



**Second Quarter Report to Shareholders
for the quarter ended June 30, 2021**

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

TABLE OF CONTENTS

1. THE COMPANY
 2. OVERVIEW OF PERFORMANCE
 3. INVESTMENTS
 4. FINANCING
 5. ANALYSIS OF FINANCIAL RESULTS
 6. ANALYSIS OF FINANCIAL POSITION
 7. OUTLOOK
 8. LIQUIDITY AND CAPITAL RESOURCES
 9. RELATED PARTY TRANSACTIONS
 10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
 11. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS
 12. QUARTERLY FINANCIAL INFORMATION
 13. RISKS
 14. ADDITIONAL ARENA FINCOS INVESTMENT SCHEDULES
 15. NON-GAAP MEASURES
 16. CAUTIONARY NOTE REGARDING FUTURE ORIENTED FINANCIAL INFORMATION
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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, 2021 and 2020 as set out on pages 36 to 59 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, 2021 and 2020 and is intended to enable the reader to assess the Company's results of operations for the three and six months ended June 30, 2021 and financial condition as at June 30, 2021. 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, unless otherwise indicated. Canadian dollars are referenced as C\$. The following commentary is current as of August 19, 2021. Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com. Certain comparative figures have been reclassified to conform to the presentation of the current year, and certain totals, subtotals and percentages may not reconcile due to rounding.

IFRS for Investment Entities

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.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

Cautionary Statement Regarding Financial Information of Skyward Specialty Insurance Group Inc.

Select financial information concerning Skyward Specialty Insurance Group Inc. ("Skyward Specialty") (the "Skyward Specialty Financial Information") contained in this MD&A is unaudited and has been derived from the unaudited consolidated financial statements of Skyward Specialty for the three and six months ended June 30, 2021 and 2020, which have been prepared in accordance with United States generally accepted accounting principles ("US GAAP"). Such statements are the responsibility of the management of Skyward Specialty. The Skyward Specialty Financial Information, including any Skyward Specialty 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 Skyward Specialty 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 Skyward Specialty Financial Information has been provided solely by Skyward Specialty. Although Westaim has no knowledge that would indicate that any of the Skyward Specialty 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 Skyward Specialty 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 Skyward Specialty 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 FINCOs and Arena Investors

Select financial information concerning the Arena FINCOs (as hereinafter defined) and Arena Investors (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 FINCOs and Arena Investors for the three and six months ended June 30, 2021 and 2020 which have been prepared in accordance with either IFRS or US GAAP. Such statements are the responsibility of the management of the Arena FINCOs and Arena Investors. The Arena Financial Information, including any Arena FINCOs and Arena Investors 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.

The Arena Financial Information has been primarily provided by the management of the Arena FINCOs and Arena Investors. 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 FINCOs and Arena Investors 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 25, 2021 for its fiscal year ended December 31, 2020 which is available on SEDAR at www.sedar.com. Please refer to Section 16, *Cautionary Note Regarding Future Oriented Financial Information* of this MD&A.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

1. THE COMPANY

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

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

2. OVERVIEW OF PERFORMANCE

Highlights	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Revenue and net change in unrealized value of investments	\$ 10.5	\$ 3.7	\$ 23.2	\$ (20.1)
Net recovery of expenses (expenses)	0.4	(3.7)	(3.2)	(0.4)
Income tax expense	-	(0.1)	-	(0.1)
GAAP profit (loss) and comprehensive income (loss)	\$ 10.9	\$ (0.1)	\$ 20.0	\$ (20.6)
Adjusted profit (loss) and comprehensive income (loss) excluding unusual items ¹	\$ 11.6	\$ 4.8	\$ 20.7	\$ (0.8)
GAAP earnings (loss) per share – basic	\$ 0.08	\$ -	\$ 0.14	\$ (0.14)
GAAP earnings (loss) per share – diluted	\$ 0.08	\$ -	\$ 0.14	\$ (0.15)
Adjusted earnings (loss) per share – diluted ¹	\$ 0.08	\$ 0.03	\$ 0.14	\$ (0.02)
At June 30:				
Shareholders' equity	\$ 340.5	\$ 334.3	\$ 340.5	\$ 334.3
Number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Book value per fully diluted share - in US\$ ¹	\$ 2.38	\$ 2.32	\$ 2.38	\$ 2.32
Book value per fully diluted share - in C\$ ¹	\$ 2.95	\$ 3.15	\$ 2.95	\$ 3.15

¹ Non-GAAP measure. See Section 15, *Non-GAAP Measures* of this MD&A. Period end exchange rates: 1.24095 at June 30, 2021 and 1.35865 at June 30, 2020.

Three months ended June 30, 2021 and 2020

The Company reported a profit and comprehensive profit of \$10.9 for the three months ended June 30, 2021 (2020 – loss and comprehensive loss of \$0.1).

Revenue and net change in unrealized value of investments for the three months ended June 30, 2021 was an increase of \$10.5 (2020 – \$3.7) and consisted of interest income of \$0.3 (2020 – \$0.2), advisory fees of \$0.3 (2020 – \$0.3), an increase of \$7.6 in the unrealized value of the Company's investments in private entities (2020 – \$3.6), an increase in unrealized value of other investments of \$0.1 (2020 – nominal) and the Company's share of profit of its associates (as hereinafter defined) of \$2.2 (2020 – loss of \$0.4).

Net recovery of expenses for the three months ended June 30, 2021 of \$0.4 (2020 – expenses of \$3.7) consisted of salaries and benefits of \$1.2 (2020 – \$0.9), general, administrative and other expenses of \$0.2 (2020 – \$0.1), professional fees of \$0.2 (2020 – \$0.3), site restoration provision recovery of \$2.6 (2020 – nominal), share-based compensation expense of \$0.1 (2020 – \$1.1), a foreign exchange loss of \$0.4 (2020 – \$0.6), interest on preferred securities of \$0.5 (2020 – \$0.4) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of \$0.4 (2020 – loss of \$0.3).

The Company reported income tax expense for the three months ended June 30, 2021 of \$nil (2020 – \$0.1).

Six months ended June 30, 2021 and 2020

The Company reported a profit and comprehensive profit of \$20.0 for the six months ended June 30, 2021 (2020 – loss and comprehensive loss of \$20.6).

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

2. OVERVIEW OF PERFORMANCE (continued)

Revenue and net change in unrealized value of investments for the six months ended June 30, 2021 was an increase of \$23.2 (2020 – decrease of \$20.1) and consisted of interest income of \$0.7 (2020 - \$0.6), dividend income paid to the Company from the Arena FINCOs (as hereinafter defined) of \$nil (2020 - \$22.7), advisory fees of \$0.5 (2020 - \$0.5), an increase of \$18.6 in the unrealized value of the Company's investments in private entities before dividends paid of \$nil (2020 - a decrease in the unrealized value of \$42.7, which was \$20.0 before dividends paid of \$22.7), an increase in unrealized value of other investments of \$0.2 (2020 - nominal) and the Company's share of profit of its associates (as hereinafter defined) of \$3.2 (2020 - loss of \$1.2).

Net expenses for the six months ended June 30, 2021 of \$3.2 (2020 - \$0.4) consisted of salaries and benefits of \$2.4 (2020 - \$1.8), general, administrative and other expenses of \$0.4 (2020 - \$0.4), professional fees of \$0.5 (2020 - \$0.7), site restoration provision recovery of \$2.6 (2020 – provision expense of \$0.1), share-based compensation expense of \$0.8 (2020 – recovery of \$1.2), a foreign exchange loss of \$0.8 (2020 – gain of \$1.0), interest on preferred securities of \$1.0 (2020 - \$0.9) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of \$0.1 (2020 – \$1.3).

The Company reported income tax expense for the six months ended June 30, 2021 of \$nil (2020 - \$0.1).

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 Skyward Specialty, the Arena FINCOs and Arena Investors as follows:

	Place of establishment	Principal place of business	Ownership interest at June 30, 2021	Ownership interest at December 31, 2020
Investment in private entities:				
- Skyward Specialty	Delaware, U.S.	Texas, U.S.	44.0% owned by the Company	44.5% owned by the Company
- 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 ¹	51% beneficially owned the Company ¹

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

For additional information on the Company's corporate structure, see the Company's Annual Information Form dated March 25, 2021 for its fiscal year ended December 31, 2020 which is available on SEDAR at www.sedar.com.

Skyward Specialty

The Company owns a significant interest in Skyward Specialty, a U.S. based diversified specialty property & casualty 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 Skyward Specialty is recorded in investments in private entities under investments in the Company's consolidated financial statements.

Arena FINCOs

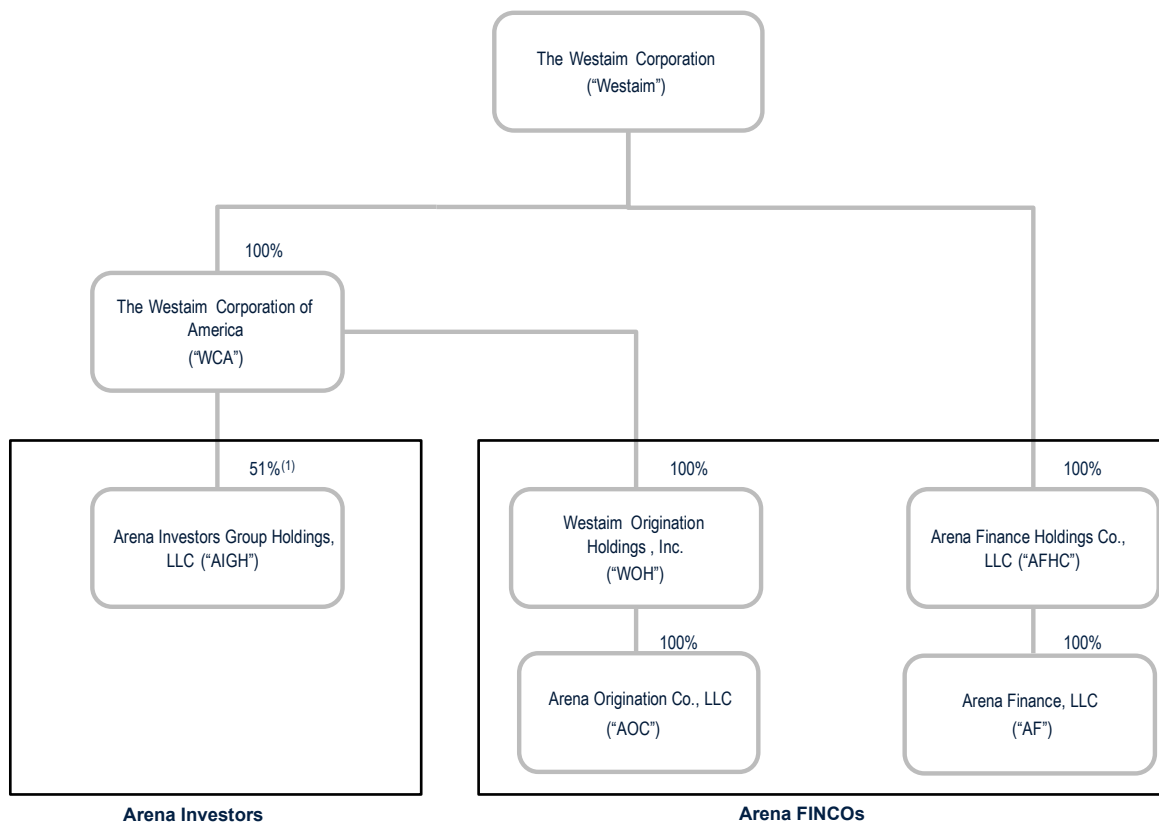
The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. Fundamentals-based, asset-oriented credit investments refer to loans or credit arrangements which are generally secured by 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 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

Arena Investors Group Holdings, LLC ("AIGH"), through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit investments. AIGH is the sole limited partner of Arena Investors, LP, a limited partnership established to carry on the third-party investment management business. 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)

The following chart illustrates a simplified organizational structure of Arena Investors and the Arena FINCOs:



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 Arena Investors".

For a detailed discussion of the business of the Arena Investors and the Arena FINCOs, see the Company's Annual Information Form dated March 25, 2021 for its fiscal year ended December 31, 2020 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 Skyward Specialty 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 fair value through profit or loss ("FVTPL").

In determining the valuation of investments in private entities at June 30, 2021 and 2020, 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 5 to the Company's audited annual consolidated financial statements for the years ended December 31, 2020 and 2019.

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

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

3. INVESTMENTS (continued)

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

Three months ended June 30, 2021			
	Opening Balance	Increase in unrealized value before dividends	Ending Balance
Investments in private entities:			
- Skyward Specialty	\$ 184.4	\$ 4.9	\$ 189.3
- Arena FINCOs	170.4	2.7	173.1
	<u>\$ 354.8</u>	<u>\$ 7.6</u>	<u>\$ 362.4</u>

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:						
- Skyward Specialty	\$ 144.8	\$ 44.0	\$ -	\$ 2.2	\$ -	\$ 191.0
- Arena FINCOs	167.6	-	-	1.4	-	169.0
	<u>\$ 312.4</u>	<u>\$ 44.0</u>	<u>\$ -</u>	<u>\$ 3.6</u>	<u>\$ -</u>	<u>\$ 360.0</u>

Six months ended June 30, 2021			
	Opening Balance	Increase in unrealized value before dividends	Ending Balance
Investments in private entities:			
- Skyward Specialty	\$ 180.8	\$ 8.5	\$ 189.3
- Arena FINCOs	163.0	10.1	173.1
	<u>\$ 343.8</u>	<u>\$ 18.6</u>	<u>\$ 362.4</u>

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:						
- Skyward Specialty	\$ 165.0	\$ 44.0	\$ -	\$ (18.0)	\$ -	\$ 191.0
- Arena FINCOs	205.8	-	(12.1)	(2.0)	(22.7)	169.0
	<u>\$ 370.8</u>	<u>\$ 44.0</u>	<u>\$ (12.1)</u>	<u>\$ (20.0)</u>	<u>\$ (22.7)</u>	<u>\$ 360.0</u>

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Investment in Arena Investors				
Opening balance	\$ 19.2	\$ 11.5	\$ 20.2	\$ 12.3
Decrease in Revolving loan from the Company	(2.0)	-	(4.0)	-
The Company's share of profit (loss)	2.2	(0.4)	3.2	(1.2)
Ending balance	<u>\$ 19.4</u>	<u>\$ 11.1</u>	<u>\$ 19.4</u>	<u>\$ 11.1</u>

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

3. INVESTMENTS (continued)

A. INVESTMENT IN SKYWARD SPECIALTY

The Company's investment in Skyward Specialty consists of the following:

	Three months ended June 30, 2021			Three months ended June 30, 2020			
	Opening Balance	Increase in unrealized value of investment	Ending Balance	Opening Balance	Additions - Equity	Increase (decrease) in unrealized value of investment	Ending Balance
Investment in Skyward Specialty:							
HIIG Partnership-Company's share of Skyward Specialty common shares ¹	\$ 87.9	\$ 2.4	\$ 90.3	\$144.2	\$ -	\$ (52.2)	92.0
HIIG Partnership-Company's share of other partnership assets	0.5	-	0.5	0.6	-	(0.1)	0.5
Skyward Specialty convertible preferred shares held by the Company	96.0	2.5	98.5	-	44.0	54.5	98.5
	<u>\$ 184.4</u>	<u>\$ 4.9</u>	<u>\$ 189.3</u>	<u>\$ 144.8</u>	<u>\$ 44.0</u>	<u>\$ 2.2</u>	<u>\$ 191.0</u>

¹ The Company's share of Skyward Specialty common shares held by the HIIG Partnership.

	Six months ended June 30, 2021			Six months ended June 30, 2020			
	Opening Balance	Increase in unrealized value of investment	Ending Balance	Opening Balance	Additions - Equity	Increase (decrease) in unrealized value of investment	Ending balance
Investment in Skyward Specialty:							
HIIG Partnership-Company's share of Skyward Specialty common shares ¹	\$ 86.2	\$ 4.1	\$ 90.3	\$164.3	\$ -	\$ (72.3)	92.0
HIIG Partnership-Company's share of other partnership assets	0.5	-	0.5	0.7	-	(0.2)	0.5
Skyward Specialty convertible preferred shares held by the Company	94.1	4.4	98.5	-	44.0	54.5	98.5
	<u>\$ 180.8</u>	<u>\$ 8.5</u>	<u>\$ 189.3</u>	<u>\$ 165.0</u>	<u>\$ 44.0</u>	<u>\$ (18.0)</u>	<u>\$ 191.0</u>

¹ The Company's share of Skyward Specialty common shares held by the HIIG Partnership.

At June 30, 2021, the Company owned approximately 62.0% of the HIIG Partnership and the HIIG Partnership held Skyward Specialty common shares representing approximately 33.9% of the total fully diluted Skyward Specialty common shares outstanding. As a result, Westaim's look-through interest in fully diluted common shares through the HIIG Partnership was 21.0% and had a fair value of \$90.3.

The convertible preferred shares of Skyward Specialty were acquired by Westaim on April 20, 2020, as Skyward Specialty completed a rights offering that resulted in gross proceeds of \$100.0 to Skyward Specialty. As part of the rights offering, Westaim purchased \$44.0 of the Skyward Specialty preferred shares offered. The convertible preferred shares were initially convertible into Skyward Specialty common shares based on a conversion price equal to \$1.74 per share. The conversion price is subject to adjustments from time to time based on the occurrence of certain events up to December 31, 2021. At June 30, 2021, the adjustments, if effective, would result in a conversion price of \$1.38 per share (December 31, 2020 - \$1.38). The fair value of Westaim's ownership of the Skyward Specialty convertible preferred shares was \$98.5.

The Company's look-through interest in the HIIG Partnership of 21.0%, combined with its direct ownership of the Skyward Specialty preferred shares, which were convertible into Skyward Specialty common shares representing 23.0% of the fully diluted Skyward Specialty common shares outstanding, resulted in a 44.0% look-through interest in Skyward Specialty at June 30, 2021 (December 31, 2020 - 44.5%).

At June 30, 2021, based on the Company's control of the HIIG Partnership, and its ownership of convertible preferred shares, the Company held a 56.9% voting interest in Skyward Specialty (December 31, 2020 - 57.5%).

(i) Fair Value

The investment in Skyward Specialty is accounted for at FVTPL. In valuing Skyward Specialty'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 Skyward Specialty at June 30, 2021 (December 31, 2020 - 1.0x). See Note 4, *Investment in Skyward Specialty* in the Notes to the Financial Statements.

The fair value of the Company's investment in Skyward Specialty was determined to be \$189.3 at June 30, 2021 and \$180.8 at December 31, 2020.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

3. INVESTMENTS (continued)

The Company recorded an increase in unrealized value on its investment in Skyward Specialty of \$4.9 and \$8.5 in the three and six months ended June 30, 2021, respectively, and an increase in unrealized value on its investment in Skyward Specialty of \$2.2 and a decrease in unrealized value of \$18.0 in the three and six months ended June 30, 2020, respectively.

The Company's share of Skyward Specialty's net comprehensive income (loss) excluding unusual items was \$5.6 and \$9.2 in the three and six months ended June 30, 2021, respectively, and the Company's share of Skyward Specialty's net comprehensive income (loss) excluding unusual items was \$7.1 and \$1.8 in the three and six months ended June 30, 2020, respectively.

The following chart illustrates the Company's share of the material changes in the valuation of Skyward Specialty:

Investment in Skyward Specialty	Three months ended		Six months ended	
	2021	June 30 2020	2021	June 30 2020
Opening Balance	\$ 184.4	\$ 144.8	\$ 180.8	\$ 165.0
Additional equity contribution	-	44.0	-	44.0
Net comprehensive income excluding unusual items	5.6	7.2	9.2	2.0
Change in HIIG Partnership other assets	-	(0.1)	-	(0.2)
The Company's share of net comprehensive income excluding unusual items	5.6	7.1	9.2	1.8
Unusual items:				
Impact of LPT (defined herein) net of tax	-	(4.1)	-	(4.1)
Goodwill impairment net of tax	(0.7)	-	(0.7)	-
Other unusual net expenses net of tax	-	(0.8)	-	(0.8)
Change in valuation multiple (1.1x to 1.0x)	-	-	-	(14.9)
The Company's share of unusual items	(0.7)	(4.9)	(0.7)	(19.8)
Total increase (decrease) in unrealized value of investment	4.9	2.2	8.5	(18.0)
Ending Balance	\$ 189.3	\$ 191.0	\$ 189.3	\$ 191.0

In the second quarter of 2020, Skyward Specialty closed a Loss Portfolio Transfer agreement ("LPT") that provides reinsurance protection of approximately \$127.4 above Skyward Specialty's net ceded loss and loss adjustment reserves, primarily related to 2017 and prior policy years, subject to co-participation required from Skyward Specialty above specific amounts. The LPT resulted in a pretax charge and after tax charge of approximately \$43.5 and \$34.3 in Skyward Specialty, respectively, in the three months ended March 31, 2020. The Company's share of the impact of the LPT initial charge was taken into account in its valuation of Skyward Specialty in the three months ended December 31, 2019.

(ii) Select Financial Information of Skyward Specialty for the six months ended June 30, 2021 and 2020

The Company considers certain financial results of Skyward Specialty to be important measures for investors in assessing the Company's financial position and performance. In particular, premium volumes provide a measure of Skyward Specialty's growth; "Loss ratio excluding LPT" (calculated by dividing net loss and Loss Adjustment Expenses ("LAE") excluding the charge of the LPT and the adverse development on prior years' loss and LAE reserves subject to the LPT by net earned premiums), "Expense ratio" (calculated by dividing the sum of: net policy acquisition expenses, operating expenses excluding unusual net expense items, less commission and fee income, by net earned premiums), and "Combined ratio excluding LPT" (calculated by the sum of Loss ratio excluding LPT and Expense ratio) provide measures of Skyward Specialty's underwriting profitability; "Net income (loss)" provides a measure of Skyward Specialty's overall profitability; and "Stockholders' equity" is a measure that is generally used by investors to determine the value of insurance companies.

Set out in the tables below are certain Skyward Specialty Financial Information derived from the unaudited consolidated financial statements of Skyward Specialty for the three and six months ended June 30, 2021 and 2020 and the audited consolidated financial statements of Skyward Specialty at December 31, 2020, which have been prepared in accordance with US GAAP and non-GAAP measures. Such statements are the responsibility of the management of Skyward Specialty. Readers are cautioned that the Skyward Specialty 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.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

3. INVESTMENTS (continued)

Skyward Specialty Condensed Consolidated Balance Sheets

	June 30, 2021	December 31, 2020
Assets		
Investments	\$ 856.6	\$ 764.8
Cash and restricted cash	94.0	112.0
Insurance related assets	1,015.6	949.1
Deferred tax asset	35.1	41.1
Goodwill and intangible assets	93.5	86.2
Total assets	\$ 2,094.8	\$ 1,953.2
Liabilities		
Insurance related liabilities	\$ 1,547.2	\$ 1,430.0
Payable for securities purchased	-	0.1
Notes payable	50.0	50.0
Trust preferred securities	78.5	78.4
Total liabilities	\$ 1,675.7	\$ 1,558.5
Stockholders' equity		
Stockholders' equity	\$ 429.1	\$ 405.5
Stock notes receivable	(10.0)	(10.8)
Total stockholders' equity	\$ 419.1	\$ 394.7
Total liabilities and stockholders' equity	\$ 2,094.8	\$ 1,953.2

In the six months ending June 30, 2021, Skyward Specialty recorded a net increase in goodwill and intangibles of \$7.3. This net increase was primarily the result of closing an agreement to purchase assets of Aegis Surety Bonds and Insurance Services, LLC related to their surety underwriting business and sale of Skyward Specialty's XPro underwriting business offset by the exit of a professional liability product.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

3. INVESTMENTS (continued)

Skyward Specialty Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Gross written premium	\$ 262.7	\$ 253.0	\$ 500.5	\$ 485.8
Net written premium	136.3	110.9	246.1	210.9
Net earned premium	109.8	94.8	215.9	192.9
Commission and fee income	0.9	1.0	1.8	2.3
Less: Losses and LAE excluding LPT ¹	(72.4)	(68.3)	(145.4)	(135.1)
Less: Policy acquisition costs	(6.7)	(5.7)	(13.0)	(11.5)
Less: Operating expenses ²	(24.6)	(18.3)	(45.7)	(42.6)
Underwriting result excluding LPT^{1,2}	7.0	3.5	13.6	6.0
Net investment income	8.6	4.3	15.0	7.3
Net realized and unrealized gains (losses)	4.8	9.1	10.6	(11.6)
Investment income (loss)	13.4	13.4	25.6	(4.3)
Interest expense	(1.2)	(1.3)	(2.4)	(3.1)
Amortization expense	(0.4)	(0.4)	(0.8)	(0.9)
Income (loss) before taxes excluding unusual items	18.8	15.2	36.0	(2.3)
Income tax expense (recovery)	3.9	3.1	7.5	(0.6)
Net income (loss) excluding unusual items	14.9	12.1	28.5	(1.7)
Impact of LPT net of tax ³	-	(9.3)	-	(43.7)
Other net expenses, net of tax	-	(1.9)	-	(1.9)
Goodwill impairment net of tax	(1.5)	-	(1.5)	-
Net income (loss)	13.4	0.9	27.0	(47.3)
Total other comprehensive income (loss)	0.4	4.3	(4.0)	6.4
Comprehensive income (loss)	\$ 13.8	\$ 5.2	\$ 23.0	\$ (40.9)
Other Select Financial Information				
Loss ratio excluding LPT ¹	65.9%	72.0%	67.3%	70.0%
Expense ratio ²	27.7%	24.2%	26.4%	26.8%
Combined ratio excluding LPT ^{1,2}	93.6%	96.2%	93.7%	96.8%

¹ Excludes adverse development on prior years' claims reserves subject to the LPT of \$40.0 for the three and six months ended June 30, 2020.

² Excludes other unusual net expense of \$2.3 (\$1.9 after tax) for the three and six months ended June 30, 2020.

³ The impact of LPT net of tax of \$9.3 includes adverse development on prior years' claims reserves subject to the LPT of \$40.0 less recoveries from the LPT reinsurer of \$28.2 and less an income tax recovery of \$2.5 for the three months ended June 30, 2020. The impact of the LPT net of tax of \$43.7 includes the initial cost of the LPT of \$43.5 plus adverse development on prior years' claims reserves subject to the LPT of \$40.0 less recoveries from the LPT reinsurer of \$28.2 and less an income tax recovery of \$11.6 for the six months ended June 30, 2020.

Gross written premiums - Gross written premiums were \$262.7 for the three months ended June 30, 2021 compared to \$253.0 for the three months ended June 30, 2020, an increase of 3.8% and \$500.5 for the six months ended June 30, 2021 compared to \$485.8 for the six months ended June 30, 2020, an increase of 3.0%. The current quarter gross written premiums were primarily impacted by rate increases and growth in the continuing businesses and was partially offset by a reduction in gross written premiums in business in run-off.

Net written premiums - Net written premiums were \$136.3 for the three months ended June 30, 2021 compared to \$110.9 for the three months ended June 30, 2020, an increase of 22.9% and \$246.1 for the six months ended June 30, 2021 compared to \$210.9 for the six months ended June 30, 2020, an increase of 16.7%. The current quarter net written premiums were impacted by the growth in gross written premiums and higher retentions for the period.

Net earned premiums - Net earned premiums were \$109.8 for the three months ended June 30, 2021 compared to \$94.8 for the three months ended June 30, 2020, an increase of 15.8% and \$215.9 for the six months ended June 30, 2021 compared to \$192.9 for the six months ended June 30, 2020, an increase of 12.0%. The current quarter increase in net earned premiums was due to Skyward Specialty's net written premium changes over the past 24 months.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

3. INVESTMENTS (continued)

Losses and LAE excluding LPT – In the three months ended June 30, 2021 and 2020, Skyward Specialty's Loss ratio, excluding loss and LAE subject to the LPT was 65.9% and 72.0% respectively and in the six months ended June 30, 2021 and 2020, Skyward Specialty's Loss ratio, excluding claims subject to the LPT was 67.3% and 70.0% respectively. The improvement in the loss ratio is driven by underwriting actions and rate increases over the past year. The Loss ratio, excluding catastrophes and prior years' development for the three months ended June 30, 2021 was 65.9% compared to 71.8% for the three months ended June 30, 2020 and for the six months ended June 30, 2021 was 65.6% compared to 69.9% for the six months ended June 30, 2020.

	Three months ended June 30				Six months ended June 30			
	2021		2020		2021		2020	
Losses and LAE	\$ 72.4	65.9%	\$ 68.3	72.0%	\$ 145.4	67.3%	\$ 135.1	70.0%
Catastrophes	-	-	-	-	3.8	1.7%	-	-
Prior years' development	-	-	0.2	0.2%	-	-	0.2	0.1%
Losses and LAE excluding catastrophes and prior years' development	\$ 72.4	65.9%	\$ 68.1	71.8%	\$ 141.6	65.6%	\$ 134.9	69.9%

Operating results (net income excluding unusual items; all amounts net of income tax) - The net income excluding unusual items was \$14.9 for the three months ended June 30, 2021 compared to \$12.1 for the three months ended June 30, 2020 and the net income excluding unusual items was \$28.5 for the six months ended June 30, 2021 compared to net loss of \$1.7 for the six months ended June 30, 2020. The improvement of \$2.8 in the three months ended June 30, 2021 was primarily the result of an improved underwriting result and the improvement of \$30.2 in the six months ended June 30, 2021 was primarily the result of increased investment income and an improved underwriting result. The combined ratio excluding LPT improved to 93.6% from 96.2% for the three months ended June 30, 2021 and 2020, respectively and the combined ratio excluding LPT improved to 93.7% from 96.8% for the six months ended June 30, 2021 and 2020.

Net income (loss) (all amounts net of income tax) - The operating result of Skyward Specialty was a net income of \$13.4 for the three months ended June 30, 2021 compared to \$0.9 for the three months ended June 30, 2020 and a net income of \$27.0 for the six months ended June 30, 2021 compared to a net loss of \$47.3 for the six months ended June 30, 2020. The increase of \$12.5 in net income for the three months ended June 30, 2021 was primarily attributable to the net impact of the LPT of \$nil in the three months ended June 31, 2021 versus \$9.3 in 2020 and by the improvement in the operating results of \$2.8 described above. The increase of \$74.3 in net income for the six months ended June 30, 2021 was primarily attributable to the net impact of the LPT of \$nil in the six months ended June 30, 2021 versus \$43.7 in 2020 and by the improvement in the operating results of \$30.2 described above.

Stockholders' equity - Skyward Specialty stockholders' equity increased to \$419.1 at June 30, 2021 from \$394.7 at December 31, 2020. The increase of \$24.4 resulted primarily from net income for the period of \$27.0 and a decrease in the stockholder notes receivables of \$0.8, partially offset by the other comprehensive loss of \$4.0 relating to the after-tax net change in the carrying value of Skyward Specialty's fixed income portfolio.

B. INVESTMENT IN THE ARENA FINCOs

The Arena FINCOs invest in both debt and equity, hard assets and real estate owned investments, 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 as well as public investments subject to approved investment policies. These investment strategies include:

Corporate Private Credit

Senior private corporate debt, bank debt, including, without limitation, secondary market bank debt, distressed debt such as senior secured bank debt before or during a Chapter 11 bankruptcy filing, corporate bonds, including, without limitation, bonds in liquidation or out-of-court exchange offers and trade claims of distressed companies in anticipation of a recapitalization, bridge loans/transition financing, debtor-in-possession ("DIP") financings, junior secured loans, junior capital to facilitate restructurings, equity co-investments or warrants alongside corporate loans.

3. INVESTMENTS (continued)

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 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, without limitation, 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, without limitation, airplanes and components, industrial machinery), commodities (physical and synthetic), reinsurance and premium finance within life and property casualty insurance businesses, legal-related finance including, without limitation, 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, without limitation, equipment leases, auto loans, commercial mortgage-backed securities, residential mortgage-backed securities, collateralized loan obligations, collateralized debt obligations, other structured credits and consumer-related assets, 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-related assets, 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.

Corporate and Other Securities

Illiquid positions in asset-backed securities, collateralized debt obligations, collateralized loan obligations, residential mortgage backed securities, commercial mortgage backed securities, other securitized bonds or non-bond tranches and liquid positions including, hedged and unhedged investments in public securities (including, without limitation, public real estate and special purpose acquisition companies ("SPACs")), preferred stock, common stock, municipal bonds, senior public corporate debt, other industry relative value, merger arbitrage in transactions such as mergers, hedged investments in regulated utilities, integrated utilities, merchant energy providers, acquisitions, tender offers, spin-offs, recapitalizations and Dutch auctions, limited partnership interests, interests in fund start-ups and investment managers, event-driven relative value equity investments in transactions such as corporate restructurings, strategic block, other clearly defined events, 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.

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 their assessment of the fair market value of the investment at the time of purchase.

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 their investments.

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. 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, 2021, in the amount of \$173.1 approximated the fair value of the Company's investments in the Arena FINCOs. See Note 4, *Investments in the Arena FINCOs* in the Notes to the Financial Statements.

The fair value of the Company's investment in the Arena FINCOs was determined to be \$173.1 and \$163.0 at June 30, 2021 and December 31, 2020, respectively.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

3. INVESTMENTS (continued)

The Company recorded an increase in the unrealized value of its investments in the Arena FINCOs of \$2.7 and \$10.1 in the three and six months ended June 30, 2021, respectively and an increase in the unrealized value of its investments in the Arena FINCOs of \$1.4 and a decrease in the unrealized value of its investments of \$2.0 before dividends paid to the Company of \$22.7 and the return of capital to the Company of \$12.1 in the three and six months ended June 30, 2020, respectively. There were no dividends paid or capital returned to the Company in the three and six months ended June 30, 2021 and the three months ended June 30, 2020.

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, 2021 and 2020, 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:

	June 30, 2021	December 31, 2020
	Fair value	Fair value
Cash and cash equivalents	\$ 22.3	\$ 21.4
Due from brokers, net	(24.3)	(5.5)
Investments:		
Loans / Private assets	150.9	145.9
Other Securities	61.7	34.4
Total investments	212.6	180.3
Senior secured notes payable	(43.5)	(43.4)
Other net assets	6.0	10.2
Net assets of the Arena FINCOs	\$ 173.1	\$ 163.0

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 US\$ currency hedges to reduce its non-US\$ currency exposure.

On September 29, 2020, Arena Finance II, LLC, one of the Arena FINCOs, secured a private placement of \$45 of 6.75% senior secured notes payable to improve net returns by leveraging invested assets. The net proceeds received from these notes are being used by the Arena FINCOs in accordance with its investment objectives.

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

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

3. INVESTMENTS (continued)

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Net operating results of the Arena FINCOs:				
Investment income	\$ 2.0	\$ 1.2	\$ 3.0	\$ 3.6
Net gains (losses) on investments	3.1	1.6	12.2	(2.8)
Interest expense	(0.9)	-	(1.7)	-
Net investment income	4.2	2.8	13.5	0.8
Operating expenses:				
Management and asset servicing fees	(1.1)	(1.0)	(2.1)	(2.2)
Incentive fees	(0.3)	(0.1)	(0.9)	(0.1)
Other operating recoveries (expenses)	-	(0.2)	(0.3)	(0.4)
	2.8	1.5	10.2	(1.9)
Arena FINCOs holding companies' expenses:				
Advisory fees paid to the Company	(0.1)	(0.1)	(0.1)	(0.1)
Net operating results of the Arena FINCOs	\$ 2.7	\$ 1.4	\$ 10.1	\$ (2.0)

The Net Return on the investment portfolios of the Arena FINCOs was 1.6% and 6.2% for the three and six months ended June 30, 2021, respectively and 0.9% and (1.1%) for the three and six months ended June 30, 2020, 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:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Opening balance	\$ 170.4	\$ 167.6	\$ 163.0	\$ 205.8
Return of capital to the Company	-	-	-	(12.1)
Unrealized gain (loss) before dividends	2.7	1.4	10.1	(2.0)
Dividends paid to the Company	-	-	-	(22.7)
Ending balance	\$ 173.1	\$ 169.0	\$ 173.1	\$ 169.0

C. INVESTMENT IN ARENA INVESTORS

Arena Investors 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 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 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 and proprietary accounts are pro-rated on mid-month accounts and 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 calculated as a percentage of net profits earned by Arena Investors as of the end of each accounting period or applicable withdrawal date related to client accounts subject to a "high water mark" and loss carryforward provisions for each measurement date. "Asset Servicing Fees" are the fees earned in connection with the management and servicing of the illiquid portion of clients' investment portfolios.

Arena Investors has established U.S. onshore funds, Arena Special Opportunities Fund, LP ("ASOF LP") and Arena Special Opportunities Partners I, LP and offshore funds, Arena Special Opportunities Fund (Cayman), LP, Arena Special Opportunities Fund (Cayman 2), LLC and Arena Special Opportunities Partners (Cayman) I, LP, 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.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

3. INVESTMENTS (continued)

As of June 30, 2021, Arena Investors had committed AUM of approximately \$2.3 billion. The committed AUM included the net assets of the Arena FINCOs and the Company's investment in ASOF LP of approximately \$176. As of December 31, 2020, Arena Investors had committed AUM of approximately \$2.0 billion. The committed AUM included the net assets of the Arena FINCOs and the Company's investment in ASOF LP of approximately \$166.

Rights Granted to BP LLC

On August 31, 2015, agreements were entered into between the Company and BP LLC in respect of AIGH (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 ("EBITDA") to trailing twelve month revenues) thresholds in accordance with the AIGH Associate Agreement.

Accounting for Arena Investors

The Company has a revolving loan facility to the associates (the "Arena Investors' Revolving Loan") with a limit of \$35.0 at June 30, 2021. Arena Investors had drawn down the loan facility by \$24.0 at June 30, 2021 (December 31, 2020 - \$28.0). See Note 4, *Investments in the Associates* in the Notes to the Financial Statements.

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 \$19.4 and \$20.2 at June 30, 2021 and December 31, 2020, respectively. The Company's 51% share of profit of \$2.2 and \$3.2 for the three and six months ended June 30, 2021, respectively and a share of loss of \$0.4 and \$1.2 for the three and six months ended June 30, 2020, respectively, was reported under "Net results of investments" in the consolidated statements of profit (loss) and comprehensive income (loss).

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 AIGH for the three and six months ended June 30, 2021 and 2020, 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:

<u>Statement of Financial Position</u>	June 30, 2021	December 31, 2020
Cash and cash equivalents	\$ 3.1	\$ 1.0
Restricted cash	10.5	13.9
Arena Investors' Revolving Loan from the Company	(24.0)	(28.0)
Other net liabilities	1.1	(2.5)
Net liabilities	\$ (9.3)	\$ (15.6)
Company's share	\$ (4.6)	\$ (7.8)
Arena Investors' Revolving Loan from the Company	24.0	28.0
Carrying amount of the Company's investment in associates	\$ 19.4	\$ 20.2

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

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

3. INVESTMENTS (continued)

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Management and asset servicing fees	\$ 7.0	\$ 4.8	\$ 13.4	\$ 9.8
Incentive fees	7.5	0.6	13.2	0.7
Net gains on investments	0.1	0.1	0.2	0.1
Total revenue	14.6	5.5	26.8	10.6
Salaries and benefits	(8.1)	(4.7)	(15.9)	(9.7)
Professional fees	(1.2)	(0.7)	(2.4)	(1.2)
General, administration and other expenses	(0.8)	(0.7)	(1.5)	(1.5)
Interest expense on the Revolving Loan from the Company	(0.3)	(0.2)	(0.7)	(0.5)
Total expenses	(10.4)	(6.3)	(20.5)	(12.9)
Profit (loss) and comprehensive income (loss)	\$ 4.2	\$ (0.8)	\$ 6.3	\$ (2.3)
Company's share of profit (loss) of associates (51%)	\$ 2.2	\$ (0.4)	\$ 3.2	\$ (1.2)

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

D. INVESTMENT IN ASOF LP

The Company's investment in ASOF LP, a fund managed by Arena Investors, with a fair value of \$3.0 at June 30, 2021 and \$2.9 at December 31, 2020 is included in investments in the consolidated statements of financial position. The Company's increase in unrealized value on its investment in ASOF LP was \$0.1 and \$0.2 in the three and six months ended June 30, 2021, respectively, and nominal in each of the three and six months ended June 30, 2020, respectively.

4. FINANCING

Preferred Securities

On June 2, 2017, the Company closed the sale to Fairfax of 5,000,000 Preferred Securities for C\$50 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, 2021 of \$40.3 (December 31, 2020 - \$39.2). See Note 6, *Preferred Securities* in the Notes to the Financial Statements.

Canadian Dollar Currency Forward Contracts

During the six months ended June 30, 2021, the Company entered into one 139 day and one 90 day Canadian dollar currency forward contract to purchase C\$40 million each and during 2020, the Company entered into four 90 day Canadian dollar currency forward contracts to purchase C\$40 million each. The impact was to primarily offset Canadian dollar currency gains or losses on the Company's underlying Canadian dollar currency liabilities, including the currency exposure arising from the Preferred Securities. See Note 7, *Canadian Dollar Currency Forward Contracts* in the Notes to the Financial Statements.

The Company has not designated these Canadian dollar currency forward contracts as accounting hedges.

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 (December 31, 2020 - \$3.0) as security. The security shall remain in effect for the duration of the outstanding Canadian dollar currency forward contract.

Derivative Warrant Liability

In conjunction with the purchase by Fairfax of C\$50 million in Preferred Securities on June 2, 2017, Westaim issued to Fairfax 14,285,715 Warrants to purchase the Company's common shares at a strike price of C\$3.50, with all of the 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, 2021, a liability of \$0.9 (December 31, 2020 - \$1.0) representing the estimated fair value of the vested Warrants had been accrued in the consolidated statements of financial position. See Note 8, *Derivative Warrant Liability* in the Notes to the Financial Statements.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

5. ANALYSIS OF FINANCIAL RESULTS

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

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Revenue				
Interest income	\$ 0.3	\$ 0.2	\$ 0.7	\$ 0.6
Dividend income from investments in private entities	-	-	-	22.7
Advisory fees	0.3	0.3	0.5	0.5
	<u>\$ 0.6</u>	<u>\$ 0.5</u>	<u>\$ 1.2</u>	<u>\$ 23.8</u>
Net results of investments	9.9	3.2	22.0	(43.9)
Net expenses				
Salaries and benefits	(1.2)	(0.9)	(2.4)	(1.8)
General, administrative and other	(0.2)	(0.1)	(0.4)	(0.4)
Professional fees	(0.2)	(0.3)	(0.5)	(0.7)
Site restoration recovery (expense)	2.6	-	2.6	(0.1)
Share-based compensation (expense) recovery	(0.1)	(1.1)	(0.8)	1.2
Foreign exchange (loss) gain	(0.4)	(0.6)	(0.8)	1.0
Interest on preferred securities	(0.5)	(0.4)	(1.0)	(0.9)
Derivative warrant gain (loss)	0.4	(0.3)	0.1	1.3
	<u>\$ 0.4</u>	<u>\$ (3.7)</u>	<u>\$ (3.2)</u>	<u>\$ (0.4)</u>
Income tax expense	-	(0.1)	-	(0.1)
GAAP profit (loss) and comprehensive income (loss)	<u>\$ 10.9</u>	<u>\$ (0.1)</u>	<u>\$ 20.0</u>	<u>\$ (20.6)</u>
Adjusted profit (loss) and comprehensive income (loss) excluding unusual items ¹	<u>\$ 11.6</u>	<u>\$ 4.8</u>	<u>\$ 20.7</u>	<u>\$ (0.8)</u>

¹ Non-GAAP measure. See Section 15, *Non-GAAP Measures* of this MD&A.

5.1 Revenue

In the three months ended June 30, 2021, the Company earned interest on loans made to Arena Investors of \$0.3 (2020 - \$0.2). In the same period, the Company earned advisory fees from Skyward Specialty of \$0.2 (2020 - \$0.2) and from the Arena FINCOs and Arena Investors of \$0.1 (2020 - \$0.1).

In the six months ended June 30, 2021, the Company earned interest on loans made to Arena Investors of \$0.7 (2020 - \$0.5) and dividends from the Arena FINCOs of \$nil (2020 - \$22.7). In the same period, the Company earned advisory fees from Skyward Specialty of \$0.3 (2020 - \$0.3) and from the Arena FINCOs and Arena Investors of \$0.2 (2020 - \$0.2).

5.2 Net Results of Investments

In the three months ended June 30, 2021, the net results of investments consisted of an increase in the unrealized value of the Company's investments in private entities of \$7.6 (2020 - \$3.6), an increase in the unrealized value of other investments of \$0.1 (2020 - nominal), and the Company's share of profit from its investment in associates of \$2.2 (2020 - share of loss of \$0.4).

In the six months ended June 30, 2021, the net results of investments consisted of an increase in the unrealized value of the Company's investments in private entities of \$18.6 before dividends paid of \$nil (2020 - a decrease in the unrealized value of \$42.7, which was \$20.0 before dividends paid of \$22.7), an increase in the unrealized value of other investments of \$0.2 (2020 - nominal), and the Company's share of profit from its investment in associates of \$3.2 (2020 - share of loss of \$1.2).

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

Investments in Private Entities

The Company's investments in private entities are accounted for at FVTPL. In the three months ended June 30, 2021, the Company recorded an increase in unrealized value of \$4.9 on its investment in Skyward Specialty (2020 - \$2.2), and an increase in unrealized value of \$2.7 on its investment in the Arena FINCOs (2020 - \$1.4).

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

5. ANALYSIS OF FINANCIAL RESULTS (continued)

In the six months ended June 30, 2021, the Company recorded an increase in unrealized value of \$8.5 on its investment in Skyward Specialty (2020 – a decrease in unrealized value of \$18.0), and an increase in unrealized value of \$10.1 on its investment in the Arena FINCOs (2020 – a decrease of \$2.0 before dividends paid of \$22.7).

Investment in Associates

The Company's investment in associates is accounted for using the equity method. In the three months ended June 30, 2021, the associates earned management and asset servicing fees of \$7.0 (2020 - \$4.8), incentive fees of \$7.5 (2020 - \$0.7), net gains on investment of \$0.1 (2020 - \$0.1) offset by salaries and benefits of \$8.1 (2020 - \$4.7), professional fees of \$1.2 (2020 - \$0.8), general, administrative and other expenses of \$0.8 (2020 - \$0.7), and interest expense on the Revolving Loan from the Company of \$0.3 (2020 - \$0.2) resulting in a profit of \$4.2 (2020 – loss of \$0.8).

In the six months ended June 30, 2021, the associates earned management and asset servicing fees of \$13.4 (2020 - \$9.8), incentive fees of \$13.2 (2020 - \$0.9), net gains on investment of \$0.2 (2020 - \$0.1) offset by salaries and benefits of \$15.9 (2020 - \$9.7), professional fees of \$2.4 (2020 - \$1.4), general, administrative and other expenses of \$1.5 (2020 - \$1.5), and interest expense on the Revolving Loan from the Company of \$0.7 (2020 - \$0.5) resulting in a profit of \$6.3 (2020 – loss of \$2.3).

The total of the Company's 51% share of profit of the associates amounted to \$2.2 and \$3.2 in the three and six months ended June 30, 2021, respectively, and its share of loss of the associates amounted to \$0.4 and \$1.2 in the three and six months ended June 30, 2020, respectively.

5.3 Expenses

Salaries and benefits increased by \$0.6 in the six months ended June 30, 2021 when compared to the corresponding period in the prior year resulting primarily from the appreciation in the Canadian dollar, which the majority of compensation is paid in.

General, administrative and other expenses in the three and six months ended June 30, 2021 were comparable to the corresponding period in the prior year.

Professional fees decreased by \$0.2 in the six months ended June 30, 2021 when compared to the corresponding period in the prior year due to decreases in legal and tax consultation fees.

The Company has provided indemnifications to third parties and is the recipient of indemnifications from a third party with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company and a third party. 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. Variations in the Company's site restoration provision expense from period to period are generally attributed to changes in the estimates of future expenditures used to arrive at the site restoration provision. Reimbursements from indemnifications the Company is a recipient of are recorded only when received.

The site provision is calculated in C\$ and the liability is translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit (loss) and comprehensive income (loss).

Changes to the site restoration provision are as follows:

	June 30, 2021	December 31, 2020
Opening balance	\$ 4.9	\$ 4.1
Changes due to:		
Indemnity payment to a third party	(2.7)	-
Indemnity recovery receipt from a third party	2.6	-
Estimates of future expenditures	(2.6)	0.7
Present value adjustment	-	-
Unrealized foreign exchange loss	0.1	0.1
Ending balance	\$ 2.3	\$ 4.9

In the second quarter of 2021, the Company negotiated a settlement of C\$3.4 million (\$2.7) to commute one of its site restoration indemnities related to certain industrial sites formerly owned by the Company and contemporarily, the Company received a C\$3.3 million (\$2.6) indemnity recovery from the previous owners of these same industrial sites. The indemnity recovery of \$2.6 was recorded when received and has been reflected in site restoration (recovery) expense in the Consolidated Statements of Profit (Loss) and Comprehensive Income (Loss) for the three and six months ended June 30, 2021.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

5. ANALYSIS OF FINANCIAL RESULTS (continued)

Changes in share-based compensation expense from period to period result from 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, 2021 also included compensation expense for stock options of \$nil (2020 - \$nil) and \$nil (2020 - \$0.1), respectively. See Section 8, *Liquidity and Capital Resources* of this MD&A for additional information on the Company's share-based compensation plans.

The Company holds C\$ denominated assets and liabilities and the Company's operating results include foreign exchange gains or losses arising from the revaluation of the Company's C\$ denominated net liabilities 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, 2021 and 2020:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Foreign exchange (losses) gains relating to:				
- site restoration provision	\$ -	\$ (0.1)	\$ (0.1)	\$ 0.2
- liabilities for RSUs and DSUs	(0.1)	(0.1)	(0.2)	0.5
- Preferred securities	(0.5)	(1.3)	(1.1)	1.7
- derivative warrant liability	-	-	-	0.2
- Canadian dollar currency forward contracts	0.3	1.0	0.7	(1.5)
- other	(0.1)	(0.1)	(0.1)	(0.1)
	\$ (0.4)	\$ (0.6)	\$ (0.8)	\$ 1.0

6. ANALYSIS OF FINANCIAL POSITION

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

	June 30, 2021	December 31, 2020
Assets		
Cash	\$ 9.7	\$ 8.7
Income tax receivable	-	0.1
Other assets	1.5	1.6
Investments	384.9	366.9
	\$ 396.1	\$ 377.3
Liabilities		
Accounts payable and accrued liabilities	\$ 11.7	\$ 11.0
Income tax payable	-	0.3
Preferred securities	40.3	39.2
Derivative warrant liability	0.9	1.0
Site restoration provision	2.3	4.9
Deferred tax liability	0.4	0.4
	55.6	56.8
Shareholders' equity	340.5	320.5
Total liabilities and shareholders' equity	\$ 396.1	\$ 377.3

6.1 Cash

At June 30, 2021, the Company had cash of \$9.7 compared to \$8.7 at December 31, 2020. At June 30, 2021, cash consisted of cash on deposit, including restricted cash on deposit of \$3.0.

6.2 Income Tax Receivable

At June 30, 2021, the Company had an income tax receivable of \$nil (December 31, 2020 - \$0.1).

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.3 Other Assets

Other assets were \$1.5 and \$1.6 at June 30, 2021 and December 31, 2020, respectively. Other assets at June 30, 2021 included receivables from related parties, primarily Arena FINCOs of \$0.8 (December 31, 2020 - \$0.8), right of use asset of \$0.5 (December 31, 2020 - \$0.5), and other receivables of \$0.2 (December 31, 2020 - \$0.3). See Note 6, *Other Assets* in the Notes to the Financial Statements.

6.4 Investments

Investments in Private Entities

The Company's investments in private entities consist of its investments in Skyward Specialty and the Arena FINCOs, which are accounted for at FVTPL. The fair values of Skyward Specialty and the Arena FINCOs at June 30, 2021 were determined to be \$189.3 and \$173.1, respectively (December 31, 2020 - \$180.8 and \$163.0, 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 associates at June 30, 2021 was \$19.4 (December 31, 2020 - \$20.2). 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, 2021 was determined to be \$3.1 (December 31, 2020 - \$2.9). See discussion in Section 3, *Investments* of this MD&A.

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were \$11.7 and \$11.0 at June 30, 2021 and at December 31, 2020, respectively. Accounts payable and accrued liabilities at June 30, 2021 included liabilities related to accrued employee bonuses of \$1.3 (December 31, 2020 - \$1.8), RSUs of \$6.5 (December 31, 2020 - \$5.9), DSUs of \$2.1 (December 31, 2020 - \$1.7), lease liability of \$0.5 (December 31, 2020 - \$0.5), interest accrued on the Preferred Securities of \$0.5 (December 31, 2020 - \$0.5), fair value of Canadian dollar currency forward contract of \$0.3 (December 31, 2020 - \$nil), and other accrued liabilities of \$0.5 (December 31, 2020 - \$0.6). 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, 2021, the Company had an income tax payable of \$nil (December 31, 2020 - \$0.3).

6.7 Preferred Securities

The C\$50 million 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, 2021 of \$40.3 (December 31, 2020 - \$39.2). See discussion in Section 4, *Financing* of this MD&A.

6.8 Derivative Warrant Liability

At June 30, 2021, a liability of \$0.9 (December 31, 2020 - \$1.0) 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 \$2.3 at June 30, 2021 (December 31, 2020 - \$4.9) relates to future site restoration costs associated with soil and groundwater reclamation and remediation costs relating to industrial sites previously owned by the Company. See discussion in Section 5, *Analysis of Financial Results* of this MD&A.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.10 Shareholders' Equity

The details of shareholders' equity are as follows:

	June 30, 2021	December 31, 2020
Common shares	\$ 382.2	\$ 382.2
Contributed surplus	17.7	17.7
Accumulated other comprehensive loss	(2.2)	(2.2)
Deficit	(57.2)	(77.2)
Shareholders' equity	\$ 340.5	\$ 320.5

Common Shares

The Company had 143,186,718 common shares outstanding at June 30, 2021 and December 31, 2020.

Contributed Surplus

The Company had \$17.7 in contributed surplus at June 30, 2021 and December 31, 2020.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of \$2.2 at June 30, 2021 and at December 31, 2020 comprised cumulative exchange differences from currency translation as a result of a change in presentation currency from the C\$ to the US\$ on August 31, 2015.

Deficit

The decrease in deficit of \$20.0 from December 31, 2020 to June 30, 2021 is due to the profit and comprehensive income for the six months ended June 30, 2021.

7. OUTLOOK

The Company continues to closely monitor the impact of COVID-19 on the Company, including Skyward Specialty, Arena Investors and Arena FINCOs. To date, the pandemic has not had a material financial impact on the Company, Skyward Specialty, Arena Investors or Arena FINCOs. However, the impact of the pandemic and any resulting economic impact continue to evolve. 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.

With the Arena Investors' platform largely built (product suite, geographies, IT systems, investment capability), its 65+ professionals are poised to deploy committed capital, continue to increase AUM and demonstrate operating leverage to grow its earnings in 2021 and beyond.

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. Skyward Specialty is well positioned to take advantage of the hard insurance market and accelerate its profitable growth and return on equity. Skyward has raised capital, acquired key talent, executed on underwriting actions to optimize its product mix, entered an LPT agreement to help minimize the impact of prior years' claims development, and has an AM Best rating "A-" with a Stable Outlook. Skyward Specialty's objective is to build a top quartile specialty insurer.

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 Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

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, 2021 and at December 31, 2020, the Company had 143,186,718 common shares outstanding, with a stated capital of \$382.2.

There were no Class A or Class B preferred shares outstanding at June 30, 2021 and at December 31, 2020.

Dividends

No dividends were paid in the three and six months ended June 30, 2021 and 2020.

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.

At June 30, 2021 and at December 31, 2020, the Company had 10,428,337 stock options outstanding at strike prices ranging from C\$3.00 to C\$3.25.

The Company also had 3,034,261 RSUs outstanding at June 30, 2021 and at December 31, 2020. 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. In the six months ended June 30, 2021 and 2020, no RSUs were exercised.

At June 30, 2021, 971,962 DSUs were vested and outstanding (December 31, 2020 – 855,228 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, 2021 and 2020, no DSUs were exercised.

At June 30, 2021, accounts payable and accrued liabilities included amounts related to outstanding RSUs of \$6.5 (December 31, 2020 - \$5.9) and outstanding DSUs of \$2.1 (December 31, 2020 - \$1.7).

See Note 12, *Share-based Compensation* in the Notes to the Financial Statements.

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 Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

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

June 30, 2021	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	\$ 9.7	\$ -	\$ -	\$ 9.7
Other assets (excluding capital assets and right-of-use asset)	1.0	-	-	1.0
Investments	-	24.0	360.9	384.9
Total financial assets	10.7	24.0	360.9	395.6
Financial obligations:				
Accounts payable and accrued liabilities (excluding lease liabilities)	2.6	-	8.6	11.2
Preferred securities	-	-	40.3	40.3
Site restoration provision	-	-	2.3	2.3
Deferred tax liability	-	0.4	-	0.4
Total financial obligations	2.6	0.4	51.2	54.2
Financial assets net of financial obligations	\$ 8.1	\$ 23.6	\$ 309.7	\$ 341.4

December 31, 2020	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	\$ 8.7	\$ -	\$ -	\$ 8.7
Income tax receivable	0.1	-	-	0.1
Other assets (excluding capital assets and right-of-use asset)	1.1	-	-	1.1
Investments	-	28.0	338.9	366.9
Total financial assets	9.9	28.0	338.9	376.8
Financial obligations:				
Accounts payable and accrued liabilities (excluding lease liabilities)	2.9	-	7.6	10.5
Income tax payable	0.3	-	-	0.3
Preferred securities	-	-	39.2	39.2
Site restoration provision	-	-	4.9	4.9
Deferred tax liability	-	0.4	-	0.4
Total financial obligations	3.2	0.4	51.7	55.3
Financial assets net of financial obligations	\$ 6.7	\$ 27.6	\$ 287.2	\$ 321.5

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

9. RELATED PARTY TRANSACTIONS

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

See Note 13, *Related Party Transactions* in the Notes to the Financial Statements.

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.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

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, 2021. Management determined that this valuation technique produced the best indicator of the fair value of the investments in Skyward Specialty and the Arena FINCOs at June 30, 2021. The significant unobservable inputs used in the valuation of Skyward Specialty and the Arena FINCOs at June 30, 2021 were the equity of each of the entities at June 30, 2021 and the multiple applied. For a detailed description of the valuation of the Company's investments in private entities, see note 5 to the Company's audited annual consolidated financial statements for the years ended December 31, 2020 and 2019. Due to the inherent uncertainty of valuation, management's estimated values may differ significantly from the values that would have been used had an active market for the investment existed, and the differences could be material.

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

Other key estimates include the Company's provision for site restoration, fair value of share-based compensation, and unrecognized deferred tax assets. Details of these items are disclosed in note 10, note 13 and note 15, respectively, to the Company's audited annual consolidated financial statements for the years ended December 31, 2020 and 2019.

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, 2020 and 2019.

At June 30, 2021, there were no new pronouncements that impacted the Company.

12. QUARTERLY FINANCIAL INFORMATION

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Revenue	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.5	\$ 0.5	\$ 23.3	\$ 4.5	\$ 2.1
Increase (decrease) in unrealized value of investments, less dividends	9.9	12.1	(10.5)	3.5	3.2	(47.1)	(14.4)	2.7
Net recovery of expenses (expenses)	0.4	(3.6)	(4.6)	(3.4)	(3.7)	3.3	(2.2)	(1.1)
Income tax expense	-	-	-	-	(0.1)	-	(0.9)	-
Profit (loss) and comprehensive income (loss)	\$ 10.9	\$ 9.1	\$ (14.5)	\$ 0.6	\$ (0.1)	\$ (20.5)	\$ (13.0)	\$ 3.7

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 Skyward Specialty, the Arena FINCOs and Arena Investors. 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 25, 2021 for its fiscal year ended December 31, 2020 which is available on SEDAR at www.sedar.com.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES

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

Investments by Strategy							June 30, 2021
	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments		% Equity, hard assets and real estate owned investments
Corporate Private Credit	25	\$ 51.2	\$ 53.8	25.3%	9.8%		15.5%
Real Estate Private Credit and Real Estate Assets	32	39.8	37.8	17.8%	14.5%		3.3%
Commercial and Industrial Assets	26	37.0	41.1	19.4%	13.1%		6.3%
Structured Finance	2	4.5	4.5	2.1%	2.1%		-
Consumer Assets	14	18.2	13.7	6.4%	6.4%		-
Other Securities	141	61.8	61.7	29.0%	10.7%		18.3%
	240	\$ 212.5	\$ 212.6	100.0%	56.6%		43.4%

Investments by Strategy							December 31, 2020
	Number of positions	Cost	Fair value	Percentage of investments at fair value	% Debt investments		% Equity, hard assets and real estate owned investments
Corporate Private Credit	21	\$ 46.9	\$ 46.2	25.6%	10.6%		15.0%
Real Estate Private Credit and Real Estate Assets	27	49.8	49.9	27.7%	23.1%		4.6%
Commercial and Industrial Assets	17	26.9	30.8	17.1%	9.4%		7.7%
Structured Finance	2	4.9	5.2	2.9%	2.9%		-
Consumer Assets	10	17.8	13.8	7.6%	7.6%		-
Other Securities	81	35.9	34.4	19.1%	11.7%		7.4%
	158	\$ 182.2	\$ 180.3	100.0%	65.3%		34.7%

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	June 30, 2021			December 31, 2020		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets						
North America	\$ 122.7	\$ 122.2	57.5%	\$ 103.4	\$ 102.6	56.9%
Europe	19.5	17.8	8.4%	15.5	14.9	8.3%
Asia/Pacific	8.4	10.8	5.1%	27.1	28.2	15.6%
Latin America	0.1	0.1	-	0.3	0.2	0.1%
	150.7	150.9	71.0%	146.3	145.9	80.9%
Other Securities ¹						
North America	38.8	42.3	19.9%	20.8	23.9	13.2%
Europe	9.1	7.5	3.5%	7.2	5.2	2.9%
Asia/Pacific	5.0	6.1	2.9%	4.2	2.9	1.6%
Latin America	2.5	0.6	0.3%	0.6	0.5	0.3%
Other	6.4	5.2	2.4%	3.1	1.9	1.1%
	61.8	61.7	29.0%	35.9	34.4	19.1%
	\$ 212.5	\$ 212.6	100.0%	\$ 182.2	\$ 180.3	100.0%

¹ Net of short positions.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Investments by Industry	June 30, 2021			December 31, 2020		
	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	\$ 14.6	\$ 16.7	7.8%	\$ 14.6	\$ 15.3	8.5%
Financial Services	1.1	1.0	0.5%	0.8	0.8	0.4%
Healthcare Services	0.1	0.2	0.1%	0.1	0.1	0.1%
Oil and Gas ⁽¹⁾	19.5	22.2	10.4%	17.9	17.6	9.8%
Other Assets	13.5	11.4	5.4%	12.9	11.8	6.5%
Retail	2.4	2.3	1.1%	0.6	0.6	0.3%
	<u>51.2</u>	<u>53.8</u>	<u>25.3%</u>	<u>46.9</u>	<u>46.2</u>	<u>25.6%</u>
Real Estate Private Credit and Real Estate Assets						
Commercial	11.8	10.7	5.0%	3.0	1.8	1.0%
Hospitality	3.0	2.9	1.4%	3.8	3.9	2.2%
Land - Commercial Development	6.8	6.5	3.1%	6.8	6.2	3.4%
Land - Multi-Family Development	8.5	7.9	3.7%	4.9	5.6	3.1%
Land - Single-Family Development	3.2	3.5	1.6%	22.3	23.3	13.0%
Mixed Use	-	-	-	1.2	1.2	0.7%
Residential	6.5	6.3	3.0%	7.7	7.8	4.2%
Storage	-	-	-	0.1	0.1	0.1%
	<u>39.8</u>	<u>37.8</u>	<u>17.8%</u>	<u>49.8</u>	<u>49.9</u>	<u>27.7%</u>
Commercial and Industrial Assets						
Lease/Equipment	3.0	4.1	2.0%	2.6	4.7	2.6%
Other Assets	34.0	37.0	17.4%	24.3	26.1	14.5%
	<u>37.0</u>	<u>41.1</u>	<u>19.4%</u>	<u>26.9</u>	<u>30.8</u>	<u>17.1%</u>
Structured Finance						
Other Assets	4.5	4.5	2.1%	4.9	5.2	2.9%
	<u>4.5</u>	<u>4.5</u>	<u>2.1%</u>	<u>4.9</u>	<u>5.2</u>	<u>2.9%</u>
Consumer Assets						
Consumer	18.2	13.7	6.4%	17.8	13.8	7.6%
	<u>18.2</u>	<u>13.7</u>	<u>6.4%</u>	<u>17.8</u>	<u>13.8</u>	<u>7.6%</u>
Total Loans / Private Assets	<u>150.7</u>	<u>150.9</u>	<u>71.0%</u>	<u>146.3</u>	<u>145.9</u>	<u>80.9%</u>
Other Securities ⁽²⁾						
Basic Materials	0.3	0.3	0.1%	-	-	-
Consumer Products	5.9	4.4	2.1%	6.3	4.6	2.5%
Diversified	29.5	30.7	14.5%	6.8	7.7	4.3%
Financial Services	4.3	3.0	1.4%	0.9	1.1	0.6%
Foreign Exchange Forwards	-	(0.4)	(0.2)%	-	(1.5)	(0.8)%
Healthcare Services	2.5	3.1	1.5%	2.8	3.1	1.7%
Hospitality	-	-	-	0.7	0.7	0.4%
Industrial	4.1	4.8	2.2%	3.1	2.6	1.4%
Information Technology	4.1	3.6	1.7%	1.9	2.2	1.2%
Mining	1.2	1.3	0.6%	0.1	0.1	0.1%
Oil and Gas	2.3	1.7	0.8%	1.4	0.6	0.4%
Other Assets	-	-	-	3.2	3.3	1.8%
Real Estate	0.3	0.5	0.2%	0.3	0.4	0.2%
Telecommunications	7.3	8.7	4.1%	8.4	9.5	5.3%
	<u>61.8</u>	<u>61.7</u>	<u>29.0%</u>	<u>35.9</u>	<u>34.4</u>	<u>19.1%</u>
	<u>\$ 212.5</u>	<u>\$ 212.6</u>	<u>100.0%</u>	<u>\$ 182.2</u>	<u>\$ 180.3</u>	<u>100.0%</u>

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 positions.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions							June 30, 2021	
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	\$14.1	\$ 13.5	\$ 11.4	Europe	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3349	Business Services	2.9	4.1	7.0	Asia/Pacific	Second Lien	12.00%	97.6%
CPC-3222	Oil and Gas	4.6	4.7	5.7	North America	Hard Asset	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-5325	Oil and Gas	3.5	3.7	3.9	North America	First Lien	12.00%	54.0%
CPC-3083	Business Services	4.6	4.7	3.4	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3199EQ	Oil and Gas	2.3	2.3	2.1	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-4108	Oil and Gas	1.6	1.6	2.1	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3677	Business Services	1.1	1.1	1.9	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-6678	Retail	1.6	1.7	1.6	North America	First Lien	12.00%	85.0%
CPC-4985	Oil and Gas	1.3	1.3	1.5	North America	First Lien	10.00%	19.0%
CPC-6532	Business Services	1.2	1.2	1.2	North America	Second Lien	9.08%	61.5%
CPC-5830	Business Services	0.7	0.7	0.9	Europe	First Lien	10.00%	5.0%
CPC-2397	Financial Services	0.9	0.9	0.8	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-5143	Oil and Gas	0.8	0.8	0.8	North America	First Lien	12.00%	24.2%
CPC-5027	Retail	0.6	0.6	0.6	North America	First Lien	9.15%	38.0%
CPC-5913	Business Services	0.6	0.6	0.3	Europe	First Lien	10.00%	5.0%
CPC-5914	Business Services	0.4	0.4	0.5	Europe	First Lien	10.00%	5.0%
CPC-2170	Oil and Gas	1.7	1.1	0.5	North America	First Lien	3.50%	100.0%
CPC-6374	Business Services	0.5	0.5	0.5	Europe	First Lien	8.50%	38.0%
CPC-6859	Business Services	0.2	0.2	0.2	Asia/Pacific	First Lien	11.00%	26.0%
CPC-6510	Financial Services	0.2	0.2	0.2	Asia/Pacific	First Lien	8.00%	100.0%
CPC-6373	Business Services	0.2	0.2	0.2	Europe	First Lien	10.00%	8.0%
CPC-5856	Business Services	0.2	0.1	0.2	Europe	First Lien	11.00%	5.0%
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-4248	Healthcare Services	0.1	0.1	0.2	North America	First Lien	9.40%	49.8%
CPC-5889	Business Services	0.1	0.1	0.1	North America	First Lien	22.00%	27.0%
CPC-6678EQ	Retail	0.1	0.1	0.1	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3349EQY	Business Services	0.8	0.8	-	Asia/Pacific	Equity	12.00%	90.0%
Subtotal / Weighted average %		50.9	51.2	53.8			11.09%	62.4%

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

9								June 30, 2021	
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-6219	Commercial	4.2	4.2	4.2	North America	First Mortgage	8.00%	49.0%	
REPC-1068S4	Residential	3.7	3.7	3.7	North America	First Mortgage ⁽⁵⁾	11.00%	72.0%	
REPC-2277	Land								
	-Commercial Development	3.1	3.1	3.5	North America	First Mortgage	15.00%	65.0%	
REPC-2683	Land								
	-Multi-Family Development	3.9	3.9	3.2	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾	
REPC-6437	Commercial	2.7	2.7	2.7	North America	First Mortgage	13.00%	54.0%	
REPC-6162	Land								
	-Multi-Family Development	2.4	2.4	2.4	North America	First Mortgage	12.00%	46.0%	
REPC-4220	Residential	2.2	2.2	2.0	North America	First Mortgage	12.00%	83.0%	
REPC-6053	Land								
	-Single-Family Development	1.7	1.6	1.9	Asia/Pacific	First Mortgage	5.40%	70.0%	
REPC-5840	Land								
	-Multi-Family Development	1.9	1.9	1.9	North America	First Mortgage	9.50%	48.0%	
REPC-5348	Commercial	1.5	1.6	1.7	Europe	First Mortgage	15.00%	54.0%	
REPC-5591	Land								
	-Commercial Development	1.6	1.6	1.6	North America	First Mortgage	13.50%	59.0%	
REPC-2592	Land								
	-Commercial Development	1.9	1.9	1.3	North America	First Mortgage	10.50%	115.0%	
REPC-1942	Commercial	2.4	2.4	1.2	North America	Real Property	n/a ⁽⁶⁾	n/a ⁽⁶⁾	
REPC-2497	Hospitality	0.9	0.9	0.9	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾	
REPC-2560	Hospitality	0.9	0.9	0.9	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾	
REPC-6899	Hospitality	0.8	0.8	0.7	Europe	First Mortgage	n/a ⁽⁴⁾	n/a ⁽⁴⁾	
REPC-6057	Commercial	0.7	0.7	0.7	North America	Real Property	5.25%	68.0%	
REPC-4134	Residential	0.6	0.6	0.6	North America	First Mortgage	9.83%	58.0%	
REPC-5476	Land								
	-Single-Family Development	0.4	0.4	0.4	Asia/Pacific	First Mortgage	11.50%	78.0%	
REPC-6129	Hospitality	0.4	0.4	0.4	North America	First Mortgage	10.50%	61.0%	
REPC-4698	Land								
	-Multi-Family Development	0.4	0.3	0.4	North America	First Mortgage	11.50%	54.0%	
REPC-6054	Land								
	-Single-Family Development	0.3	0.3	0.3	Asia/Pacific	First Mortgage	10.00%	74.0%	
REPC-6242	Land								
	-Single-Family Development	0.2	0.2	0.2	Asia/Pacific	First Mortgage	11.00%	80.0%	
REPC-6048	Commercial	0.2	0.2	0.2	Europe	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾	
REPC-6506	Land								
	-Single-Family Development	0.2	0.2	0.2	Asia/Pacific	First Mortgage	8.00%	79.0%	
REPC-6194	Land								
	-Single-Family Development	0.2	0.2	0.2	Asia/Pacific	First Mortgage	9.00%	69.0%	
REPC-5754	Land								
	-Single-Family Development	0.1	0.1	0.1	Asia/Pacific	First Mortgage	11.00%	71.0%	
REPC-5967	Land								
	-Single-Family Development	0.1	0.1	0.1	North America	First Mortgage	10.00%	42.0%	
REPC-6276	Land								
	-Single-Family Development	0.1	0.1	0.1	Asia/Pacific	First Mortgage	8.00%	74.0%	
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 %		40.1	39.8	37.8			11.06%	63.1%	

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions (continued)							June 30, 2021	
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	5.7	5.7	5.8	North America	First Lien	14.00%	77.0%
CI-3045	Other assets	3.5	3.5	5.4	North America	Asset Pool	n/a ⁽⁷⁾	52.0%
CI-4188	Other assets	3.9	3.9	4.0	North America	First Lien	14.00%	43.0%
CI-2651	Other assets	4.0	4.3	3.7	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-1999EQY	Other assets	2.9	2.9	2.6	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-3978	Other assets	1.7	1.6	2.0	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2201	Lease/Equipment	0.8	0.8	1.9	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-6253	Other assets	1.9	1.7	1.7	North America	First Lien	7.88%	20.2%
CI-6785	Other assets	1.5	1.5	1.5	North America	First Lien	13.5%	85.0%
CI-2000	Other assets	0.5	0.5	1.4	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-4282	Lease/Equipment	1.1	1.1	1.1	North America	First Lien	12.00%	79.0%
CI-2686	Other assets	1.3	1.3	1.1	North America	Equity	n/a ⁽⁸⁾	n/a ⁽⁸⁾
CI-6750	Other assets	0.9	0.9	0.9	Europe	First Lien	n/a ⁽⁸⁾	61.0%
CI-6006AE	Lease/Equipment	0.7	0.8	0.8	North America	First Lien	14.30%	85.0%
CI-5777	Other assets	0.7	0.7	0.7	North America	First Lien	12.00%	90.0%
CI-6653	Other assets	0.7	0.7	0.7	North America	First Lien	n/a ⁽⁴⁾	61.0%
CI-6648	Other assets	0.7	0.7	0.7	North America	First Lien	n/a ⁽⁴⁾	61.0%
CI-6556	Other assets	0.7	0.7	0.7	North America	First Lien	n/a ⁽⁴⁾	61.0%
CI-2064	Other assets	0.3	0.3	0.6	North America	Second Lien	15.00%	80.0%
CI-6565	Other assets	0.6	0.6	0.6	North America	First Lien	n/a ⁽⁴⁾	61.0%
CI-6016	Other assets	0.6	0.6	0.6	North America	First Lien	15.00%	69.0%
CI-5554	Other assets	0.5	0.5	0.5	North America	First Lien	10.00%	80.0%
CI-1520	Other assets	0.2	0.2	0.4	North America	First Lien	n/a ⁽⁴⁾	48.0%
CI-1035	Other assets	0.4	0.4	0.3	North America	First Lien	9.90%	100.0%
CI-5177	Other assets	0.3	0.3	0.4	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-6006AU	Lease/Equipment	0.2	0.2	0.2	North America	First Lien	14.30%	85.0%
CI-5011	Other assets	0.1	0.2	0.2	North America	First Lien	12.00%	12.0%
CI-6006B	Lease/Equipment	0.1	0.1	0.1	North America	First Lien	14.30%	85.0%
CI-5001	Other assets	-	-	0.1	North America	First Lien	13.20%	68.0%
CI-5372	Other assets	-	0.1	0.1	Latin America	First Lien	18.00%	77.0%
CI-1999	Other assets	0.1	0.1	-	North America	First Lien	n/a ⁽⁸⁾	n/a ⁽⁴⁾
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.26%	100.0%
Subtotal / Weighted average %		37.1	37.0	41.1			13.08%	62.2%
Structured Finance								
SF-2239	Other assets	4.1	4.4	4.4	North America	First Lien	n/a ⁽⁹⁾	8.0%
SF-5396	Other assets	0.1	0.1	0.1	North America	First Lien	15.00%	85.0%
Subtotal / Weighted average %		4.2	4.5	4.5			15.00%	9.9%

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021
(Currency amounts in millions of United States dollars except per share data, unless otherwise indicated)

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions (continued)								
Ref. no.	Investments by industry	Principal ⁽¹⁾		Investments at cost	Investments at fair value	Geographic location	Collateral	Total coupon PIK) ^(c)
Consumer Assets								
CA-4946	Consumer	4.7	4.7	4.8	North America	First Lien	15.00%	87.0%
CA-3595	Consumer	1.9	1.9	1.9	North America	First Lien	15.50%	80.6%
CA-1052F	Consumer	2.6	2.6	1.5	North America	First Lien	16.00%	100.0%
CA-1788AS3	Consumer	2.5	2.5	1.1	North America	First Lien	n/a ⁽⁶⁾	82.0%
CA-4718	Consumer	0.6	0.6	1.1	North America	Asset Pool	n/a ⁽⁹⁾	n/a ⁽¹⁰⁾
CA-5898	Consumer	0.9	0.9	0.9	North America	Asset Pool	n/a ⁽⁹⁾	60.0%
CA-1933A	Consumer	0.8	0.8	0.7	North America	First Lien	n/a ⁽⁶⁾	82.0%
CA-4727	Consumer	0.3	0.3	0.4	North America	First Lien	29.00%	66.0%
CA-6384	Consumer	0.4	0.4	0.4	North America	Asset Pool	n/a ⁽⁴⁾	n/a ⁽¹⁰⁾
CA-5596	Consumer	0.3	0.3	0.3	North America	Asset Pool	n/a ⁽⁴⁾	n/a ⁽¹⁰⁾
CA-6288	Consumer	0.2	0.2	0.2	North America	First Lien	10.00%	53.0%
CA-2729	Consumer	0.5	0.5	0.2	North America	First Lien	n/a ⁽⁹⁾	100.0%
CA-6834	Consumer	0.2	0.2	0.2	North America	Asset Pool	n/a ⁽⁹⁾	n/a ⁽¹⁰⁾
CA-1934	Consumer	0.1	0.1	0.1	North America	First Lien	n/a ⁽⁶⁾	82.0%
CA-2373	Consumer	0.3	0.2	0.1	North America	Asset Pool	n/a ⁽⁹⁾	n/a ⁽¹⁰⁾
CA-5060	Consumer	-	-	0.2	North America	Asset Pool	25.00%	64.0%
CA-1052S	Consumer	1.4	1.4	-	North America	First Lien	16.00%	100.0%
CA-1788A	Consumer	0.4	0.4	(0.1)	North America	First Lien	n/a ⁽⁶⁾	82.0%
CA-1788/1933	Consumer	0.2	0.2	(0.2)	North America	First Lien	n/a ⁽⁶⁾	82.0%
Subtotal / Weighted average %		18.3	18.2	13.7			15.81%	83.3%
Total / Weighted average %		\$ 150.6	\$ 150.7	\$ 150.9			12.20%	62.6%

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, 2021. 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, 2021.

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

⁵ Denotes subordinate position within the structure.

⁶ Interest not accrued on loans purchased as non-performing.

⁷ Investment represents a credit pool purchase with no stated interest rate.

⁸ Investment is a maturity default past its maturity date and has an uncertain holding period as of June 30, 2021.

⁹ Investment with no stated coupon rate.

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

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions							December 31, 2020	
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	\$13.9	\$ 12.9	\$ 11.8	Europe	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3349	Business Services	4.3	4.1	5.0	Asia/Pacific	Second Lien	12.00%	115.0%
CPC-3198	Oil and Gas	3.8	3.8	5.0	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3677	Business Services	3.4	3.4	4.3	North America	First Lien	10.25%	39.0%
CPC-3222	Oil and Gas	4.6	4.7	4.1	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-3083	Business Services	4.0	4.0	3.6	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-5325	Oil and Gas	2.0	2.2	2.2	North America	First Lien	12.00%	18.4%
CPC-3199EQ	Oil and Gas	2.3	2.3	1.8	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-4108	Oil and Gas	1.6	1.6	1.6	North America	First Lien	11.84%	41.1%
CPC-4985	Oil and Gas	1.3	1.3	1.4	North America	First Lien	10.00%	27.7%
CPC-5143	Oil and Gas	0.8	0.8	0.8	North America	First Lien	12.00%	28.0%
CPC-2397	Financial Services	0.8	0.8	0.8	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CPC-5830	Business Services	0.8	0.7	0.7	Europe	First Lien	10.00%	3.5%
CPC-6254TLB	Business Services	0.7	0.6	0.7	North America	First Lien	10.25%	39.0%
CPC-5027	Retail	0.6	0.6	0.6	North America	First Lien	9.24%	89.0%
CPC-2170	Oil and Gas	1.7	1.0	0.5	North America	First Lien	3.50%	100.0%
CPC-5914	Business Services	0.4	0.4	0.4	Europe	First Lien	10.34%	3.0%
CPC-5834	Business Services	0.3	0.3	0.3	Europe	First Lien	12.34%	14.0%
CPC-1010	Oil and Gas	0.2	0.2	0.2	North America	First Lien	14.00%	43.0%
CPC-5856	Business Services	0.2	0.2	0.2	Europe	First Lien	11.34%	5.0%
CPC-4248	Healthcare Services	0.1	0.1	0.1	North America	First Lien	9.40%	49.8%
CPC-5889	Business Services	0.1	0.1	0.1	North America	First Lien	22.00%	85.9%
CPC-3349EQY	Business Services	0.8	0.8	-	Asia/Pacific	Equity	n/a ⁽⁶⁾	n/a ⁽⁴⁾
Subtotal / Weighted average %		48.7	46.9	46.2			11.01%	56.0%
Real Estate Private Credit and Real Estate Assets								
REPC-6054	Land							
	-Single-Family Development	12.2	11.4	11.6	Asia/Pacific	First Mortgage	10.00%	74.0%
REPC-5754	Land							
	-Single-Family Development	6.6	6.0	6.4	Asia/Pacific	First Mortgage	11.00%	70.0%
REPC-1068S4	Residential	3.7	3.7	3.7	North America	First Mortgage ⁽⁵⁾	11.00%	72.0%
REPC-2683	Land							
	-Multi-Family Development	2.5	2.6	3.3	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-2277	Land							
	-Commercial Development	3.1	3.1	3.2	North America	First Mortgage	15.00%	65.0%
REPC-6194	Land							
	-Single-Family Development	3.4	3.0	3.0	Asia/Pacific	First Mortgage	9.00%	69.0%
REPC-4220	Residential	2.2	2.2	2.1	North America	First Mortgage	12.00%	83.0%
REPC-5840	Land							
	-Multi-Family Development	1.9	1.9	1.9	North America	First Mortgage	9.50%	75.0%
REPC-6053	Land							
	-Single-Family Development	1.8	1.6	1.9	Asia/Pacific	First Mortgage	5.40%	70.0%
REPC-5591	Land							
	-Commercial Development	1.6	1.6	1.6	North America	First Mortgage	13.50%	59.0%
REPC-1207	Hospitality	1.1	1.0	1.5	Europe	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-2592	Land							
	-Commercial Development	1.9	1.9	1.3	North America	First Mortgage	10.50%	115.0%
REPC-5993	Mixed-Use	1.5	1.2	1.2	North America	First Mortgage	12.00%	46.0%
REPC-1942	Commercial	2.3	2.3	1.1	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-5616	Residential	1.0	1.0	1.1	North America	First Mortgage	9.50%	60.0%
REPC-2497	Hospitality	0.8	0.8	0.8	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-2560	Hospitality	1.0	1.0	0.8	North America	First Mortgage	8.89%	117.0%
REPC-2214	Hospitality	1.0	1.0	0.8	North America	Real Property	n/a ⁽⁴⁾	n/a ⁽⁴⁾
REPC-6057	Commercial	0.7	0.7	0.7	North America	Real Property	9.50%	60.0%
REPC-4134	Residential	0.6	0.6	0.6	North America	First Mortgage	9.83%	58.0%
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	0.3	North America	First Mortgage	9.25%	68.0%
REPC-5476	Land							
	-Single-Family Development	0.3	0.2	0.3	Asia/Pacific	First Mortgage	11.50%	77.0%
REPC-5967	Land							
	-Single-Family Development	0.1	0.1	0.1	North America	First Mortgage	10.00%	42.0%
REPC-4316	Self Storage	0.1	0.1	0.1	North America	First Mortgage	9.00%	62.0%
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 %		52.3	49.8	49.9			10.59%	72.1%

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

14. ADDITIONAL ARENA FINCOs' INVESTMENT SCHEDULES (continued)

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

Details of Loan and Private Asset Positions (continued)							December 31, 2020	
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	4.4	4.4	6.1	North America	Asset Pool	n/a ⁽⁶⁾	55.0%
CI-1800	Other assets	5.4	5.4	5.6	North America	First Lien	14.00%	78.0%
CI-2651	Other assets	4.0	4.3	4.2	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-6006	Other assets	2.9	3.2	3.3	North America	First Lien	14.30%	85.0%
CI-1999EQY	Other assets	2.8	3.1	3.0	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2201	Lease/Equipment	0.8	0.8	2.4	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-3978	Lease/Equipment	1.7	1.8	2.3	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2686	Other assets	1.6	1.6	1.6	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2064	Other assets	0.4	0.4	0.7	North America	First Lien	15.00%	80.0%
CI-2000	Other assets	0.5	0.5	0.5	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-5011	Other assets	0.3	0.3	0.4	North America	First Lien	12.00%	18.0%
CI-1035	Other assets	0.4	0.4	0.3	North America	First Lien	9.90%	100.0%
CI-1520	Other assets	0.2	0.2	0.2	North America	First Lien	n/a ⁽⁴⁾	48.0%
CI-5001	Other assets	-	-	0.1	North America	First Lien	13.20%	52.0%
CI-5372	Other assets	0.1	0.1	0.1	Latin America	First Lien	18.00%	77.0%
CI-1999	Other assets	0.1	0.1	-	North America	First Lien	n/a ⁽⁷⁾	n/a ⁽⁷⁾
CI-2808	Other assets	0.1	0.1	-	North America	Equity	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-1018	Other assets	0.2	0.2	-	North America	First Lien	9.26%	100.0%
Subtotal / Weighted average %		25.9	26.9	30.8			14.01%	69.7%
Structured Finance								
SF-2239	Other assets	4.8	4.8	5.1	North America	First Lien	n/a ⁽⁸⁾	8.0%
SF-5396	Other assets	0.1	0.1	0.1	North America	First Lien	15.00%	77.0%
Subtotal / Weighted average %		4.9	4.9	5.2			15.00%	9.5%
Consumer Assets								
CA-4946	Consumer	4.0	4.0	4.0	North America	First Lien	15.00%	87.0%
CA-4718	Consumer	1.3	1.3	1.7	North America	Asset Pool	n/a ⁽⁹⁾	n/a ⁽⁹⁾
CA-3595	Consumer	1.6	1.6	1.7	North America	First Lien	15.50%	81.0%
CA-1052F	Consumer	2.6	2.6	1.5	North America	First Lien	15.66%	116.0%
CA-1788AS3	Consumer	2.5	2.5	1.2	North America	First Lien	n/a ⁽¹⁰⁾	83.0%
CA-4727	Consumer	0.9	0.9	1.0	North America	First Lien	29.00%	66.0%
CA-1788/1933	Consumer	0.6	0.6	0.8	North America	First Lien	n/a ⁽¹⁰⁾	83.0%
CA-1933A	Consumer	0.8	0.8	0.7	North America	First Lien	n/a ⁽¹⁰⁾	83.0%
CA-1934	Consumer	0.2	0.2	0.3	North America	First Lien	n/a ⁽¹⁰⁾	83.0%
CA-2199	Consumer	0.1	0.1	0.3	North America	First Lien	12.00%	26.0%
CA-2729	Consumer	0.7	0.7	0.2	North America	First Lien	n/a ⁽⁸⁾	269.0%
CA-5060	Consumer	0.1	0.2	0.2	North America	Asset Pool	25.00%	64.0%
CA-2762	Consumer	0.2	0.2	0.1	Latin America	Asset Pool	n/a ⁽⁹⁾	n/a ⁽⁹⁾
CA-2373	Consumer	0.3	0.3	0.1	North America	Asset Pool	n/a ⁽⁹⁾	n/a ⁽⁹⁾
CA-1052S	Consumer	1.5	1.4	-	North America	First Lien	15.66%	116.0%
CA-1788A	Consumer	0.4	0.4	-	North America	First Lien	n/a ⁽¹⁰⁾	83.0%
Subtotal / Weighted average %		17.8	17.8	13.8			16.92%	88.6%
Total / Weighted average %		\$ 149.6	\$ 146.3	\$ 145.9			11.93%	67.1%

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, 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 December 31, 2020.

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

⁵ Denotes subordinate position within the structure.

⁶ Investment represents an unsecured credit pool purchase with no stated interest rate.

⁷ Investment is a maturity default where the Arena FINCOs and its partners acquired the borrower in bankruptcy.

⁸ Investment with no stated coupon rate.

⁹ Investment represents a credit pool purchase with no stated interest rate.

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

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

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:

	June 30, 2021	December 31, 2020	June 30, 2020
Book value (in US\$):			
Shareholders' equity per IFRS	\$ 340.5	\$ 320.5	\$ 334.3
Adjustments:			
RSU liability ¹	6.5	5.9	4.6
Derivative warrant liability ²	0.9	1.0	0.4
	<u>\$ 347.9</u>	<u>\$ 327.4</u>	<u>\$ 339.3</u>
Number of common shares:			
Number of common shares outstanding	143,186,718	143,186,718	143,186,718
Adjustments for assumed exercise of:			
Outstanding RSUs ¹	3,034,261	3,034,261	3,034,261
Adjusted number of common shares ³	<u>146,220,979</u>	<u>146,220,979</u>	<u>146,220,979</u>
Book value per share - in US\$	\$ 2.38	\$ 2.24	\$ 2.32
Book value per share - in C\$ ⁴	\$ 2.95	\$ 2.85	\$ 3.15
Westaim TSXV closing share price - in C\$	\$ 2.67	\$ 2.49	\$ 2.07

¹ See note 12 to the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2021 and 2020. 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 8 to the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2021 and 2020. 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 were not included in the adjusted number of common shares as none of them were in-the-money at June 30, 2021, December 31, 2020 and June 30, 2020.

³ See note 12 to the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2021 and 2020. No adjustments were made for options at June 30, 2021, December 31, 2020 and June 30, 2020 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: 1.24095 at June 30, 2021, 1.27395 at December 31, 2020 and 1.35865 at June 30, 2020.

(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.

(c) Adjusted profit (loss) and comprehensive income (loss), and adjusted earnings (loss) per share – diluted, excluding unusual items

Adjusted profit (loss) and comprehensive income (loss) excluding unusual items is computed as the GAAP profit (loss) and comprehensive income (loss) less the net impact of unusual items. Management has presented "adjusted profit (loss) and comprehensive income (loss) excluding unusual items" and "adjusted earnings (loss) per share – diluted" to reflect the Company's share of the results of the regular operations of the Company's investments.

Adjusted earnings (loss) per share – diluted, excluding unusual items is computed as the adjusted profit (loss) and comprehensive income (loss) excluding unusual items on a diluted basis divided by the weighted average number of common shares outstanding on a diluted basis.

The Westaim Corporation
Management's Discussion and Analysis
Three and six months ended June 30, 2021

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

15. NON-GAAP MEASURES (continued)

The table below provides the reconciliation of the Company's GAAP profit (loss) and comprehensive income (loss) to the Company's adjusted profit (loss) and comprehensive income (loss) excluding unusual items:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
The Company's GAAP profit (loss) and comprehensive income (loss)	\$ 10.9	\$ (0.1)	\$ 20.0	\$ (20.6)
The Company's share of Skyward Specialty unusual items ¹ :				
Impact of LPT net of tax	-	(4.1)	-	(4.1)
Other unusual net expenses net of tax	-	(0.8)	-	(0.8)
Change in valuation multiple (1.1x to 1.0x)	-	-	-	(14.9)
Goodwill impairment net of tax	(0.7)	-	(0.7)	-
Total of the Company's share of unusual items	(0.7)	(4.9)	(0.7)	(19.8)
The Company's adjusted profit (loss) and comprehensive income (loss) excluding unusual items	\$ 11.6	\$ 4.8	\$ 20.7	\$ (0.8)

¹ The Company's share of Skyward Specialty unusual items are described in section 3A: Investment in Skyward Specialty.

The adjusted earnings (loss) per share – diluted, excluding unusual items are as follows:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Adjusted profit (loss) and comprehensive income (loss) excluding unusual items	\$ 11.6	\$ 4.8	\$ 20.7	\$ (0.8)
Dilutive RSU (recovery) expense and related changes in foreign exchange ¹	-	-	-	(1.6)
Adjusted profit (loss) and comprehensive income (loss) excluding unusual items on a diluted basis	\$ 11.6	\$ 4.8	\$ 20.7	\$ (2.4)
Weighted average number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Dilutive impact of RSUs ¹	3,034,261	-	-	3,034,261
Weighted average number of common shares outstanding on a diluted basis	146,220,979	143,186,718	143,186,718	146,220,979
Adjusted earnings (loss) per share – diluted, excluding unusual items	\$ 0.08	\$ 0.03	\$ 0.14	\$ (0.02)

¹ The RSUs for the six months ended June 30, 2021 and the RSUs for the three months ended June 30, 2020 are not dilutive.

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 Skyward Specialty, the Arena FINCOs and Arena Investors; expectations regarding the Company's assets and liabilities; the Company's ability to retain key employees; management's belief that its estimates for determining the valuation of the Company's assets and liabilities are appropriate; the Company's views regarding potential future remediation costs; the effect of changes to interpretations of tax legislation on income tax provisions in future periods; and the Company's determination that the adoption of new accounting standards will not have a material impact on its consolidated financial statements.

These statements are based on current expectations that are subject to risks, uncertainties and assumptions and the Company can give no assurance that these expectations are correct. By their nature, these statements are subject to inherent risks and uncertainties that may be general or specific. A variety of material factors, many of which are beyond the Company's control, may affect the operations, financial position, performance and results of the Company and its business, and could cause actual results to differ materially from the expectations expressed in any of these forward-looking statements.

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

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 possible effects of the COVID-19 pandemic on our operations, employees, customers, suppliers and service providers; the potential treatment of the Company as a passive foreign investment company for U.S. federal income tax purposes; Arena Investors' history of operating losses; Arena Investors' ability to mitigate operational and due diligence risks; the subjective nature of the valuation methods for certain of Arena Investors' investments; Arena Investors' ability to mitigate regulatory and other legal risks; Arena Investors' 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 Investors; Arena Investors' investment in illiquid investments; Arena Investors' ability to manage risks related to its risk management procedures; dependence by Arena Investors on key management and staff; Arena Investors' ability to compete against current and potential future competitors; conflicts of interest; employee error or misconduct; Arena Investors' 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; Skyward Specialty's ability to adequately maintain loss reserves to cover its estimated liability for unpaid losses and LAEs; the effects of emerging claim and coverage issues on Skyward Specialty'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 Skyward Specialty insures; Skyward Specialty's reliance on brokers and third parties to sell its products to clients; the effect of intense competition and/or industry consolidation; Skyward Specialty's ability to accurately assess underwriting risk; the effect of risk retentions on Skyward Specialty's risk exposure; Skyward Specialty's ability to alleviate risk through reinsurance; dependence by Skyward Specialty on key employees; the effect of litigation and regulatory actions; Skyward Specialty's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); Skyward Specialty's ability to compete against larger more well-established competitors; unfavourable capital market developments or other factors which may affect the investments of Skyward Specialty; Skyward Specialty's ability to maintain its financial strength and issuer credit ratings; Skyward Specialty's ability to obtain additional funding; Skyward Specialty's ability to successfully pursue its acquisition strategy; Skyward Specialty's possible exposure to goodwill or intangible asset impairment in connection with its acquisitions; Skyward Specialty's ability to receive dividends from its subsidiaries; Skyward Specialty's reliance on information technology and telecommunications systems; dependence by Skyward Specialty 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 2021	December 31 2020
ASSETS		
Cash	\$ 9,697	\$ 8,741
Income tax receivable (note 14)	83	64
Other assets (note 3)	1,478	1,637
Investments (note 4)	384,870	366,911
	<u>\$ 396,128</u>	<u>\$ 377,353</u>
LIABILITIES		
Accounts payable and accrued liabilities (note 5)	\$ 11,750	\$ 10,994
Income tax payable (note 14)	40	337
Preferred securities (note 6)	40,292	39,248
Derivative warrant liability (note 8)	912	1,026
Site restoration provision (note 9)	2,284	4,864
Deferred tax liability (note 14)	364	362
	<u>55,642</u>	<u>56,831</u>
Commitments and contingent liabilities (note 10)		
SHAREHOLDERS' EQUITY		
Share capital (note 11)	382,182	382,182
Contributed surplus (note 2n)	17,735	17,735
Accumulated other comprehensive loss (note 2o)	(2,227)	(2,227)
Deficit	(57,204)	(77,168)
	<u>340,486</u>	<u>320,522</u>
	<u>\$ 396,128</u>	<u>\$ 377,353</u>

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

The Westaim Corporation

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

(thousands of United States dollars except share and per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2021	2020	2021	2020
Revenue				
Interest income (note 13)	\$ 337	\$ 268	\$ 724	\$ 626
Dividend income from investments in private entities (note 4 and 13)	-	-	-	22,733
Fee income (note 13)	237	237	475	475
	574	505	1,199	23,834
Net results of investments				
Increase (decrease) in unrealized value of investments in private entities, less dividends (note 4)	7,626	3,550	18,572	(42,733)
Share of income (loss) from investment in associates (note 4)	2,162	(389)	3,222	(1,177)
Increase in unrealized value of other investments (note 4)	94	48	165	22
	9,882	3,209	21,959	(43,888)
Net (recoveries) expenses				
Salaries and benefits	1,212	903	2,394	1,783
General, administrative and other	190	156	444	435
Professional fees	274	305	527	695
Site restoration (recovery) expense (note 9)	(2,626)	(12)	(2,596)	66
Share-based compensation expense (recovery) (note 12)	93	1,062	806	(1,197)
Foreign exchange loss (gain)	351	656	734	(987)
Interest on preferred securities (note 6)	503	458	993	899
Derivative warrant (gain) loss (note 8)	(427)	272	(145)	(1,331)
	(430)	3,800	3,157	363
Income (loss) before income tax	10,886	(86)	20,001	(20,417)
Income tax expense (note 14)	(16)	(60)	(37)	(85)
Profit (loss) and comprehensive income (loss)	\$ 10,870	\$ (146)	\$ 19,964	\$ (20,502)
Earnings (Loss) per share (note 15)				
Basic	\$ 0.08	\$ (0.00)	\$ 0.14	\$ (0.14)
Diluted	\$ 0.08	\$ (0.00)	\$ 0.14	\$ (0.15)
Common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718

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, 2021						
(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity	
Balance at January 1, 2021	\$ 382,182	\$ 17,735	\$ (2,227)	\$ (77,168)	\$ 320,522	
Profit and comprehensive profit	-	-	-	19,964	19,964	
Balance at June 30, 2021	\$ 382,182	\$ 17,735	\$ (2,227)	\$ (57,204)	\$ 340,486	

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 12)	-	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	

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	
	2021	2020
Operating activities		
Profit (loss)	\$ 19,964	\$ (20,502)
(Increase) decrease in unrealized value of investments in private entities, less dividends (note 4)	(18,572)	42,733
Share of (income) loss from investment in associates (note 4)	(3,222)	1,177
Increase in unrealized value of other investments (note 4)	(165)	(22)
Share-based compensation expense (recovery) (note 12)	806	(1,197)
Site restoration (recovery) expense (note 9)	(2,675)	66
Depreciation and amortization	74	77
Unrealized foreign exchange loss (gain)	1,645	(2,104)
Derivative warrant gain (note 8)	(145)	(1,331)
Change in net income tax receivable and deferred tax liability (note 14)	(314)	(90)
Net change in other non-cash balances		
Other assets	94	393
Accounts payable and accrued liabilities	(525)	(927)
Cash (used in) provided from operating activities	(3,035)	18,273
Investing activities		
Purchase of investments in private entities (note 4)	-	(44,004)
Purchase of capital assets	(9)	(34)
Repayment of loans made to associates (note 4)	4,000	-
Return of capital from investments in private entities (note 4)	-	12,117
Cash provided from (used in) investing activities	3,991	(31,921)
Net increase (decrease) in cash	956	(13,648)
Cash, beginning of period	8,741	22,240
Cash, end of period	\$ 9,697	\$ 8,592
Supplemental disclosure of cash flow information:		
Interest paid	\$ 984	\$ 926

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