	$ 11.1	$ 12.3

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

3. INVESTMENTS (continued)

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

(unaudited)	Three months ended June 30		Six months ended June 30	
(millions)	2020	2019	2020	2019
Management and asset servicing fees	$ 4.8	$ 4.6	$ 9.8	$ 8.9
Incentive fees	0.7	2.9	0.9	5.8
Net gains on investments	0.1	0.2	0.1	0.2
Total revenue	5.6	7.7	10.8	14.9
Salaries and benefits	(4.7)	(4.9)	(9.7)	(10.0)
Professional fees	(0.8)	(0.8)	(1.4)	(1.6)
General, administration and other expenses	(0.7)	(0.6)	(1.5)	(1.5)
Interest expense on the Revolving Loan from the Company	(0.2)	(0.3)	(0.5)	(0.5)
Total expenses	(6.4)	(6.6)	(13.1)	(13.6)
(Loss) profit and comprehensive (loss) income	$ (0.8)	$ 1.1	$ (2.3)	$ 1.3
Company's share of (loss) profit of associates (51%)	$ (0.4)	$ 0.6	$ (1.2)	$ 0.7

The management, asset servicing and incentive fees were generated from the various segregated client accounts and managed funds of Arena Investors.

C. Other Investments

The Company's investment in ASOF LP, a fund managed by Arena Investors, LP, with a fair value of $2.7 million at June 30, 2020 and December 31, 2019 is included in investments in the consolidated statements of financial position. The Company's unrealized gain on its investment in ASOF LP was nominal in each of the three and six months ended June 30, 2020 and the unrealized gain was $0.1 million in each of the three and six months ended June 30, 2019.

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").

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 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 June 30, 2020 and December 31, 2019.

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 (loss) profit and comprehensive (loss) income. At June 30, 2020 and December 31, 2019, the US$ converted amount of the Preferred Securities was $36.8 million and $38.5 million, respectively. The Company recorded an unrealized foreign exchange loss relating to the Preferred Securities of $1.3 million and an unrealized foreign exchange gain of $1.7 million in the three and six months ended June 30, 2020, respectively, and an unrealized foreign exchange loss of $0.8 million and $1.6 million in the three and six months ended June 30, 2019, respectively. The carrying amount of the Preferred Securities approximated fair value at June 30, 2020.

Interest on the Preferred Securities amounted to $0.4 million and $0.9 million in the three and six months ended June 30, 2020, respectively, and $0.4 million and $0.9 million in the three and six months ended June 30, 2019, respectively. At June 30, 2020, interest of $0.4 million (December 31, 2019 - $0.5 million) was accrued in the consolidated statements of financial position.

4. FINANCING (continued)

Foreign Currency Forward Contracts

On December 20, 2018, the Company entered into a Canadian dollar currency forward contract to sell $26.3 million and buy C$35 million to manage the Canadian dollar currency exposures, including the currency exposure arising from the Preferred Securities. The contract matured on December 20, 2019 and resulted in a realized foreign exchange gain of $0.4 million. On December 20, 2019, the Company entered into a new Canadian dollar currency forward contract to sell $30.6 million and buy C$40 million to manage the Canadian dollar currency exposures. The contract matured on March 20, 2020 and resulted in a realized foreign exchange loss of $2.4 million. On March 20, 2020, the Company entered into a new Canadian dollar currency forward contract to sell $28.1 million and buy C$40 million to manage the Canadian dollar currency exposures including the currency exposure arising from the Preferred Securities. The contract matured on June 18, 2020 and resulted in a realized foreign exchange gain of $1.3 million. On June 18, 2020, the Company entered into a new Canadian dollar currency forward contract to sell $29.6 million and buy C$40 million to manage the Canadian dollar currency exposures including the currency exposure arising from the Preferred Securities. The contract has a term to maturity of three months and may be renewed at market rates. The Company has not designated these Canadian dollar currency forward contracts as accounting hedges. A loss was accrued on the Canadian dollar currency forward contract in the amount of $0.1 million at June 30, 2020 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position and a gain of $0.3 million at December 31, 2019 was recorded under other assets in the consolidated statements of financial position. A net gain on the Canadian dollar currency forward contracts in the amount of $1.0 million and a net loss on the Canadian dollar currency forward contracts in the amount of $1.5 million in the three and six months ended June 30, 2020, respectively, and a net gain on the Canadian dollar currency forward contract in the amount of $0.6 million and $1.1 million in the three and six months ended June 30, 2019, respectively, was recorded under foreign exchange in the consolidated statements of (loss) profit and comprehensive (loss) income. In connection with Canadian dollar currency 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 $3.0 million (December 31, 2019 - $3.0 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 14,285,715 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. 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 (loss) profit and comprehensive (loss) income for the period in which they arise.

Changes to the derivative warrant liability are as follows:

	Three months ended June 30		Six months ended June 30	
(millions)	2020	2019	2020	2019
Opening balance	$ 0.1	$ 2.2	$ 1.9	$ 2.4
Change in fair value – loss (gain)	0.3	0.2	(1.3)	-
Unrealized foreign exchange loss (gain)	-	0.1	(0.2)	0.1
Ending balance	$ 0.4	$ 2.5	$ 0.4	$ 2.5

At June 30, 2020 and December 31, 2019, a liability of $0.4 million and $1.9 million, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position. The Company recognized an unrealized loss of $0.3 million and an unrealized gain of $1.3 million in the three and six months ended June 30, 2020, respectively, and an unrealized loss of $0.2 million and $nil in the three and six months ended June 30, 2019, 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 and six months ended June 30, 2020, respectively, and unrealized foreign exchange losses of $0.1 million in each of the three and six months ended June 30, 2019, under foreign exchange in the consolidated statements of (loss) profit and comprehensive (loss) income.

4. FINANCING (continued)

The fair value of the vested Warrants at June 30, 2020 of $0.4 million (December 31, 2019 - $1.9 million) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the common shares, a risk-free interest rate of 0.29% (December 31, 2019 - 1.69%), an expiration date between July 1, 2020 and June 2, 2024 (December 31, 2019: January 1, 2020 and June 2, 2024), a volatility of the underlying common shares of the Company of 26.94% (December 31, 2019 – 23.23%), a closing price of common shares of C$2.07 (December 31, 2019 - C$2.65) 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 June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Revenue				
Interest income	$ 0.2	$ 0.6	$ 0.6	$ 1.3
Dividend income from investments in private entities	-	-	22.7	-
Advisory fee income	0.3	0.6	0.5	1.3
	$ 0.5	$ 1.2	$ 23.8	$ 2.6
Net results of investments	3.2	10.1	(43.9)	21.9
Net expenses				
Salaries and benefits	(0.9)	(0.9)	(1.8)	(1.9)
General, administrative and other	(0.1)	(0.4)	(0.4)	(0.6)
Professional fees	(0.3)	(0.2)	(0.7)	(0.4)
Site restoration provision	-	(0.6)	(0.1)	(1.4)
Share-based compensation (expense) recovery	(1.1)	(0.5)	1.2	(0.8)
Foreign exchange (loss) gain	(0.6)	(0.3)	1.0	(0.6)
Interest on preferred securities	(0.4)	(0.4)	(0.9)	(0.9)
Derivative warrant	(0.3)	(0.2)	1.3	-
	$ (3.7)	$ (3.5)	$ (0.4)	$ (6.6)
Income tax expense	(0.1)	-	(0.1)	-
(Loss) profit and comprehensive (loss) income	$ (0.1)	$ 7.8	$ (20.6)	$ 17.9

5.1 Revenue

In the three months ended June 30, 2020, the Company earned interest on loans made to the Arena Group of $0.2 million (2019 - $0.6 million). In the same period, the Company earned advisory fees from HIIG of $0.2 million (2019 - $0.2 million) and from the Arena Group of $0.1 million (2019 - $0.4 million).

In the six months ended June 30, 2020, the Company earned interest on loans made to the Arena Group of $0.5 million (2019 - $1.3 million) and dividends from the Arena FINCOs of $22.7 million (2019 - $nil). In the same period, the Company earned advisory fees from HIIG of $0.3 million (2019 - $0.5 million) and from the Arena Group of $0.2 million (2019 - $0.8 million).

5.2 Net Results of Investments

In the three months ended June 30, 2020, the net results of investments consisted of an increase in the unrealized value of the Company's investments in private entities of $3.6 million (2019 - $9.4 million), an unrealized gain on other investments of $nil (2019 - $0.1 million), and the Company's share of loss from its investment in associates of $0.4 million (2019 – share of profit of $0.6 million).

In the six months ended June 30, 2020, the net results of investments consisted of a decrease in the unrealized value of the Company's investments in private entities of $20.0 million less dividends paid to the Company of $22.7 million (2019 - increase in the unrealized value of $21.1 million less dividends of $nil), an unrealized gain on other investments of $nil (2019 - $0.1 million), and the Company's share of loss from its investment in associates of $1.2 million (2019 – share of profit of $0.7 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 June 30, 2020, the Company recorded an increase in unrealized value of $2.2 million on its investment in HIIG (2019 - $5.1 million), and an increase in unrealized value of $1.4 million on its investment in the Arena FINCOs (2019 - $4.3 million). In the six months ended June 30, 2020, the Company recorded a decrease in unrealized value of $18.0 million on its investment in HIIG (2019 – an increase in unrealized value of $13.3 million), and a decrease in unrealized value of $2.0 million less dividends paid to the Company of $22.7 million on its investment in the Arena FINCOs (2019 – an increase in unrealized value of $7.8 million less dividends of $nil).

Investment in Associates

The Company's investment in associates is accounted for using the equity method. In the three months ended June 30, 2020, the associates earned management and asset servicing fees of $4.8 million (2019 - $4.6 million), incentive fees of $0.7 million (2019 - $2.9 million), net gains on investment of $0.1 million (2019 - $0.2 million) offset by salaries and benefits of $4.7 million (2019 - $4.9 million), professional fees of $0.8 million (2019 - $0.8 million), general, administrative and other expenses of $0.7 million (2019 - $0.6 million), and interest expense on the Revolving Loan from the Company of $0.2 million (2019 - $0.3 million) resulting in a loss of $0.8 million (2019 - profit of $1.1 million). In the six months ended June 30, 2020, the associates earned management and asset servicing fees of $9.8 million (2019 - $8.9 million), incentive fees of $0.9 million (2019 - $5.8 million), net gains on investment of $0.1 million (2019 - $0.2 million) offset by salaries and benefits of $9.7 million (2019 - $10.0 million), professional fees of $1.4 million (2019 - $1.6 million), general, administrative and other expenses of $1.5 million (2019 - $1.5 million), and interest expense on the Revolving Loan from the Company of $0.5 million (2019 - $0.5 million) resulting in a loss of $2.3 million (2019 - profit of $1.3 million).

The total of the Company's 51% share of loss of the associates amounted to $0.4 million and $1.2 million in the three and six months ended June 30, 2020, respectively and its share of profit of the associates amounted to $0.6 million and $0.7 million in the three and six months ended June 30, 2019, respectively.

5.3 *Expenses*

Salaries and benefits in the three and six months ended June 30, 2020 were comparable to the corresponding period in the prior year.

General, administrative and other expenses decreased by $0.2 million in the six months ended June 30, 2020 when compared to the corresponding period in the prior year resulting from decreased travel and office related expenses.

Professional fees increased by $0.3 million in the six months ended June 30, 2020 when compared to the corresponding period in the prior year due to increased fees resulting from higher tax consultation and preparation fees.

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 and six months ended June 30, 2020 also included compensation expense for stock options of $nil (2019 - $0.2 million) and $0.1 million (2019 - $0.5 million), respectively. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

5. ANALYSIS OF FINANCIAL RESULTS (continued)

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 and revaluation of C$ foreign exchange forward contract 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 and six months ended June 30, 2020 and 2019:

	Three months ended June 30		Six months ended June 30	
(millions)	2020	2019	2020	2019
Foreign exchange gains (losses) relating to:				
- site restoration provision	$ (0.1)	$ (0.2)	$ 0.2	$ (0.2)
- liabilities for RSUs and DSUs	(0.1)	(0.1)	0.5	(0.3)
- Preferred securities	(1.3)	(0.8)	1.7	(1.6)
- Arena FINCOs Demand Loan receivable	-	0.3	-	0.6
- derivative warrant liability	-	(0.1)	0.2	(0.1)
- foreign exchange forward contracts	1.0	0.6	(1.5)	1.1
- other	(0.1)	-	(0.1)	(0.1)
	$ (0.6)	$ (0.3)	$ 1.0	$ (0.6)

6. ANALYSIS OF FINANCIAL POSITION

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

(millions)	June 30, 2020	December 31, 2019
Assets		
Cash	$ 8.6	$ 22.2
Income tax receivable	0.4	0.4
Other assets	1.6	2.3
Investments	373.8	385.8
	$ 384.4	$ 410.7
Liabilities		
Accounts payable and accrued liabilities	$ 8.2	$ 10.7
Income tax payable	0.3	0.4
Preferred securities	36.8	38.5
Derivative warrant liability	0.4	1.9
Site restoration provision	4.0	4.1
Deferred tax liability	0.4	0.3
	50.1	55.9
Shareholders' equity	334.3	354.8
Total liabilities and shareholders' equity	$ 384.4	$ 410.7

6.1 Cash

At June 30, 2020, the Company had cash of $8.6 million compared to $22.2 million at December 31, 2019. At June 30, 2020 and December 31, 2019, cash consisted of cash on deposit, including restricted cash on deposit of $3.0 million.

6.2 Income Tax Receivable

At June 30, 2020 and December 31, 2019, the Company had an income tax receivable due from the Canadian federal tax authority of $0.4 million.

6.3 Other Assets

Other assets were $1.6 million and $2.3 million at June 30, 2020 and December 31, 2019, respectively. Other assets at June 30, 2020 included receivables from related parties, primarily Arena FINCOs of $0.8 million (December 31, 2019 - $1.1 million), right of use asset of $0.6 million (December 31, 2019 - $0.6 million), fair value of foreign exchange forward contract of $nil (December 31, 2019 - $0.3 million) and other receivables of $0.2 million (December 31, 2019 - $0.3 million).

6. ANALYSIS OF FINANCIAL POSITION (continued)

Effective, December 1, 2019, the Company entered into an operating lease for the office premises in Toronto expiring on November 30, 2024. At the commencement date of the lease, a right of use asset was recorded at cost under other assets and a lease liability was recorded at amortized cost under accounts payable and accrued liabilities in the consolidated statements of financial position. Subsequent to initial recognition, the right of use asset is depreciated using the straight-line method over the term of the lease with depreciation recorded in the consolidated statements of (loss) profit and comprehensive (loss) income. Each lease payment reduces the lease liability and the accretion of the lease liability is recorded as interest expense in the consolidated statements of (loss) profit and comprehensive (loss) income.

The right of use asset for office premises was $0.6 million at June 30, 2020 and at December 31, 2019. The depreciation on the right of use asset in each of the three and six months ended June 30, 2020 was nominal (2019 - $nil).

The lease liability for office premises was $0.6 million at June 30, 2020 and at December 31, 2019. The lease payments and the interest expense on the lease liability was nominal in each of the three and six months ended June 30, 2020 (2019 - $nil). The Company recorded a nominal foreign exchange loss relating to the lease liability in each of the three and six months ended June 30, 2020 (2019 - $nil).

Depreciation expense for the capital assets was nominal in each of the three and six months ended June 30, 2020 and 2019.

6.4 Investments

Investments in Private Entities

The Company's investments in private entities consist of its investments in HIIG and the Arena FINCOs, which are accounted for at FVTPL. The fair values of HIIG and the Arena FINCOs at June 30 2020 were determined to be $191.0 million and $169.0 million, respectively (December 31, 2019 - $165.0 million and $205.8 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 investment in Arena Investors. This investment is accounted for using the equity method. The carrying value of the Company's investment in then associates at June 30, 2020 was $11.1 million (December 31, 2019 - $12.3 million). See discussion in Section 3, *Investments* of this MD&A.

Other Investments

The Company's investment in other investments consists of the Company's investment in ASOF LP, which is accounted for at FVTPL. The fair value of ASOF LP at June 30, 2020 was determined to be $2.7 million (December 31, 2019 - $2.7 million). See discussion in Section 3, *Investments* of this MD&A.

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were $8.2 million and $10.7 million at June 30, 2020 and December 31, 2019, respectively. Accounts payable and accrued liabilities at June 30, 2020 included liabilities related to accrued employee bonuses of $0.8 million (December 31, 2019 - $1.7 million), RSUs of $4.6 million (December 31, 2019 - $6.2 million), DSUs of $1.1 million (December 31, 2019 - $1.3 million), lease liability of $0.6 million (December 31, 2019 - $0.6 million), interest accrued on the Preferred Securities of $0.4 million (December 31, 2019 - $0.5 million), fair value of foreign exchange forward contract of $0.1 million (December 31, 2019 - $nil) and other accrued liabilities of $0.6 million (December 31, 2019 - $0.4 million). See Section 6.3 *Other Assets* of this MD&A for additional information on the lease liability. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

6.6 Income Tax Payable

At June 30, 2020, the Company had an income tax payable due to the United States federal tax authority of $0.3 million compared to $0.4 million at December 31, 2019.

6.7 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 June 30, 2020 of $36.8 million (December 31, 2019 - $38.5 million). See discussion in Section 4, *Financing* of this MD&A.

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.8 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 14,285,715 Warrants, with 14,285,715 Warrants having vested on June 2, 2017. 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 June 30, 2020, a liability of $0.4 million (December 31, 2019 - $1.9 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.

6.9 Site Restoration Provision

The site restoration provision of $4.0 million at June 30, 2020 and $4.1 million at December 31, 2019 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 adjusted for the present value of the estimated future restoration costs discounted using interest rates of high quality government bonds and inflation 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.

6.10 Shareholders' Equity

The details of shareholders' equity are as follows:

(millions)	June 30, 2020	December 31, 2019
Common shares	$ 382.2	$ 382.2
Contributed surplus	17.6	17.5
Accumulated other comprehensive loss	(2.2)	(2.2)
Deficit	(63.3)	(42.7)
Shareholders' equity	$ 334.3	$ 354.8

Common Shares

The Company had 143,186,718 common shares outstanding at June 30, 2020 and December 31, 2019.

Contributed Surplus

The Company had $17.6 million in contributed surplus at June 30, 2020 (December 31, 2019 - $17.5 million). The increase in contributed surplus of $0.1 million resulted from compensation expense relating to stock options in the six months ended June 30, 2020.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of $2.2 million at June 30, 2020 and December 31, 2019 comprised cumulative exchange differences from currency translation as a result of a change in presentation currency from the C$ to the US$ on August 31, 2015.

Deficit

The increase in deficit of $20.6 million from December 31, 2019 to June 30, 2020 is due to the loss for the six months ended June 30, 2020.

7. OUTLOOK

The Company is closely monitoring the impact of COVID-19 on the Company, including both HIIG and Arena. COVID-19 was declared a global pandemic by the World Health Organization on March 11, 2020. To date, the pandemic has not had a material financial impact on the Company, including HIIG or Arena. However, the impact of the pandemic and any resulting economic impact are largely unknown and rapidly evolving. It is possible that COVID-19, the measures taken by governments affected and the resulting economic effect, may have an impact on the Company in the future.

7. OUTLOOK (continued)

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.

Generally, the US property and casualty insurance market has shifted to a cycle of increasing insurance rates and improved underwriting terms after several years of poor underwriting results in the industry. The expected improvement in industry conditions, combined with operational enhancement initiatives undertaken by HIIG, new strong leadership and the additional capital contributed in the rights offering puts HIIG in a solid position to take advantage of the hardening insurance industry environment.

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 to the Company's shareholders over the long term.

8. LIQUIDITY AND CAPITAL RESOURCES

Capital Management Objectives

The Company's capital currently consists of 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 June 30, 2020 and December 31, 2019, 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 June 30, 2020 and December 31, 2019.

Dividends

No dividends were paid in the six months ended June 30, 2020 and 2019.

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").

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. As the DSUs are settled solely in cash, they are not included in the 10% limitation referred to above.

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

At June 30, 2020 and December 31, 2019, the Company had 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, vested 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 June 30, 2020, all 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. These options have a term of seven years, vested 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 June 30, 2020, all of these 3,860,397 options had vested. On January 18, 2018, 3,815,000 additional 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 December 31, 2018, December 31, 2019 and December 31, 2020, and have an exercise price of C$3.10. At June 30, 2020, 2,543,333 of these 3,815,000 options had vested.

In the three and six months ended June 30, 2020, compensation expense relating to options was $nil (2019 - $0.2 million) and $0.1 million (2019 - $0.5 million), respectively, with a corresponding increase to contributed surplus.

The Company also had 3,034,261 RSUs outstanding at June 30, 2020 and December 31, 2019. On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants. There RSUs have a term of fifteen years and at June 30, 2020, 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. These RSUs have a term of fifteen years and at June 30, 2020, 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 June 30, 2020, 749,093 DSUs were vested and outstanding (December 31, 2019 – 642,779 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 solely in cash no later than the end of the calendar year following the year the participant ceases to be a director. In the six months ended June 30, 2020 and 2019, no DSUs were exercised.

At June 30, 2020, accounts payable and accrued liabilities included amounts related to outstanding RSUs of $4.6 million (December 31, 2019 - $6.2 million) and outstanding DSUs of $1.1 million (December 31, 2019 - $1.3 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.

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

June 30, 2020 (millions)	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	$ 8.6	$ -	$ -	$ 8.6
Income tax receivable	0.4	-	-	0.4
Other assets (excluding capital assets)	1.0	-	-	1.0
Investments	-	20.0	353.8	373.8
Total financial assets	10.0	20.0	353.8	383.8
Financial obligations:				
Accounts payable and accrued liabilities (excluding capital liabilities)	1.9	-	5.7	7.6
Income tax payable	0.3	-	-	0.3
Preferred securities	-	-	36.8	36.8
Site restoration provision	-	-	4.0	4.0
Deferred tax liability	-	0.3	-	0.3
Total financial obligations	2.2	0.3	46.5	49.0
Financial assets net of financial obligations	$ 7.8	$ 19.7	$ 307.3	$ 334.8

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

December 31, 2019 (millions)	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	$ 22.2	$ -	$ -	$ 22.2
Income tax receivable	0.4	-	-	0.4
Other assets (excluding capital assets)	1.7	-	-	1.7
Investments	-	20.0	365.8	385.8
Total financial assets	24.3	20.0	365.8	410.1
Financial obligations:				
Accounts payable and accrued liabilities (excluding capital liabilities)	2.6	-	7.5	10.1
Income tax payable	0.4	-	-	0.4
Preferred securities	-	-	38.5	38.5
Site restoration provision	-	-	4.1	4.1
Deferred tax liability	-	0.3	-	0.3
Total financial obligations	3.0	0.3	50.1	53.4
Financial assets net of financial obligations	$ 21.3	$ 19.7	$ 315.7	$ 356.7

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

	Three months ended June 30		Six months ended June 30	
(millions)	2020	2019	2020	2019
Salaries and benefits[1]	$ 0.8	$ 0.8	1.5	$ 1.6
Share-based compensation expense (recovery)	1.0	0.5	(1.2)	0.8
Compensation expense	$ 1.8	$ 1.3	$ 0.3	$ 2.4

[1] Salaries and benefits include directors fees paid in cash which was nominal in each of the three and six months ended June 30, 2020. No director fees were paid in cash in the three and six months ended June 30, 2019.

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 nominal in each of the six months ended June 30, 2020 and 2019. At June 30, 2020, a liability of $0.1 million (December 31, 2019 - $0.1 million) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

On April 20, 2020, as part of a rights offering, Westaim purchased $44.0 million (or 44%) of HIIG convertible preferred shares.

The Company received a cash dividend of $22.7 million (2019 - $nil) and a return of capital of $12.1 million (2019 - $nil) from the Arena FINCOs in the six months ended June 30, 2020.

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

	Three months ended June 30		Six months ended June 30	
(millions)	2020	2019	2020	2019
Arena FINCOs Term Loan	$ -	$ -	$ -	$ 0.2
Arena FINCOs Demand Loan	-	0.3	-	0.6
Arena Investors Revolving Loan	0.2	0.3	0.5	0.5
	$ 0.2	$ 0.6	$ 0.5	$ 1.3

9. RELATED PARTY TRANSACTIONS (continued)

The Company earned advisory fees from the Arena Group of $0.1 million and $0.4 million in the three months ended June 30, 2020 and 2019, respectively, and $0.2 million and $0.8 million in the six months ended June 30, 2020 and 2019, respectively. The Company also earned advisory fees from HIIG of $0.2 million and $0.2 million in the three months ended June 30, 2020 and 2019, respectively, and 0.3 million and $0.5 million in the six months ended June 30, 2020 and 2019, respectively.

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 June 30, 2020. Management determined that this valuation technique produced the best indicator of the fair value of the investments in HIIG and the Arena FINCOs at June 30, 2020. The significant unobservable inputs used in the valuation of HIIG and the Arena FINCOs at June 30, 2020 were the equity of each of the entities at June 30, 2020 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, 2019 and 2018. 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 11, note 14 and note 16, respectively, to the Company's audited annual consolidated financial statements for the years ended December 31, 2019 and 2018.

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, 2019 and 2018

At June 30, 2020, there were no new pronouncements that impacted the Company.

12. QUARTERLY FINANCIAL INFORMATION

(millions)	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Revenue	$ 0.5	$ 23.3	$ 4.5	$ 2.1	$ 1.2	$ 1.4	$ 1.1	$ 1.2
Increase (Decrease) in unrealized value of investments, less dividends	3.2	(47.1)	(14.4)	2.7	10.1	11.8	2.4	5.3
Net (expenses) recovery of expenses	(3.7)	3.3	(2.2)	(1.1)	(3.5)	(3.1)	3.2	(2.1)
Income tax expense	(0.1)	-	(0.9)	-	-	-	-	-
(Loss) profit and comprehensive (loss) income	$ (0.1)	$ (20.5)	$ (13.0)	$ 3.7	$ 7.8	$ 10.1	$ 6.7	$ 4.4

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 26, 2020 for its fiscal year ended December 31, 2019 which is available on SEDAR at www.sedar.com.

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES

THE ARENA FINCOs

The investments of the Arena FINCOs shown by investment strategy is as follows:

Investments by Strategy (unaudited) — **June 30, 2020**

(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	$ 48.1	$ 47.0	32.7%	13.6%	19.1%
Real Estate Private Credit and Real Estate Assets	20	29.3	29.6	20.5%	15.5%	5.0%
Commercial and Industrial Assets	19	28.1	32.2	22.4%	11.5%	10.9%
Structured Finance	1	3.9	4.0	2.8%	2.8%	-
Consumer Assets	11	18.8	15.8	11.0%	11.0%	-
Other Securities	72	18.0	15.2	10.6%	11.5%	(0.9)%
	143	$ 146.2	$ 143.8	100.0%	65.9%	34.1%

Investments by Strategy (unaudited) — **December 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
Corporate Private Credit	35	$ 58.7	$ 61.9	32.7%	18.7%	14.0%
Real Estate Private Credit and Real Estate Assets	26	30.3	31.5	16.7%	12.0%	4.7%
Commercial and Industrial Assets	21	43.0	47.3	24.9%	16.3%	8.6%
Structured Finance	2	4.4	4.4	2.4%	2.4%	-
Consumer Assets	15	23.6	22.5	11.9%	11.9%	-
Other Securities	55	25.6	21.5	11.4%	8.7%	2.7%
	154	$ 185.6	$ 189.1	100.0%	70.0%	30.0%

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 the Arena FINCOs shown by geographic breakdown is as follows:

Investments by Geographic Breakdown (unaudited)	**June 30, 2020**			**December 31, 2019**		
(millions except for percentage)	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets						
North America	$ 104.5	$ 104.5	72.7%	$ 137.7	$ 142.5	75.4%
Europe	15.4	16.5	11.5%	15.7	18.0	9.5%
Asia/Pacific	7.6	7.0	4.8%	6.0	6.6	3.5%
Latin America	0.7	0.6	0.4%	0.6	0.5	0.2%
	128.2	128.6	89.4%	160.0	167.6	88.6%
Other Securities [1]						
North America	7.2	8.5	5.9%	11.7	10.7	5.7%
Europe	5.0	2.7	1.9%	7.5	5.8	3.1%
Asia/Pacific	1.9	1.4	1.0%	3.3	2.8	1.4%
Latin America	0.7	0.7	0.5%	-	-	-
Other	3.2	1.9	1.3%	3.1	2.2	1.2%
	18.0	15.2	10.6%	25.6	21.5	11.4%
	$ 146.2	$ 143.8	100.0%	$ 185.6	$ 189.1	100.0%

[1] Net of short positions.

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

The investments of the Arena FINCOs shown by industry is as follows:

Investments by Industry (unaudited)	**June 30, 2020**			**December 31, 2019**		
(millions except for percentage)	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets						
Corporate Private Credit						
Business Services	$ 12.7	$ 11.9	8.3%	$ 17.1	$ 17.5	9.3%
Financial Services	1.0	1.0	0.7%	1.8	1.8	0.9%
Healthcare Services	3.2	3.4	2.4%	6.7	6.8	3.6%
Oil and Gas (1)	18.5	18.0	12.5%	16.9	18.6	9.8%
Other Assets	11.6	11.6	8.1%	12.1	13.1	6.9%
Retail	1.1	1.1	0.7%	4.1	4.1	2.2%
	48.1	47.0	32.7%	58.7	61.9	32.7%
Real Estate Private Credit and Real Estate Assets						
Commercial	2.2	1.7	1.2%	2.0	1.6	0.9%
Hospitality	6.9	7.6	5.3%	8.4	9.6	5.0%
Land - Commercial Development	5.2	4.9	3.4%	5.2	5.2	2.8%
Land - Multi-Family Development	3.0	3.6	2.5%	5.3	5.4	2.9%
Land - Single-Family Development	2.9	3.0	2.0%	1.3	1.4	0.7%
Residential	9.0	8.7	6.0%	7.8	8.0	4.2%
Storage	0.1	0.1	0.1%	0.3	0.3	0.2%
	29.3	29.6	20.5%	30.3	31.5	16.7%
Commercial and Industrial Assets						
Lease/Equipment	2.9	5.4	3.7%	5.2	7.7	4.0%
Oil and Gas	0.3	0.4	0.3%	0.7	0.8	0.4%
Other Assets	24.9	26.4	18.4%	37.1	38.8	20.5%
	28.1	32.2	22.4%	43.0	47.3	24.9%
Structured Finance						
Other Assets	3.9	4.0	2.8%	4.4	4.4	2.4%
	3.9	4.0	2.8%	4.4	4.4	2.4%
Consumer Assets						
Consumer	18.8	15.8	11.0%	23.6	22.5	11.9%
	18.8	15.8	11.0%	23.6	22.5	11.9%
Total Loans / Private Assets	128.2	128.6	89.4%	160.0	167.6	88.6%
Other Securities (2)						
Consumer Products	5.0	3.8	2.7%	4.6	2.0	1.0%
Diversified	0.3	0.2	0.1%	-	-	-
Financial Services	(0.1)	(0.1)	(0.1)%	1.7	1.7	0.9%
Foreign Exchange Forwards	-	(0.1)	(0.1)%	-	(0.2)	(0.1)%
Healthcare Services	1.4	1.3	0.9%	0.2	0.3	0.1%
Industrial	2.1	1.6	1.1%	3.2	2.8	1.5%
Information Technology	1.1	1.4	1.0%	1.6	1.7	0.9%
Mining	0.9	0.8	0.6%	-	-	-
Media	0.1	0.1	0.1%	-	-	-
Oil and Gas	3.0	2.1	1.5%	3.9	3.6	1.9%
Real Estate	-	-	-	3.1	3.2	1.7%
Retail	0.1	0.1	0.1%	-	-	-
Telecommunications	3.6	3.4	2.3%	6.1	5.2	2.8%
Utilities	0.5	0.6	0.4%	1.2	1.2	0.7%
	18.0	15.2	10.6%	25.6	21.5	11.4%
	$ 146.2	$ 143.8	100.0%	$ 185.6	$ 189.1	100.0%

1 The Arena FINCOs' 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 position

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of the Loan and Private Asset positions of the Arena FINCOs is as follows:

Details of Loan and Private Asset Positions — **June 30, 2020**
(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-2209	Other Assets	$11.4	$ 11.6	$ 11.6	Europe	Equity	n/a [4]	n/a [4]
CPC-3198	Oil and Gas	3.8	3.8	4.9	North America	Hard Asset	n/a [4]	n/a [4]
CPC-3349	Business Services	3.6	4.0	4.1	Asia/Pacific	Second Lien	12.00%	108.0%
CPC-3083	Business Services	4.0	4.0	3.8	North America	Equity	n/a [4]	n/a [4]
CPC-3222	Oil and Gas	4.7	4.7	3.7	North America	Hard Asset	n/a [4]	n/a [4]
CPC-3677	Business Services	3.5	3.5	3.6	North America	First Lien	10.25%	55.7%
CPC-5325TL	Oil and Gas	2.8	2.7	2.7	North America	First Lien	12.00%	24.0%
CPC-4248	Healthcare Services	2.6	2.3	2.4	North America	First Lien	9.41%	64.0%
CPC-3199EQ	Oil and Gas	2.3	2.3	2.1	North America	Equity	n/a [4]	n/a [4]
CPC-4108	Oil and Gas	1.8	1.7	1.7	North America	First Lien	12.50%	67.0%
CPC-4985	Oil and Gas	1.3	1.3	1.4	North America	First Lien	10.00%	30.0%
CPC-5143	Oil and Gas	0.8	0.8	0.8	North America	First Lien	12.00%	24.0%
CPC-2397	Financial Services	0.8	0.8	0.8	North America	Equity	n/a [4]	n/a [4]
CPC-5027	Retail	0.6	0.6	0.6	North America	First Lien	10.45%	89.0%
CPC-1361TL	Healthcare Services	0.5	0.5	0.5	North America	First Lien	12.00%	44.0%
CPC-4248EQY	Healthcare Services	0.4	0.4	0.5	North America	Equity	n/a [4]	n/a [4]
CPC-2170	Oil and Gas	1.7	1.0	0.5	North America	First Lien	3.50%	100.0%
CPC-2364	Retail	0.5	0.5	0.5	North America	First Lien[5]	9.73%	40.0%
CPC-3316	Business Services	0.4	0.4	0.4	North America	Second Lien	8.16%	51.0%
CPC-4831	Financial Services	0.3	0.2	0.2	North America	First Lien	10.00%	27.0%
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-3349EQY	Business Services	0.7	0.8	-	Asia/Pacific	Equity	n/a[6]	n/a[6]
Subtotal / Weighted average %		48.7	48.1	47.0			10.86%	62.3%
Real Estate Private Credit and Real Estate Assets								
REPC-1207	Hospitality	3.7	3.8	4.9	Europe	Real Property	n/a [4]	n/a [4]
REPC-1068S4	Residential	3.7	3.7	3.7	North America	First Mortgage[5]	11.49%	72.0%
REPC-2683	Land							
	- Multi-Family Development	2.6	2.6	3.2	North America	First Mortgage	12.00%	60.0%
REPC-2277	Land							
	- Commercial Development	3.1	3.1	3.1	North America	First Mortgage	15.00%	65.0%
REPC-5476TL01	Land							
	- Single-Family Development	2.8	2.8	2.9	Asia/Pacific	First Mortgage	11.50%	73.0%
REPC-4220	Residential	2.2	2.2	2.2	North America	First Mortgage	12.00%	83.0%
REPC-1942	Commercial	2.2	2.2	1.7	North America	Real Property	n/a [7]	n/a [7]
REPC-2592	Land							
	- Commercial Development	1.9	1.9	1.7	North America	First Mortgage	10.50%	115.0%
REPC-4133	Residential	1.1	1.1	1.2	North America	First Mortgage	9.83%	58.0%
REPC-2214	Hospitality	1.4	1.3	1.1	North America	First Mortgage	9.74%	117.0%
REPC-5616	Residential	1.0	1.0	1.0	North America	First Mortgage	7.75%	65.0%
REPC-2560	Hospitality	0.9	0.9	0.8	North America	First Mortgage	9.74%	117.0%
REPC-2497	Hospitality	0.9	0.9	0.8	North America	First Mortgage	9.74%	117.0%
REPC-1068	Residential	0.8	0.8	0.5	North America	Real Property	n/a [4]	n/a [4]
REPC-4698	Land							
	- Multi-Family Development	0.4	0.4	0.4	North America	First Mortgage	11.50%	54.0%
REPC-4111	Residential	0.2	0.2	0.2	North America	First Mortgage	9.25%	60.0%
REPC-4319	Self Storage	0.1	0.1	0.1	North America	First Mortgage	11.00%	64.0%
REPC-4435	Land							
	- Single-Family Development	0.1	0.1	0.1	North America	First Mortgage	10.00%	42.0%
REPC-1047	Land							
	- Commercial Development	0.1	0.1	0.1	North America	First Mortgage	15.00%	53.0%
REPC-1015	Land							
	- Commercial Development	0.2	0.1	-	North America	Real Property	n/a [4]	n/a [4]
Subtotal / Weighted average %		29.4	29.3	29.6			11.54%	77.3%

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of Loan and Private Asset Positions (continued) **June 30, 2020**
(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	5.4	5.4	7.1	North America	Asset Pool	n/a (8)	66.3%
CI-1800	Other assets	4.5	4.5	4.7	North America	First Lien	14.00%	81.0%
CI-2651	Other assets	4.0	4.3	4.3	North America	Hard Asset	n/a (4)	n/a (4)
CI-1999EQY	Other assets	2.8	3.1	2.9	North America	Equity	n/a (4)	n/a (4)
CI-3978	Lease/Equipment	2.0	2.1	2.9	North America	Hard Asset	n/a (4)	n/a (4)
CI-2201	Lease/Equipment	0.8	0.8	2.5	North America	Hard Asset	n/a (4)	n/a (4)
CI-2686	Other assets	2.2	2.2	2.2	North America	Equity	n/a (4)	n/a (4)
CI-2064	Other assets	1.6	1.6	1.7	North America	First Lien	15.00%	72.0%
CI-4250	Other assets	1.7	1.7	1.7	North America	First Lien	14.00%	85.0%
CI-2000	Other assets	0.5	0.5	0.5	North America	Equity	n/a (4)	n/a (4)
CI-4301	Oil and Gas	0.3	0.3	0.4	North America	Hard Asset	n/a (4)	13.0% (9)
CI-5011	Other assets	0.3	0.3	0.3	North America	First Lien	12.00%	75.0%
CI-5001	Other assets	0.3	0.3	0.3	North America	First Lien	13.20%	52.0%
CI-1035	Other assets	0.4	0.4	0.3	North America	First Lien	11.51%	100.0%
CI-1520	Other assets	0.1	0.1	0.1	North America	First Lien	n/a (4)	50.0%
CI-5372	Other assets	0.1	0.1	0.1	Latin America	First Lien	18.00%	75.0%
CI-2808	Other assets	-	-	0.1	North America	Equity	n/a (4)	n/a (4)
CI-4753	Other assets	0.1	0.2	0.1	North America	Second Lien	18.00%	12.0%
CI-1999	Other assets	0.1	-	-	North America	First Lien	0.00%	n/a (10)
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.26%	100.0%
Subtotal / Weighted average %		27.4	28.1	32.2			14.04%	75.1%
Structured Finance								
SF-2239	Other assets	3.9	3.9	4.0	North America	First Lien	n/a (11)	62.0%
Subtotal / Weighted average %		3.9	3.9	4.0			n/a	62.0%
Consumer Assets								
CA-4718	Consumer	2.0	2.0	2.6	North America	Asset Pool	n/a (11)	n/a (12)
CA-4946	Consumer	1.9	1.9	1.9	North America	First Lien	15.00%	87.0%
CA-1788AS3	Consumer	2.5	2.5	1.7	North America	First Lien	n/a (7)	66.0%
CA-4727	Consumer	1.5	1.5	1.6	North America	First Lien	29.00%	66.0%
CA-1052F	Consumer	2.6	2.6	1.5	North America	First Lien	15.66%	116.0%
CA-3595	Consumer	1.3	1.3	1.3	North America	First Lien	15.50%	81.0%
CA-2199	Consumer	1.4	1.4	1.3	North America	First Lien	12.00%	95.0%
CA-1788/1933	Consumer	0.6	0.6	0.8	North America	First Lien	n/a (7)	66.0%
CA-1933A	Consumer	0.8	0.8	0.7	North America	First Lien	n/a (7)	66.0%
CA-2762	Consumer	0.6	0.6	0.5	Latin America	Asset Pool	n/a (12)	n/a (12)
CA-2373	Consumer	0.2	0.2	0.4	North America	Asset Pool	n/a (11)	n/a (12)
CA-1934	Consumer	0.2	0.2	0.3	North America	First Lien	n/a (7)	66.0%
CA-2729	Consumer	0.7	0.7	0.3	North America	First Lien	n/a (11)	269.0%
CA-5374	Consumer	0.2	0.2	0.2	North America	Asset Pool	n/a (11)	75.0%
CA-1788A	Consumer	0.4	0.4	0.2	North America	First Lien	n/a (7)	66.0%
CA-5378	Consumer	0.2	0.2	0.2	North America	First Lien	12.00%	75.0%
CA-5596	Consumer	0.2	0.2	0.2	North America	First Lien	12.00%	75.0%
CA-5060	Consumer	0.1	0.1	0.1	North America	Asset Pool	25.00%	64.0%
CA-1052S	Consumer	1.4	1.4	-	North America	First Lien	15.66%	116.0%
Subtotal / Weighted average %		18.8	18.8	15.8			17.57%	84.5%
Total / Weighted average %		$ 128.2	$ 128.2	$ 128.6			12.53%	72.7%

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 June 30, 2020. 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 June 30, 2020.
4 Investment is not a loan. Metric is not applicable.
5 Denotes subordinate position within the structure.
6 Investment is in default past its maturity date and has an uncertain holding period as of the reporting date.
7 Interest not accrued on loans purchased as non-performing.
8 Investment represents a credit pool purchase with no stated interest rate.
9 Investment represents a right to collect a fixed cash flow stream. While not technically a loan, the contract is backed by assets valued at 3-4 times the total collection amount.
10 Investment is a maturity default where the Arena Group and its partners acquired the borrower in bankruptcy.
11 Investment with no stated coupon rate.
12 Investment represents an unsecured credit pool purchase with no stated interest rate.

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of the Loan and Private Asset positions of the Arena FINCOs is as follows:

Details of Loan and Private Asset Positions — **December 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-2209	Other Assets	$ 10.4	$ 10.5	$ 11.5	Europe	Equity	n/a (4)	n/a (4)
CPC-3198	Oil and Gas	3.8	3.8	5.4	North America	Hard Asset	n/a (4)	n/a (4)
CPC-3222	Oil and Gas	4.7	4.7	4.7	North America	Hard Asset	n/a (4)	110.0%
CPC-3349	Business Services	3.6	3.7	4.4	Asia/Pacific	Second Lien	12.00%	76.0%
CPC-3677	Business Services	3.5	3.5	3.8	North America	First Lien	10.41%	52.0%
CPC-4248	Healthcare Services	3.6	2.9	2.9	North America	First Lien	11.01%	68.0%
CPC-3083TL	Business Services	2.9	2.7	2.8	North America	Second Lien	9.46%	94.0%
CPC-3199	Oil and Gas	2.3	2.3	2.3	North America	First Lien	15.00%	90.0%
CPC-1361TL	Healthcare Services	2.2	2.2	2.2	North America	First Lien	12.26%	41.0%
CPC-2364	Retail	2.2	2.2	2.2	North America	First Lien(5)	10.64%	37.0%
CPC-3316	Business Services	2.1	2.1	2.1	North America	Second Lien	9.76%	57.0%
CPC-5027	Retail	1.9	1.9	1.9	North America	First Lien	11.91%	81.0%
CPC-4108	Oil and Gas	1.7	1.7	1.7	North America	First Lien	13.50%	40.0%
CPC-2752	Other Assets	1.6	1.6	1.6	North America	First Lien	14.00%	30.0%
CPC-3107	Business Services	1.2	1.3	1.4	North America	Equity	n/a (4)	n/a (4)
CPC-4985	Oil and Gas	1.3	1.3	1.3	North America	First Lien	10.00%	32.0%
CPC-3824	Oil and Gas	1.2	1.2	1.2	North America	First Lien	9.66%	75.0%
CPC-1927	Financial Services	1.0	1.0	1.0	North America	First Lien	15.00%	29.0%
CPC-3376	Business Services	1.0	1.0	1.0	North America	Second Lien	10.60%	23.0%
CPC-2170	Oil and Gas	1.8	0.9	0.8	North America	First Lien(6)	5.25%	100.0%
CPC-5143	Oil and Gas	0.8	0.8	0.8	North America	Hard Asset	12.00%	91.6%
CPC-2397	Financial Services	0.8	0.8	0.8	North America	Equity	n/a (4)	n/a (4)
CPC-3083	Business Services	0.8	0.8	0.7	North America	Equity	n/a (4)	n/a (4)
CPC-3349EQY	Business Services	1.2	0.8	0.6	Asia/Pacific	Equity	n/a (4)	n/a (4)
CPC-3391	Healthcare Services	0.4	0.4	0.4	North America	First Lien	9.73%	24.6%
CPC-4347	Healthcare Services	0.4	0.4	0.4	North America	First Lien	10.00%	29.0%
CPC-4256	Healthcare Services	0.4	0.4	0.4	North America	First Lien	9.00%	15.6%
CPC-4248EQY	Healthcare Services	0.3	0.4	0.4	North America	Equity	n/a (4)	n/a (4)
CPC-4530	Business Services	0.3	0.3	0.3	North America	First Lien	9.50%	11.6%
CPC-3108	Business Services	0.3	0.3	0.3	North America	Second Lien	10.35%	6.0%
CPC-3199EQY	Oil and Gas	-	-	0.2	North America	Equity	n/a (4)	n/a (4)
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-2208	Business Services	0.6	0.6	0.1	North America	Second Lien	n/a (4)	n/a (4)
CPC-4473	Healthcare Services	0.1	-	0.1	North America	Equity	n/a (4)	n/a (4)
Subtotal / Weighted average %		60.2	58.7	61.9			11.28%	66.9%

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of Loan and Private Asset Positions (continued) **December 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)
Real Estate Private Credit and Real Estate Assets								
REPC-1207	Hospitality	4.6	5.2	6.5	Europe	Real Property	n/a (4)	n/a (4)
REPC-1068S4	Residential	3.7	3.7	3.7	North America	First Mortgage(5)	12.26%	61.0%
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	2.7	North America	First Mortgage	12.51%	44.0%
REPC-2592	Land - Commercial Development	1.9	1.9	2.0	North America	First Mortgage	10.51%	79.0%
REPC-4698	Land - Multi-Family Development	2.0	1.9	1.9	North America	First Mortgage	11.50%	54.0%
REPC-1942	Commercial	2.0	2.0	1.6	North America	Real Property	n/a (7)	n/a (7)
REPC-2214	Hospitality	1.4	1.4	1.4	North America	First Mortgage	10.51%	108.0%
REPC-4111	Residential	1.2	1.2	1.3	North America	First Mortgage	9.25%	80.0%
REPC-4133	Residential	1.1	1.1	1.2	North America	First Mortgage	9.83%	58.0%
REPC-4220	Residential	1.1	1.1	1.1	North America	First Mortgage	12.00%	83.0%
REPC-2560	Hospitality	0.9	0.9	0.9	North America	First Mortgage	10.51%	108.0%
REPC-3812	Land - Multi-Family Development	1.3	0.8	0.8	North America	First Mortgage	11.50%	42.0%
REPC-2497	Hospitality	0.9	0.9	0.8	North America	First Mortgage	10.51%	108.0%
REPC-1068	Residential	0.7	0.7	0.7	North America	Real Property	n/a (4)	n/a (4)
REPC-4319	Self Storage	1.6	0.3	0.3	North America	First Mortgage	11.00%	64.0%
REPC-4350	Land - Single-Family Development	0.4	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	69.0%
REPC-4437	Land - Single-Family Development	0.3	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	55.0%
REPC-4097	Land - Single-Family Development	0.3	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	75.0%
REPC-4212	Land - Single-Family Development	0.3	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	55.0%
REPC-2528	Land - Single-Family Development	0.3	0.2	0.2	North America	First Mortgage	10.00%	57.0%
REPC-4684	Land - Single-Family Development	0.2	0.1	0.2	Asia/Pacific	First Mortgage	11.00%	67.0%
REPC-1047	Land - Commercial Development	0.1	0.1	0.1	North America	First Mortgage	15.00%	53.0%
REPC-4436	Land - Single-Family Development	0.1	0.1	0.1	Asia/Pacific	First Mortgage	11.00%	53.0%
REPC-5123	Land - Single-Family Development	0.1	0.1	0.1	Asia/Pacific	First Mortgage	12.00%	61.0%
REPC-1015	Land - Commercial Development	0.2	0.1	-	North America	Real Property	n/a (4)	n/a (4)
Subtotal / Weighted average %		32.4	30.3	31.5			11.78%	65.9%

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of Loan and Private Asset Positions (continued) — **December 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-1800	Other assets	8.9	8.9	9.2	North America	First Lien	14.00%	27.1%
CI-3045	Other assets	6.3	6.3	8.0	North America	Asset Pool	n/a [8]	66.3%
CI-2651	Other assets	4.0	4.3	4.3	North America	Hard Asset	n/a [4]	n/a [4]
CI-2686	Other assets	4.0	4.1	4.1	North America	First Lien	18.25%	80.0%
CI-3978	Lease/Equipment	2.7	3.1	3.7	North America	Hard Asset	n/a [4]	n/a [4]
CI-2064	Other assets	2.9	2.9	3.0	North America	First Lien	12.76%	80.0%
CI-1999EQY	Other assets	2.8	3.1	3.0	North America	Equity	n/a [4]	n/a [4]
CI-2201	Lease/Equipment	1.7	1.7	2.9	North America	Hard Asset	n/a [4]	n/a [4]
CI-1520	Other assets	1.9	1.9	1.9	North America	First Lien	n/a [9]	41.0%
CI-4250	Other assets	1.3	1.2	1.2	North America	First Lien	14.76%	76.0%
CI-5001	Other assets	0.9	0.9	0.9	North America	First Lien	13.20%	52.0%
CI-4301	Oil and Gas	0.6	0.7	0.8	North America	Hard Asset	n/a [4]	13.0% [10]
CI-2203	Lease/Equipment	0.4	0.4	0.7	North America	Hard Asset	n/a [4]	n/a [4]
CI-4753	Other assets	0.6	0.6	0.6	North America	Second Lien	18.00%	33.0%
CI-4370	Other assets	0.5	0.5	0.5	North America	First Lien	n/a	19.0%
CI-2000	Other assets	0.5	0.5	0.5	North America	Equity	n/a [4]	n/a [4]
CI-4091	Other assets	0.4	0.4	0.4	Asia/Pacific	Asset Pool	n/a [8]	49.0%
CI-1716	Lease/Equipment	-	-	0.4	North America	Hard Asset	n/a [4]	n/a [4]
CI-3221	Other assets	0.4	0.4	0.4	North America	First Lien	13.20%	52.0%
CI-1035	Other assets	0.4	0.5	0.3	North America	First Lien	11.51%	100.0%
CI-4905	Other assets	0.2	0.2	0.2	North America	First Lien	13.20%	52.0%
CI-5113	Other assets	0.1	0.1	0.1	North America	First Lien	13.20%	52.0%
CI-1999	Other assets	0.1	0.1	0.1	North America	First Lien	0.00%	n/a [11]
CI-2808	Other assets	-	-	0.1	North America	Equity	n/a [4]	n/a [4]
CI-1282	Other assets	-	-	-	North America	First Lien	n/a [12]	n/a [12]
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.26%	100.0%
n/a [4]		n/a [4]	43.0	47.3			14.74%	53.9%
Structured Finance								
SF-2228	Other assets	2.5	2.5	2.5	North America	First Lien	16.00%	80.0%
SF-2239	Other assets	1.9	1.9	1.9	North America	First Lien	n/a [13]	54.0%
Subtotal / Weighted average %		4.4	4.4	4.4			16.00%	68.4%

14. ADDITIONAL ARENA GROUP INVESTMENT SCHEDULES (continued)

THE ARENA FINCOs

Details of Loan and Private Asset Positions (continued) — **December 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)
Consumer Assets								
CA-3595	Consumer	5.1	4.9	5.0	North America	First Lien	15.50%	81.1%
CA-1052F	Consumer	2.6	2.6	2.5	North America	First Lien	15.66%	116.0%
CA-4718	Consumer	2.0	2.0	2.2	North America	First Lien	29.00%	66.0%
CA-2620	Consumer	0.6	0.6	1.6	North America	First Lien	n/a (14)	27.0%
CA-4727	Consumer	1.5	1.5	1.5	North America	First Lien	25.00%	64.0%
CA-2204	Consumer	2.5	1.5	1.4	North America	First Lien	14.91%	80.0%
CA-2199	Consumer	1.3	1.3	1.3	North America	First Lien	12.00%	95.0%
CA-3178	Consumer	4.0	1.3	1.3	North America	First Lien	15.00%	80.0%
CA-1788AS3	Consumer	1.3	1.3	1.0	North America	First Lien	n/a (14)	82.0%
CA-2139	Consumer	1.0	1.1	0.9	North America	First Lien	n/a (14)	100.0%
CA-1788/1933	Consumer	0.6	0.6	0.8	North America	First Lien	n/a (14)	82.0%
CA-1933A	Consumer	0.8	0.8	0.7	North America	First Lien	n/a (14)	82.0%
CA-2762	Consumer	0.6	0.6	0.5	Latin America	Asset Pool	n/a (15)	n/a (15)
CA-2373	Consumer	0.2	0.2	0.5	North America	First Lien	n/a (13)	52.0%
CA-2729	Consumer	0.8	0.8	0.4	North America	First Lien	n/a (13)	252.0%
CA-4007	Consumer	0.3	0.3	0.3	North America	Second Lien	16.00%	28.0%
CA-1788A	Consumer	0.4	0.4	0.3	North America	First Lien	n/a (14)	82.0%
CA-1934	Consumer	0.2	0.2	0.2	North America	First Lien	n/a (14)	82.0%
CA-2470	Consumer	0.1	0.1	0.1	North America	First Lien	11.26%	80.0%
CA-1052S	Consumer	1.5	1.5	-	North America	First Lien	15.66%	116.0%
Subtotal / Weighted average %		27.4	23.6	22.5			17.99%	81.5%
Total / Weighted average %		$ 166.3	$ 160.0	$ 167.6			13.32%	66.0%

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, 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 December 31, 2019.
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 directly held property acquired when the Arena group and its partners foreclosed upon a related loan.
8 Investment represents a credit pool purchase with no stated interest rate.
9 Investment in litigation claim proceeds with no stated coupon rate.
10 Investment represents a right to collect a fixed cash flow stream. While not technically a loan, the contract is backed by assets valued at 3-4 times the total collection amount.
11 Investment is a maturity default where the Arena Group and its partners acquired the borrower in bankruptcy.
12 Investment is remaining profit participation on a repaid off loan.
13 Investment 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.

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)	June 30, 2020	December 31, 2019	June 30, 2019
Book value (in US$):			
Shareholders' equity per IFRS	$ 334.3	$ 354.8	$ 363.6
Adjustments:			
RSU liability [1]	4.6	6.2	6.1
Derivative warrant liability [2]	0.4	1.9	2.5
	$ 339.3	$ 362.9	$ 372.2
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
Adjusted number of common shares[3]	146,220,979	146,220,979	146,220,979
Book value per share - in US$	$ 2.32	$ 2.48	$ 2.55
Book value per share - in C$ [4]	$ 3.15	$ 3.22	$ 3.34
Westaim TSXV closing share price - in C$	$ 2.07	$ 2.65	$ 2.65

1 See note 13 to the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2020 and 2019. 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 and six months ended June 30, 2020 and 2019. 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 June 30, 2020, December 31, 2019 and June 30, 2019.

3 See note 13 to the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2020 and 2019. No adjustments were made for options at June 30, 2020, December 31, 2019 and June 30, 2019 since they were not in-the money. The 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: 1.35865 at June 30, 2020, 1.29865 at December 31, 2019 and 1.30840 at June 30, 2019.

(b) Net Returns on the Arena FINCOs Investment Portfolios

Net Return on the Arena FINCOs investment portfolios is the aggregate of investment income, net of gains (losses) on investments less interest expense, management, asset servicing and incentive fees, and other operating expenses of the Arena FINCOs divided by average carrying values for the Arena FINCOs, 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.

16. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION (continued)

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 the Arena FINCOs on the creditworthiness of borrowers; the ability of the Arena FINCOs to mitigate the risk of default by and bankruptcy of a borrower; the ability of the Arena FINCOs to adequately obtain, perfect and secure loans; the ability of the Arena FINCOs to limit the need for enforcement or liquidation procedures; the ability of the Arena FINCOs 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)

(thousands of United States dollars)		June 30 2020		December 31 2019
ASSETS				
Cash	$	8,592	$	22,240
Income tax receivable (note 15)		438		427
Other assets (note 4)		1,615		2,298
Investments (note 5)		373,783		385,784
	$	384,428	$	410,749
LIABILITIES				
Accounts payable and accrued liabilities (note 6)	$	8,194	$	10,770
Income tax payable (note 15)		313		387
Preferred securities (note 7)		36,801		38,502
Derivative warrant liability (note 9)		446		1,921
Site restoration provision (note 10)		3,985		4,097
Deferred tax liability (note 15)		394		399
		50,133		56,076
Commitments and contingent liabilities (note 11)				
SHAREHOLDERS' EQUITY				
Share capital (note 12)		382,182		382,182
Contributed surplus (note 13)		17,610		17,486
Accumulated other comprehensive loss (note 2o)		(2,227)		(2,227)
Deficit		(63,270)		(42,768)
		334,295		354,673
	$	384,428	$	410,749

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

The Westaim Corporation

Consolidated Statements of (Loss) Profit and Comprehensive (Loss) Income

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(thousands of United States dollars except share and per share data)	**2020**	**2019**	**2020**	**2019**
Revenue				
Interest income (note 14)	$ 268	$ 533	$ 626	$ 1,251
Dividend income from investments in private entities (note 14)	-	-	22,733	-
Fee income (note 14)	237	687	475	1,375
	505	1,220	23,834	2,626
Net results of investments				
Increase (decrease) in unrealized value of investments in private entities, less dividends (note 5)	3,550	9,392	(42,733)	21,019
Share of (loss) profit from investment in associates (note 5)	(389)	538	(1,177)	674
Increase in unrealized value of other investments (note 5)	48	78	22	133
	3,209	10,008	(43,888)	21,826
Net expenses				
Salaries and benefits	903	885	1,783	1,854
General, administrative and other	153	223	430	600
Professional fees	305	194	695	356
Site restoration (recovery) expense (note 10)	(12)	628	66	1,408
Share-based compensation expense (recovery) (note 13)	1,062	507	(1,197)	808
Foreign exchange loss (gain)	656	271	(987)	559
Interest on preferred securities (note 7)	458	476	899	938
Interest on lease liability (note 4)	3	-	5	-
Derivative warrant loss (gain) (note 9)	272	249	(1,331)	57
	3,800	3,433	363	6,580
Income (loss) before income tax	(86)	7,795	(20,417)	17,872
Income tax expense (note 15)	60	-	85	-
(Loss) profit and comprehensive (loss) income	$ (146)	$ 7,795	$ (20,502)	$ 17,872
(Loss) earnings per share (note 16)				
Basic	$ (0.00)	$ 0.05	$ (0.14)	$ 0.12
Diluted	$ (0.00)	$ 0.05	$ (0.15)	$ 0.12
Common shares outstanding	143,187	143,187	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)

Six months ended June 30, 2020 (thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2020	$ 382,182	$ 17,486	$ (2,227)	$ (42,768)	$ 354,673
Stock option plan expense (note 13)	-	124	-	-	124
Loss and comprehensive loss	-	-	-	(20,502)	(20,502)
Balance at June 30, 2020	$ 382,182	$ 17,610	$ (2,227)	$ (63,270)	$ 334,295

Six months ended June 30, 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)	-	502	-	-	502
Profit and comprehensive income	-	-	-	17,872	17,872
Balance at June 30, 2019	$ 382,182	$ 17,018	$ (2,227)	$ (33,420)	$ 363,553

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)		Six Months Ended June 30 2020		2019
Operating activities				
(Loss) profit	$	(20,502)	$	17,872
Decrease (increase) in unrealized value of investments in private entities, less dividends (note 5)		42,733		(21,019)
Share of loss (profit) from investment in associates (note 5)		1,177		(674)
Increase in unrealized value of other investments (note 5)		(22)		(133)
Share-based compensation (recovery) expense (note 13)		(1,197)		808
Site restoration provision (note 10)		66		1,408
Lease expense (recovery)		5		(6)
Depreciation and amortization		77		22
Unrealized foreign exchange (gain) loss		(2,104)		539
Derivative warrant (gain) loss (note 9)		(1,331)		57
Deferred tax recovery (note 15)		(5)		-
Change in income tax receivable (note 15)		(11)		-
Change in income tax payable (note 15)		(74)		-
Net change in other non-cash balances				
Other assets		393		(161)
Accounts payable and accrued liabilities		(932)		(701)
Cash provided from (used in) operating activities		18,273		(1,988)
Investing activities				
Purchase of investments in private entities (note 5)		(44,004)		-
Loans made to subsidiaries (note 3)		-		(3,789)
Repayment of loans made to subsidiaries (note 3)		-		5,443
Purchase of capital assets		(34)		(2)
Loans made to associates (note 6)		-		(1,750)
Return of capital from investments in private entities (note 5)		12,117		-
Cash used in investing activities		(31,921)		(98)
Net decrease in cash		(13,648)		(2,086)
Cash, beginning of period		22,240		7,836
Cash, end of period	$	8,592	$	5,750
Cash is composed of:				
Cash	$	8,592	$	5,750
Supplemental disclosure of cash flow information:				
Interest paid	$	926	$	924

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

1 Nature of Operations

The Westaim Corporation ("Westaim") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). Westaim'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 Westaim on August 13, 2020.

These consolidated financial statements include the accounts of Westaim and its wholly-owned subsidiaries, Westaim HIIG GP Inc. ("HIIG GP"), Arena Finance Company II Inc. ("AFCII") and The Westaim Corporation of America ("WCA") and are collectively referred to as the "Company".

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. ("HIIG") and the Arena Group (as defined in note 5). Westaim's common shares are traded on the TSX Venture Exchange (the "TSXV") under the symbol WED.

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 HIIG (including Westaim HIIG Limited Partnership (the "HIIG Partnership")), and the Arena FINCOs (as defined in note 5).

The financial statements of entities controlled by Westaim which provide investment-related services are consolidated. These entities consist of its wholly-owned subsidiaries, HIIG GP, AFCII 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 "*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 investment in Arena Investors (as defined in note 5), and is reported under investments in the consolidated statements of financial position, with the Company's share of (loss) profit and comprehensive (loss) income of the associates reported under "Net results of investments" in the consolidated statements of (loss) profit and comprehensive (loss) 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.

(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.

2 Summary of Significant Accounting Policies (continued)

(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 5 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 (loss) profit and comprehensive (loss) 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 (loss) profit and comprehensive (loss) 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 June 30, 2020, the Company's cash consisted of cash on deposit, including restricted cash on deposit of $3,000 (December 31, 2019 - $3,000) (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 identified asset during the period of use, the Company has the right to operate the identified asset and the Company designed the identified asset in a way that predetermines how and for what purpose the identified asset will be used.

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.

2 Summary of Significant Accounting Policies (continued)

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.

In accordance with IFRS 16 "*Leases*" ("IFRS 16"), 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 increases and decreases arising from changes in fair values including the impact of dividends and/or distributions being recorded in the consolidated statements of (loss) profit and comprehensive (loss) 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 (loss) profit and other comprehensive (loss) income of the associates and any dividends and/or distributions received from the associates.

Investment in Arena Special Opportunities Fund, LP ("ASOF LP") are classified as FVTPL and are carried at fair value.

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 (loss) profit and comprehensive (loss) income. Current tax which is based on taxable income in countries where the Company operates differs from (loss) profit and comprehensive (loss) income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

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.

2 Summary of Significant Accounting Policies (continued)

(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 (loss) profit and comprehensive (loss) 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 high quality government bonds and inflation 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) (Loss) earnings per share

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

Diluted (loss) earnings per share is calculated by dividing (loss) 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 (loss) earnings per share.

3 Loans Receivable

On June 9, 2017, the Company used the proceeds from the Fairfax Financing (as defined in note 7) to loan Canadian dollars (“C$”) 50,000 to the Arena FINCOs (as defined in note 5) (the “Arena FINCOs Demand Loan”) on market terms. The Arena FINCOs Demand Loan was denominated in C$, repayable on demand (with a final repayment date not later than June 9, 2022) and secured by the assets of the Arena FINCOs. The Arena FINCOs Demand Loan carried 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 was due at the end of each calendar quarter.

At June 30, 2020 and December 31, 2019, the carrying amount of the Arena FINCOs Demand Loan, which was recorded under loans receivable in the consolidated statements of financial position at fair value, totaled $nil.

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

3 Loans Receivable (continued)

The Arena FINCOs Demand Loan was translated into US$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss was included in the consolidated statements of (loss) profit and comprehensive (loss) income. The Company recorded a foreign exchange gain relating to the Arena FINCOs Demand Loan of $nil in each of the three and six months ended June 30, 2020 and $258 and $575 for the three and six months ended June 30, 2019, respectively.

Interest on the Arena FINCOs Demand Loan earned and received by the Company totaled $nil in each of the three and six months ended June 30, 2020 and $251 and $520 for the three and six months ended June 30, 2019, respectively, and was included in interest income in the consolidated statements of (loss) profit and comprehensive (loss) income.

4 Other Assets

Other assets consist of the following:

	June 30, 2020	December 31, 2019
Capital assets	$ 56	$ 36
Right of use asset (a)	557	620
Receivables from related parties (b)	848	1,119
Fair value of foreign exchange forward contract (note 8)	-	244
Accounts receivable and other	154	279
	$ 1,615	$ 2,298

(a) Effective, December 1, 2019, Westaim entered into a new operating lease for its office premises in Toronto expiring on November 30, 2024. At the commencement date of the lease, a right of use asset was recorded at cost under other assets and a lease liability was recorded at amortized cost under accounts payable and accrued liabilities in the consolidated statements of financial position. Subsequent to initial recognition, the right of use asset is depreciated using the straight-line method over the term of the lease with depreciation recorded in the consolidated statements of (loss) profit and comprehensive (loss) income. Each lease payment reduces the lease liability and the accretion of the lease liability is recorded as interest expense in the consolidated statements of (loss) profit and comprehensive (loss) income.

The right of use asset recorded for the office premises was $557 and $620 at June 30, 2020 and December 31, 2019, respectively. The depreciation on the right of use asset was $31 and $63 for the three and six months ended June 30, 2020, respectively and $nil in each of the three and six months ended June 30, 2019.

The lease liability recorded for the office premises was $568 and $645 at June 30, 2020 and December 31, 2019, respectively. The lease payments were $33 and $55 in the three and six months ended June 30, 2020, respectively and the interest expense on the lease liability was $3 and $5 for the three and six months ended June 30, 2020, respectively. The lease payments and the interest expense on the lease liability were $nil in each of the three and six months ended June 30, 2019. The Company recorded a foreign exchange loss relating to the lease liability of $22 and a foreign exchange gain of $27 in the three and six months ended June 30, 2020, respectively and $nil in each of the three and six months ended June 30, 2019.

(b) Receivables from related parties totaled $848 at June 30, 2020 and $1,119 at December 31, 2019 and included certain expenses paid by the Company on behalf of the Arena Group and HIIG from time to time which are subject to reimbursement.

5 Investments

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

	June 30, 2020	December 31, 2019
Investments in private entities	$ 359,957	$ 370,803
Investment in associates	11,096	12,273
Investment in ASOF LP	2,730	2,708
	$ 373,783	$ 385,784

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

5 Investments (continued)

The Company's principal investments consist of its investment in HIIG 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 June 30, 2020	Ownership interest as at December 31, 2019
Investments in private entities:				
- HIIG	Delaware, U.S.	Texas, U.S.	44.0% owned by the Company[1]	44.0% owned by the Company[1]
- Arena FINCOs (as hereinafter defined)	Delaware, U.S.	New York, U.S.	100% owned by the Company	100% owned by the Company
Investment in associates:				
- Arena Investors (as hereinafter defined)	Delaware, U.S.	New York, U.S.	51% beneficially owned by the Company [2]	51% beneficially owned by the Company [2]

[1] As at June 30, 2020, the Company owned 44.0% of HIIG's preferred shares which are convertible into HIIG common shares representing 22.7% of the fully diluted HIIG common shares. The Company also owned 21.3% of the HIIG fully diluted common shares through the HIIG Partnership which is established and operates in Ontario, Canada. Accordingly, the Company's total look-through ownership interest in HIIG is 44.0%. At December 31, 2019, the Company owned 44.0% in look through interest in HIIG common shares through the HIIG Partnership. Based on the Company's control of the HIIG Partnership, and its ownership of preferred shares, the Company holds a 57.0% voting interest in HIIG.

[2] 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".

<u>HIIG</u>

The Company's investment in HIIG 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.

<u>Arena Group</u>

The Arena Group consists of the following businesses:

- **Arena Investors** – Westaim Arena Holdings II, LLC ("WAHII"), through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. 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. 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 FINCOs** – The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. The Company's investments in the Arena FINCOs is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

Arena Investors and the Arena FINCOs 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 (loss) profit and comprehensive (loss) 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 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.

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

5 Investments (continued)

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

As at June 30, 2020	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG	$ 190,912	-	-	$ 190,912
- Arena FINCOs	169,045	-	-	169,045
	$ 359,957	$ -	$ -	$ 359,957

As at December 31, 2019	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- HIIG	$ 164,953	-	-	$ 164,953
- Arena FINCOs	205,850	-	-	205,850
	$ 370,803	$ -	$ -	$ 370,803

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

	Three months ended June 30, 2020					
	Opening balance	Additions – Equity	Return of capital	Increase in unrealized value before dividends	Dividends paid	Ending balance
Investments in private entities:						
- HIIG	$ 144,800	$ 44,004	$ -	$ 2,108	$ -	$ 190,912
- Arena FINCOs	167,603	-	-	1,442	-	169,045
	$ 312,403	$ 44,004	$ -	$ 3,550	$ -	$ 359,957

	Six months ended June 30, 2020					
	Opening balance	Additions - Equity	Return of capital	Decrease in unrealized value before dividends	Dividends paid	Ending balance
Investments in private entities:						
- HIIG	$ 164,953	$ 44,004	$ -	$ (18,045)	$ -	$ 190,912
- Arena FINCOs	205,850	-	(12,117)	(1,955)	(22,733)	169,045
	$ 370,803	$ 44,004	$ (12,117)	$ (20,000)	$ (22,733)	$ 359,957

	Three months ended June 30, 2019					
	Opening balance	Additions - Equity	Repayment of term loan	Increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:						
- HIIG	$ 170,282	$ -	$ -	$ 5,088	$ -	$ 175,370
- Arena FINCOs	202,188	10,000	(10,000)	4,304	-	206,492
	$ 372,470	$ 10,000	$ (10,000)	$ 9,392	$ -	$ 381,862

	Six months ended June 30, 2019					
	Opening balance	Additions - Equity	Repayment of term loan	Increase in unrealized value before dividends	Dividends paid	Ending balance
Investments in private entities:						
- HIIG	$ 162,118	$ -	$ -	$ 13,252	$ -	$ 175,370
- Arena FINCOs	198,725	10,000	(10,000)	7,767	-	206,492
	$ 360,843	$ 10,000	$ (10,000)	$ 21,019	$ -	$ 381,862

5 Investments (continued)

There were no transfers among Levels 1, 2 and 3 during the six months ended June 30, 2020 and 2019.

Investment in HIIG

The Company's $190,912 valuation of its investment in HIIG consists of the aggregate fair value of: (i) its share of the HIIG common shares held by the HIIG Partnership of $91,990, (ii) its share of the other net assets of the HIIG Partnership of $537; and (iii) HIIG convertible preferred shares held directly by the Company of $98,385.

At June 30 2020, the Company owned approximately 62.0% of the HIIG Partnership and the HIIG Partnership held HIIG common shares representing approximately 34.3% of the total fully diluted HIIG common shares outstanding. Therefore Westaim's look-through interest in common shares through the HIIG Partnership was 21.3%.

The convertible preferred shares of HIIG were acquired by Westaim on April 20, 2020 as HIIG completed a rights offering that resulted in total gross proceeds of $100,000 to HIIG. As part of the rights offering, Westaim purchased $44,004 (or 44.0%) of the HIIG convertible preferred shares offered. The convertible preferred shares were initially convertible into HIIG common shares based on a conversion price equal to $1.74. The conversion price is subject to adjustment from time to time based on the occurrence of certain events. At June 30, 2020, the adjustments, if effective, would result in a conversion price of $1.41. The fair value of Westaim's ownership of the HIIG convertible preferred shares was $98,385.

The Company's interest in the HIIG Partnership, combined with its direct ownership of the HIIG preferred shares, which were convertible in to HIIG common shares representing 22.7% of the fully diluted HIIG common shares outstanding, resulted in a 44.0% look-through interest in HIIG as at June 30, 2020 (December 31, 2019 – 44.0%).

The Company, through HIIG GP, entered into a management services agreement with HIIG on July 31, 2014, as amended on July 1, 2017, (the "HIIG MSA"), whereby HIIG GP was entitled to receive from HIIG an advisory fee of $1,000 annually to July 31, 2019. The HIIG MSA was further amended effective August 1, 2019 such that HIIG GP is entitled to receive from HIIG an advisory fee of $500 annually.

FVTPL

The investment in HIIG is accounted for at FVTPL. The fair value of the Company's investment in HIIG was determined to be $190,912 at June 30, 2020 and $164,953 at December 31, 2019.

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 HIIG at June 30, 2020. The fair value of the investment in HIIG at June 30, 2020 was derived from a valuation of the HIIG common shares and other net assets held by the HIIG Partnership, and the HIIG convertible preferred shares held by Westaim at June 30, 2020. 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 fully diluted common shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the HIIG fully diluted common shares as at June 30, 2020 and December 31, 2019, given that this is the valuation technique which a market participant would employ. The HIIG convertible preferred shares were valued at their common share equivalent on an as converted basis.

In valuing HIIG's fully diluted common shares, using a multiple of net asset value as the primary valuation technique, fair value was determined to be 1.0x to the adjusted stockholders' equity of HIIG at June 30, 2020 (December 31, 2019 - 1.1x). The adjusted stockholders' equity of HIIG as at June 30, 2020 reflects the HIIG stockholders' equity obtained from the unaudited financial statements of HIIG as at and for the six months ended June 30, 2020 prepared in accordance with US GAAP, adjusted for a reclassification of a stock notes receivable from employees relating to their purchase of HIIG common and convertible preferred shares. The adjusted stockholders' equity 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 intangible assets, and the valuation allowance recorded against deferred income tax assets.

As at December 31, 2019 and the two prior years, the Company had concluded that an appropriate valuation for HIIG was 1.1x HIIG's adjusted stockholders' equity. During the six month period through to June 30, 2020, declines in multiples of book value have been observed for P&C insurance companies as evidenced in the financial markets. As a result, the Company felt it appropriate to reduce the fair value of HIIG to 1.0x adjusted stockholders' equity at March 31, 2020 and continuing to June 30, 2020 (1.1x at December 31, 2019) which resulted in an unrealized loss of $nil and $14,936 for the three and six months ended June 30, 2020, respectively, to the Company solely due to this reduction in the valuation multiple.

5 Investments (continued)

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 HIIG at the end of each reporting period.

The Company recorded an increase in the unrealized value on its investment in HIIG of $2,108 and a decrease in the unrealized value on its investment in HIIG of $18,045 in the three and six months ended June 30, 2020, respectively and an increase in the unrealized value of $5,088 and $13,252 in the three and six months ended June 30, 2019, respectively.

In 2020, HIIG closed a Loss Portfolio Transfer "LPT", which provides reinsurance protection of approximately $127,400 above the net ceded claim reserves, primarily related to 2017 and prior policy years and is subject to co-participation payments required from HIIG above specific amounts. The LPT resulted in a pretax charge and after tax charge of $43,476 and $34,346, respectively, for HIIG, in the six months ended June 30, 2020. The Company recognized the impact of the LPT after tax charge of $34,346 in its valuation of HIIG at December 31, 2019.

For purposes of assessing the sensitivity of HIIG stockholders' equity on the valuation of the Company's investment in HIIG, if HIIG stockholders' equity at June 30, 2020 was higher by $1,000, the fair value of the Company's investment in HIIG at June 30, 2020 would have increased by approximately $440 (December 31, 2019 - $484) and the change in the unrealized value of investments in private entities for the three and six months ended June 30, 2020 would have increased by approximately $440 (for the three and six months ended June 30, 2019 - $484). If HIIG stockholders' equity at June 30, 2020 was lower by $1,000, an opposite effect would have resulted.

Investment in the Arena FINCOs

The Company owns a 100% interest in the Arena FINCOs and exercises control over the businesses of the Arena FINCOs.

In connection with the capitalization of the Arena FINCOs, the Company granted a term loan (the "Arena FINCOs Term Loan") with a balance of $10,000 outstanding at December 31, 2018. The Arena FINCOs Term Loan had a seven year term to August 31, 2022, was unsecured and carried interest at a rate of 7.25% per annum, with interest due on or before January 1 of each year during the term. On April 1, 2019, the Company converted the Arena FINCOs Term Loan of $10,000 into additional common shares of Westaim Origination Holdings Inc. ("WOH") and as a result the balance of the 7.25% term loan was $nil at June 30, 2020 (December 31, 2019 - $nil).

On January 31, 2020 and March 6, 2020, the Arena FINCOs paid a cash dividend to the Company in the amount of $6,950 and $15,783, respectively, and on March 6, 2020, the Arena FINCOs returned capital to the Company in the amount of $12,117, resulting in a decrease of $34,850 in the Company's carrying value of the Arena FINCOs at June 30, 2020. In the fourth quarter of 2019, the Arena FINCOs paid cash dividends to the Company totaling $4,581 and issued a dividend in kind to the Company in the amount of $117, resulting in a decrease of $4,698 in the Company's carrying value of the Arena FINCOs at December 31, 2019.

<u>FVTPL</u>

The Company's investment in the Arena FINCOs is accounted for at FVTPL and are included in investments in private entities. The fair value of the Company's investment in the Arena FINCOs was determined to be $169,045 at June 30, 2020 and $205,850 at December 31, 2019.

Management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the equity of the Arena FINCOs at June 30, 2020 in the amount of $169,045 approximated the fair value of the Company's investment in the Arena FINCOs. Management determined that the net asset value valuation technique produced the best indicator of the fair value of the Arena FINCOs at June 30, 2020. This same valuation technique was used to determine the fair value of the Company's investment in the Arena FINCOs of $205,850 at December 31, 2019.

The significant unobservable inputs used in the valuation of the Arena FINCOs at June 30, 2020 were the aggregate equity of the Arena FINCOs at June 30, 2020 and the multiple applied. Management applied a multiple of 1.0x as the equity of each of the entities reflected the net assets of the respective entity which were carried at fair value at June 30, 2020, as described below (December 31, 2019 – 1.0x). The equity contained certain significant judgments and estimates made by management of the Arena FINCOs, 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 the Arena FINCOs approximate their fair values due to the short maturity of these financial instruments. The Arena FINCOs 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 Arena FINCOs determine the fair value of the investments using the following valuation techniques and inputs:

5 Investments (continued)

- 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, which 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.

- 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 Arena FINCOs 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 Arena FINCOs. 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 investment in the Arena FINCOs at the end of each reporting period.

The Company recorded an increase in the unrealized value of its investment in the Arena FINCOs of $1,442 in the three months ended June 30, 2020 and a decrease in the unrealized value of its investment in the Arena FINCOs of $1,955 before dividends paid to the Company of $22,733, in the six months ended June 30, 2020, in the consolidated statements of (loss) profit and comprehensive (loss) income. In addition, Arena FINCOs returned capital in the amount of $12,117 in the six months ended June 30, 2020. The Company recorded an increase in the unrealized value of its investment in the Arena FINCOs of $4,304 and $7,767 in the three and six months ended June 30, 2019, respectively. There were no dividends paid or capital returned in each of the three months ended June 30, 2020, and the three and six months ended June 30, 2019.

The operating results of the Arena FINCOs includes interest expense on the Arena FINCOs Term Loan and the Arena FINCOs Demand Loan from the Company to the Arena FINCOs of $nil in each of the three and six months ended June 30, 2020 and $251 and $699 in the three and six months ended June 30, 2019, respectively.

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

5 Investments (continued)

For purposes of assessing the sensitivity of the equity of the Arena FINCOs on the valuation of the Company's investment in the Arena FINCOs, if the equity of the Arena FINCOs at June 30, 2020 was higher by $1,000, the fair value of the Company's investment in the Arena FINCOs at June 30, 2020 would have increased by $1,000 (December 31, 2019 - $1,000) and the change in the unrealized value of the investments in private entities for the three and six months ended June 30, 2020 would have increased by $1,000 (for the three and six months ended June 30, 2019 - $1,000). If the equity of the Arena FINCOs at June 30, 2020 was lower by $1,000, an opposite effect would have resulted.

INVESTMENT IN ASSOCIATES

On August 31, 2015, agreements were entered into between the Company and BP LLC in respect of Arena Investors (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.

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

	June 30, 2020	December 31, 2019
Financial information of associates:		
Assets	$ 17,185	$ 27,363
Liabilities	(34,895)	(42,765)
Net liabilities	$ (17,710)	$ (15,402)
Company's share	$ (8,904)	$ (7,727)
Arena Investors' Revolving Loan with the Company	20,000	20,000
Carrying amount of the Company's investment in associates	$ 11,096	$ 12,273

	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Financial information of associates:				
Revenue	$ 5,605	$ 7,701	$ 10,807	$ 14,913
Operating expenses [1]	(6,370)	(6,646)	(13,116)	(13,590)
(Loss) profit and comprehensive (loss) income	$ (765)	$ 1,055	$ (2,309)	$ 1,323
Company's share of (loss) profit of associates (51%)	$ (389)	$ 538	$ (1,177)	$ 674

[1] Includes interest expense on the Arena Investors' Revolving Loan granted by the Company of $261 and $522 in the three and six months ended June 30, 2020, respectively and $252 and $488 in the three and six months ended June 30, 2019, respectively.

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

	Three months ended June 30 2020	Three months ended June 30 2019	Six months ended June 30 2020	Six months ended June 30 2019
Carrying amount of investment in associates:				
Opening balance	$ 11,485	$ 10,745	$ 12,273	$ 10,609
Company's share of loss of associates (51%)	(389)	538	(1,177)	674
Addition - Arena Investors' Revolving Loan with the Company	-	1,750	-	1,750
Ending balance	$ 11,096	$ 13,033	$ 11,096	$ 13,033

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

5 Investments (continued)

On March 6, 2019, the Company amended the Arena Investors' Revolving Loan 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 had a term of 36 months to December 21, 2020, which has been extended to March 31, 2023 and bears interest at a rate of 5.25% per annum. Arena Investors had drawn down the loan facility by $20,000 at June 30, 2020 and December 31, 2019. The loan facility is secured by all the assets of Arena Investors. The Company earned and received interest on the Arena Investors' Revolving Loan of $261 and $522 for the three and six months ended June 30, 2020, respectively, and $252 and $488 for the three and six months ended June 30, 2019, respectively and was reported under "Interest income" in the consolidated statements of (loss) profit and comprehensive (loss) income.

The total of the Company's 51% share of loss of the associates was $389 and $1,177 in the three and six months ended June 30, 2020, respectively and share of profit was $538 and $674 in the three and six months ended June 30, 2019, respectively, and was reported under "Share of loss (profit) from investment in associates" in the consolidated statements of (loss) profit and comprehensive (loss) income.

INVESTMENTS IN ASOF-LP

The Company's investments in ASOF LP, a fund managed by Arena Investors, LP, is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At June 30, 2020 and December 31, 2019, the fair value of the Company's interest in ASOF LP was determined by Arena Investors to be $2,730 and $2,708, respectively. The Company reported an increase in the unrealized value of its investment in ASOF LP of $48 and $22 in the three and six months ended June 30, 2020, respectively, and an increase in the unrealized value of $78 and $133 in the three and six months ended June 30, 2019, respectively, with respect to the investment in the consolidated statements of (loss) profit and comprehensive (loss) income.

6 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	June 30, 2020	December 31, 2019
RSUs (note 13)	$ 4,623	$ 6,192
DSUs (note 13)	1,141	1,312
Lease liability (note 4)	568	645
Interest on Preferred Securities (note 7)	458	485
Fair value of foreign exchange forward contract (note 8)	118	-
Other accounts payable and accrued liabilities	1,286	2,136
Ending balance	$ 8,194	$ 10,770

7 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 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 June 30, 2020 and December 31, 2019.

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 (loss) profit and comprehensive (loss) income. The carrying amount of the Preferred Securities, which approximated fair value, was $36,801 and $38,502 at June 30, 2020 and December 31, 2019, respectively. The Company recorded an unrealized foreign exchange loss relating to the Preferred Securities of $1,324 and unrealized foreign exchange gain of $1,701 in the three and six months ended June 30, 2020, respectively, and an unrealized foreign exchange loss of $773 and $1,566 in the three and six months ended June 30, 2019, respectively.

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

7 Preferred Securities (continued)

Interest expense on the Preferred Securities amounted to $458 and $899 in the three and six months ended June 30, 2020, respectively and $476 and $938 in the three and six months ended June 30, 2019, respectively. Accrued interest expense was $458 and $485 at June 30, 2020 and December 31, 2019, respectively, and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

8 Foreign Currency Forward Contracts

On December 20, 2018, the Company entered into a Canadian dollar currency forward contract to sell $26,284 and buy C$35,000 to manage the Canadian dollar currency exposures including the currency exposure arising from the Preferred Securities. The contract matured on December 20, 2019 and resulted in a realized foreign exchange gain of $399. On December 20, 2019, the Company entered into a new Canadian dollar currency forward contract to sell $30,558 and buy C$40,000 to manage the Canadian dollar currency exposures including the currency exposure arising from the Preferred Securities. The contract matured on March 20, 2020 and resulted in a realized foreign exchange loss of $2,488. On March 20, 2020, the Company entered into a new Canadian dollar currency forward contract to sell $28,133 and buy C$40,000 to manage the Canadian dollar currency exposures including the currency exposure arising from the Preferred Securities. The contract matured on June 18, 2020 and resulted in a realized foreign exchange gain of $1,376. On June 18, 2020, the Company entered into a new Canadian dollar currency forward contract to sell $29,560 and buy C$40,000 to manage the Canadian dollar currency exposures including the 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 these Canadian dollar currency forward contracts as accounting hedges. A loss was accrued on the Canadian dollar currency forward contract in the amount of $118 at June 30, 2020 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position and a gain was accrued on the Canadian dollar currency forward contract in the amount of $244 at December 31, 2019, and was recorded under other assets in the consolidated statements of financial position. The net foreign exchange relating to the forward contracts was a gain of $1,009 and a loss of $1,474 for the three and six months ended June 30, 2020, respectively and the net foreign exchange relating to the forward contracts was a gain of $541 and $1,096 for the three and six months ended June 30, 2019, respectively, and was reported under foreign exchange in the consolidated statements of (loss) profit and comprehensive (loss) income. In connection with Canadian dollar currency 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 $3,000 (December 31, 2019 - $3,000) as security. The security shall remain in effect for the duration of the outstanding Canadian dollar currency forward contract.

9 Derivative Warrant Liability

In connection with the Preferred Securities (see note 7), Westaim issued to Fairfax 14,285,715 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. 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 (loss) profit and comprehensive (loss) income. Subsequent changes in fair value of the vested Warrants are reported in the consolidated statements of (loss) profit and comprehensive (loss) income for the period in which they arise.

Changes to the derivative warrant liability are as follows:

	Six months ended June 30, 2020	Year ended December 31, 2019
Opening balance	$ 1,921	$ 2,382
Change in fair value – gain	(1,331)	(557)
Unrealized foreign exchange - (gain) loss	(144)	96
Ending balance	$ 446	$ 1,921

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

9 Derivative Warrant Liability (continued)

The Company recognized an unrealized loss resulting from a change in the fair value of the vested Warrants of $272 and an unrealized gain of $1,331 in the three and six months ended June 30, 2019, respectively, and unrealized losses of $249 and $57 in the three and six months ended June 30, 2019, respectively. The Company also recorded an unrealized foreign exchange loss with respect to the vested Warrants of $6 and an unrealized gain of $144 in the three and six months ended June 30, 2020, respectively, and unrealized foreign exchange losses of $46 and $98 in the three and six months ended June 30, 2019, respectively, under foreign exchange in the consolidated statements of (loss) profit and comprehensive (loss) income. At June 30, 2020 and December 31, 2019, a liability of $446 and $1,921, 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 June 30, 2020 of $446 (December 31, 2019 - $1,921) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the Company's common shares, a risk-free interest rate of 0.29% (December 31, 2019 - 1.69%), an expiration date between July 1, 2020 and June 2, 2024 (December 31, 2019: January 1, 2020 and June 2, 2024), a volatility of the underlying common shares of the Company of 26.94% (December 31, 2019 – 23.23%), a closing price of the Company's common shares of C$2.07 (December 31, 2019 - C$2.65) 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:

	Six months ended June 30, 2020	Year ended December 31, 2019
Opening balance	$ 4,097	$ 3,584
Changes due to:		
Indemnity payment for site restoration	-	(341)
Indemnity recovery for site restoration	-	292
Estimates of future expenditures	-	(839)
Present value adjustment	66	1,187
Unrealized foreign exchange (gain) loss	(178)	214
Ending balance	$ 3,985	$ 4,097

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.

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 adjusted for the present value of the estimated future restoration costs discounted using interest rates of high quality government bonds and inflation in relation to the estimated timing of cash outflows.

Recoveries of costs resulting from indemnifications provided by previous owners of the Company's industrial sites have not been recognized in these financial statements. Future recoveries of the site restoration costs will be recorded when received.

11 Commitments and Contingent Liabilities

(a) In connection with foreign exchange forward contract which the Company entered into on June 18, 2020, the Company has obtained a credit facility under which the Company has pledged cash on deposit of $3,000 (December 31, 2019 - $3,000) as security (see note 8).

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

11 Commitments and Contingent Liabilities (continued)

(b) Effective, December 1, 2019, Westaim entered into a new operating lease for the office premises in Toronto expiring on November 30, 2024. At June 30, 2020, the Company had a total commitment of $1,169 for future occupancy cost payments including payments due not later than one year of $261 and payments due later than one year of $908. At December 31, 2019, the Company had a total commitment of $1,367 for future occupancy cost payments including payments due not later than one year of $255 and payments due later than one year of $1,112.

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 June 30, 2020 and December 31, 2019, 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 six months ended June 30, 2020 and the year ended December 31, 2019.

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 June 30, 2020 and December 31, 2019.

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 June 30, 2020. 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. As the DSUs are settled solely in cash, they are not included in the 10% limitation referred to above.

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:

	Six months ended June 30, 2020		Six months ended June 30, 2019	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Opening balance	10,428,337	C$ 3.10	10,428,337	C$ 3.10
Granted	-	C$ -	-	C$ -
Ending balance	10,428,337	C$ 3.10	10,428,337	C$ 3.10
Options vested at end of period	9,156,670	C$ 3.10	6,598,205	C$ 3.12

As at June 30, 2020 Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Outstanding Weighted Average Exercise Price	Number of stock options vested	Vested Weighted Average Exercise Price
C$ 3.10	3,815,000	4.55	C$ 3.10	2,543,333	C$ 3.10
C$ 3.00	3,860,397	3.76	C$ 3.00	3,860,397	C$ 3.00
C$ 3.25	2,752,940	2.75	C$ 3.25	2,752,940	C$ 3.25
	10,428,337	3.78	C$ 3.10	9,156,670	C$ 3.10

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

13 Share-based Compensation (continued)

As at December 31, 2019 Exercise prices	Number of stock options outstanding	Weighted Average Remaining Contractual Life (years)	Outstanding Weighted Average Exercise Price	Number of stock options vested	Vested Weighted Average Exercise Price
C$ 3.10	3,815,000	5.05	C$ 3.10	2,543,333	C$ 3.10
C$ 3.00	3,860,397	4.26	C$ 3.00	3,860,397	C$ 3.00
C$ 3.25	2,752,940	3.25	C$ 3.25	2,752,940	C$ 3.25
	10,428,337	4.28	C$ 3.10	9,156,670	C$ 3.10

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, vested 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. These options have a term of seven years, vested 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. These 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.

No options were granted or issued in the six months ended June 30, 2020 and the year ended December 31, 2019.

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 $62 and $124 in the three and six months ended June 30, 2020, respectively, and $231 and $502 in the three and six months ended June 30, 2019, respectively, with a corresponding increase to contributed surplus.

Restricted Share Units - RSUs vested on specific dates and became payable when vested with either cash or common shares of the Company, at the option of the holder.

Changes to the number of RSUs are as follows:

	Six months ended June 30	
	2020	2019
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. These RSUs have a term of fifteen years from date of issue and at June 30, 2020, all of these RSUs had vested, of which 265,937 RSUs had been exercised and 2,109,063 RSUs were outstanding.

On April 1, 2016, an additional 925,198 RSUs were granted to certain officers and employees of the Company. These RSUs have a term of fifteen years from date of issue and at June 30, 2020, all of these RSUs had vested and none have been exercised.

There were 3,034,261 RSUs outstanding at June 30, 2020 and December 31, 2019. No RSUs were granted or exercised in the six months ended June 30, 2020 and the year ended December 31, 2019.

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

13 Share-based Compensation (continued)

Compensation expenses relating to RSUs, including the impact of the change in the market value of the Company's common shares was an expense of $737 and a recovery of $1,222 for the three and six months ended June 30, 2020, respectively, and an expense of $186 and $163 for the three and six months ended June 30, 2019, respectively. At June 30, 2020, a liability of $4,623 (December 31, 2019 - $6,192) had been accrued by the Company 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 solely 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:

	Six months ended June 30	
	2020	2019
Opening balance	642,779	518,855
Granted	106,314	57,488
Ending balance	749,093	576,343

In the six months ended June 30, 2020, 106,314 DSUs were issued in lieu of director fees of $150 and in the six months ended June 30, 2019, 57,488 DSUs were issued in lieu of director fees of $113. No DSUs were exercised in the six months ended June 30, 2020 and 2019.

Compensation expenses relating to DSUs, including the impact of the change in the market value of the Company's common shares was an expense of $263 and a recovery of $99 in the three and six months ended June 30, 2020, respectively, and an expense of $90 and $143 in the three and six months ended June 30, 2019, respectively. At June 30, 2020, a liability of $1,141 (December 31, 2019 - $1,312) 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 expense related to the Company's key management personnel are as follows:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Salaries and benefits[1]	$ 779	$ 760	$ 1,535	$ 1,605
Share-based compensation expense (recovery)	1,044	500	(1,171)	798
Compensation expense	$ 1,823	$ 1,260	$ 364	$ 2,403

[1] Salaries and benefits include directors fees paid in cash totaling $26 in each of the three and six months ended June 30, 2020. No director fees were paid in cash in the three and six months ended June 30, 2019.

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 $18 and $36 in the three and six months ended June 30, 2020, respectively, and $34 and $68 in the three and six months ended June 30, 2019, respectively. Compensation relating to RSUs issued to the Consultant was an expense of $14 and a recovery of $24 in the three and six months ended June 30, 2020, respectively, and $3 in each of the three and six months ended June 30, 2019, and the amounts were included in the consolidated statements of (loss) profit and comprehensive (loss) income under share-based compensation expense. At June 30, 2020, a liability of $90 (December 31, 2019 - $121) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by the Consultant.

On April 20, 2020, as part of a rights offering, Westaim purchased $44,004 million (or 44%) of HIIG convertible preferred shares.

In addition to the DSUs (note 13) issued to the directors of the Company, director fees of $26 were paid in cash to certain directors in the three and six months ended June 30, 2020. No director fees were paid in cash in each of the three and six months ended June 30, 2019.

The Company received a cash dividend from the Arena FINCOs in the amount of $22,733 in the six months ended June 30, 2020 and $nil in each of the three months ended June 30, 2020 and the three and six months ended June 30, 2019.

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

14 Related Party Transactions (continued)

Arena FINCOs returned capital to the Company in the amount of $12,117 in the six months ended June 30, 2020 and $nil in each of the three months ended June 30, 2020 and the three and six months ended June 30, 2019.

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

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Related parties:				
Arena FINCOs Term Loan (note 5)	$ -	$ -	$ -	$ 179
Arena FINCOs Demand Loan (note 3 and 5)	-	251	-	520
Arena Investors Revolving Loan (note 5)	261	252	522	488
	$ 261	$ 503	$ 522	$ 1,187
Unrelated parties:				
Interest earned on bank balances	7	30	104	64
	$ 268	$ 533	$ 626	$ 1,251

The Company earned advisory fees of $125 and $250 from HIIG in the three and six months ended June 30, 2020, respectively, and $250 and $500 from HIIG in the three and six months ended June 30, 2019, respectively and the Company earned advisory fees of $112 and $225 in the three and six months ended June 30, 2020, respectively, and $437 and $875 from the Arena Group in the three and six months ended June 30, 2019, respectively. Advisory fees are included in fee income in the consolidated statements of (loss) profit and comprehensive (loss) income.

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 asset / (liability) recognized in profit or loss are as follows:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Unrealized gain on investments in private entities	$ 59	$ (1,244)	$ 4	$ (2,785)
Non-capital loss carry-forwards	-	1,244	-	2,785
Difference between statutory and foreign tax credits	2	-	(9)	-
	$ 61	$ -	$ (5)	$ -

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

	June 30, 2020	December 31, 2019
Non-capital loss carry-forwards	$ 50,169	$ 38,612
Capital loss carry-forwards	5,143	5,380
Deductible temporary differences	13,968	11,138
Corporate minimum tax credits	327	342
Investment tax credits	2,636	2,758

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

15 Income Taxes (continued)

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2040, as follows:

Non-capital losses by year of expiry:	
2029	$ 2,983
2030	76
2031	185
2032	15,433
2033	2,819
2034	3,591
2035	1,900
2036	66
2037	10,029
2038	5,572
2039	6,137
2040	1,378
	$ 50,169

Investment tax credits by year of expiry:	
2020	$ 606
2021	473
2022	238
2023	129
2024	292
Beyond 2024	898
	$ 2,636

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 (loss) profit and comprehensive (loss) income:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
(Loss) profit before income tax	$ (86)	$ 7,795	$ (20,417)	$ 17,872
Statutory income tax rates	26.5%	26.5%	26.5%	26.5%
Income taxes at statutory income tax rates	(23)	2,066	(5,411)	4,736
Variations due to:				
Non-taxable portion of unrealized loss (gain) on investments in private entities	(266)	(1,244)	6,526	(2,785)
Tax losses allocated from the HIIG Partnership	(18)	(29)	(34)	(42)
Non-deductible (non-taxable) items	90	139	(6,473)	174
Difference between statutory and foreign tax rates	2	(5)	29	(1)
Unrecognized temporary differences	118	95	(549)	167
Unrecognized tax losses	157	(1,022)	5,997	(2,249)
Income tax expense	$ 60	$ -	$ 85	$ -

At June 30, 2020, current income tax receivable from the Canadian federal tax authority of $401 (December 31, 2019 - $427) and from the United States tax authority of $37 (December 31, 2019 - $nil) and current income tax payable to the Canadian federal tax authority of $7 (December 31, 2019 - $nil) and United States federal tax authority of $306 (December 31, 2019 - $387) were recorded in the consolidated statements of financial position.

At June 30, 2020, a deferred income tax liability for United States federal taxes of $394 (December 31, 2019 - $399) was recorded in the consolidated statements of financial.

Income tax expense recorded in the consolidated statements of (loss) profit and comprehensive (loss) income was $60 and $85 in the three and six months ended June 30, 2020, respectively, and $nil in each of the three and six months ended June 30, 2019. Income tax expense consists of i) current Canadian tax recovery of $19 and Canadian income tax expense of $27 in the three and six months ended June 30, 2020, respectively and $nil in each of the three and six months ended June 30, 2019, ii) current United States tax expense of $18 and $63 in the three and six months ended June 30, 2020, respectively and $nil in each of the three and six months ended June 30, 2019 and iii) deferred United States tax expense of $61 and United States tax recovery of $5 in the three and six months ended June 30, 2020, respectively and $nil in each of the three and six months ended June 30, 2019.

16 (Loss) Earnings per Share

The Company had 10,428,337 stock options, 3,034,261 RSUs and 14,285,715 Warrants outstanding at June 30, 2020 and 2019. The stock options and Warrants for the three and six months ended June 30, 2020 and 2019 were excluded in the calculation of diluted (loss) earnings per share as they were not dilutive. The RSUs for the six months ended June 30, 2020 were included in the calculation of diluted (loss) earnings per share as they were dilutive. The RSUs for the three months ended June 30, 2020 and the three and six months ended June 30, 2019 were not included in the calculation of diluted (loss) earnings per share as they were not dilutive.

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

16 (Loss) Earnings per Share (continued)

(Loss) earnings per share, basic and diluted, are as follows:

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Basic (loss) earnings per share:				
(Loss) profit	$ (146)	$ 7,795	$ (20,502)	$ 17,872
Weighted average number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Basic (loss) earnings per share	$ -	$ 0.05	$ (0.14)	$ 0.12
Diluted (loss) earnings per share:				
(Loss) profit	$ (146)	$ 7,795	$ (20,502)	$ 17,872
Dilutive RSU expense (recovery)	-	-	(1,569)	-
(Loss) profit on a diluted basis	$ (146)	$ 7,795	$ (22,071)	$ 17,872
Weighted average number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Dilutive impact of RSUs	-	-	3,034,264	-
Weighted average number of common shares outstanding on a dilutive basis	146,220,979	143,186,718	146,220,979	143,186,718
Diluted (loss) earnings per share	$ -	$ 0.05	$ (0.15)	$ 0.12

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.

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 June 30, 2020 consists of short-term financial assets and financial liabilities with maturities of less than one year, loans receivable, investments in preferred shares, 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 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 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.

18 Financial Risk Management (continued)

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 June 30, 2020, the Company's short-term financial liabilities amounted to $2,175 (December 31, 2019 - $3,008), and the Company has access to cash and other resources to meet these financial obligations.

Currency risk

The Company's C$ denominated monetary liabilities exceed C$ denominated monetary assets, including its C$40 million (December 2019 – C$40 million) foreign exchange forward contract. A 10% strengthening of the C$ against the US$ would have increased the foreign exchange loss for the three and six months ended June 30, 2020 by approximately $1,274. A similar weakening of the C$ 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 investment in HIIG and the Arena FINCOs 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 investment in preferred shares of HIIG and 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.

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