WESTAIM

# Third Quarter Report to Shareholders
# for the quarter ended September 30, 2021

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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 nine months ended September 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 nine months ended September 30, 2021 and 2020 and is intended to enable the reader to assess the Company's results of operations for the three and nine months ended September 30, 2021 and financial condition as at September 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 November 18, 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.

**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 nine months ended September 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 nine months ended September 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.

**(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 September 30 2021 | 2020 | Nine months ended September 30 2021 | 2020 |
|---|---|---|---|---|
| Revenue and net change in unrealized value of investments | $ 3.8 | $ 4.0 | $ 27.0 | $ (16.1) |
| Net expenses | (2.2) | (3.4) | (5.4) | (3.8) |
| Income tax expense | - | - | - | (0.1) |
| GAAP profit (loss) and comprehensive income (loss) | $ 1.6 | $ 0.6 | $ 21.6 | $ (20.0) |
| Adjusted profit and comprehensive income excluding unusual items [1] | $ 1.6 | $ 0.9 | $ 22.3 | $ 0.1 |
| GAAP earnings (loss) per share – basic | $ 0.01 | $ 0.00 | $ 0.15 | $ (0.14) |
| GAAP earnings (loss) per share – diluted | $ 0.01 | $ 0.00 | $ 0.15 | $ (0.14) |
| Adjusted earnings (loss) per share – diluted [1] | $ 0.01 | $ 0.01 | $ 0.16 | $ (0.01) |
| At September 30: | | | | |
| Shareholders' equity | $ 342.1 | $ 335.0 | $ 342.1 | $ 335.0 |
| Number of Common Shares outstanding [2] | 143,186,718 | 143,186,718 | 143,186,718 | 143,186,718 |
| Book value per fully diluted share – in US$ [1] | $ 2.39 | $ 2.33 | $ 2.39 | $ 2.33 |
| Book value per fully diluted share – in C$ [1] | $ 3.02 | $ 3.10 | $ 3.02 | $ 3.10 |

[1] See Section 15, *Non-GAAP Measures* of this MD&A. Period end exchange rates: 1.26585 at September 30, 2021 and 1.33125 at September 30, 2020.
[2] Westaim common shares ("Common Shares") are traded on the TSX Venture Exchange ("TSXV") under the symbol "WED".

<u>Three months ended September 30, 2021 and 2020</u>

The Company reported a profit and comprehensive profit of $1.6 for the three months ended September 30, 2021 (2020 – $0.6).

Revenue and net change in unrealized value of investments for the three months ended September 30, 2021 was an increase of $3.8 (2020 – $4.0) and consisted of interest income of $0.4 (2020 - $0.3), advisory fees of $0.2 (2020 - $0.2), an increase of $2.2 in the unrealized value of the Company's investments in private entities (2020 - $3.7), an increase in unrealized value of other investments of nominal (2020 - $0.1) and the Company's share of profit of its associates (as hereinafter defined) of $1.0 (2020 - loss of $0.3).

Net expenses for the three months ended September 30, 2021 of $2.2 (2020 – $3.4) consisted of salaries and benefits of $1.2 (2020 - $0.9), general, administrative and other expenses of $0.2 (2020 - $0.2), professional fees of $0.3 (2020 - $0.2), site restoration provision nominal (2020 - nominal), share-based compensation expense of $0.2 (2020 – $0.8), a foreign exchange loss of $0.1 (2020 – $0.5), interest on preferred securities of $0.5 (2020 - $0.5) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of $0.3 (2020 – loss of $0.3).

The Company reported income tax expense for the three months ended September 30, 2021 of nominal (2020 - nominal).

<u>Nine months ended September 30, 2021 and 2020</u>

The Company reported a profit and comprehensive profit of $21.6 for the nine months ended September 30, 2021 (2020 – loss and comprehensive loss of $20.0).

**(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 nine months ended September 30, 2021 was an increase of $27.0 (2020 – decrease of $16.1) and consisted of interest income of $1.1 (2020 - $0.9), dividend income paid to the Company from the Arena FINCOs (as hereinafter defined) of $nil (2020 - $22.7), advisory fees of $0.7 (2020 - $0.7), an increase of $20.8 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 $39.0, which was $16.3 before dividends paid of $22.7), an increase in unrealized value of other investments of $0.2 (2020 - $0.1) and the Company's share of profit of its associates (as hereinafter defined) of $4.2 (2020 - loss of $1.5).

Net expenses for the nine months ended September 30, 2021 of $5.4 (2020 - $3.8) consisted of salaries and benefits of $3.6 (2020 - $2.7), general, administrative and other expenses of $0.6 (2020 - $0.6), professional fees of $0.8 (2020 - $0.9), site restoration provision recovery of $2.6 (2020 – provision expense of $0.1), share-based compensation expense of $1.0 (2020 – recovery of $0.4), a foreign exchange loss of $0.9 (2020 – gain of $0.5), interest on preferred securities of $1.5 (2020 - $1.4) and an unrealized gain resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of $0.4 (2020 – $1.0).

The Company reported income tax expense for the nine months ended September 30, 2021 of nominal (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 September 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

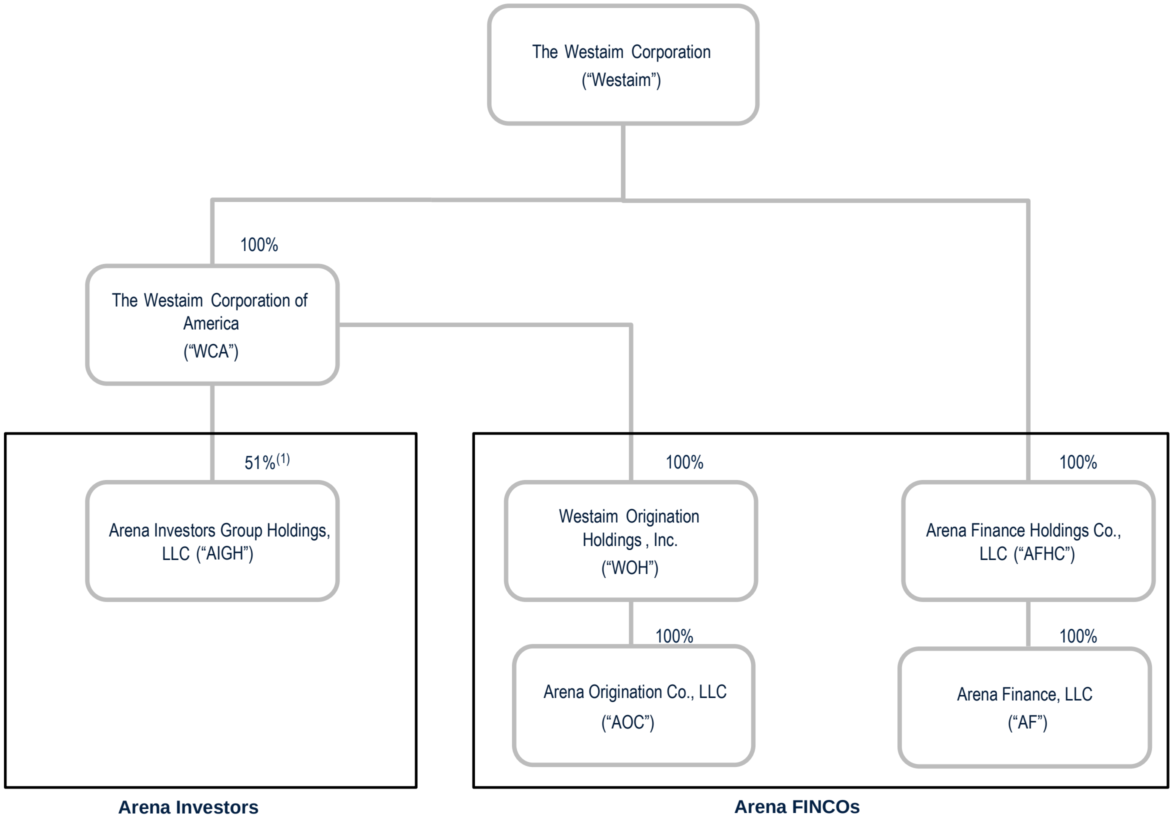
The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale 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.

<u>Accounting for the Company's Investments</u>

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 September 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).

**(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 September 30, 2021 | | |
|---|---|---|---|
| | Opening Balance | Increase in unrealized value before dividends | Ending Balance |
| Investments in private entities: | | | |
| - Skyward Specialty | $ 189.3 | $ 3.0 | $ 192.3 |
| - Arena FINCOs | 173.1 | (0.8) | 172.3 |
| | $ 362.4 | $ 2.2 | $ 364.6 |

| | Three months ended September 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 | $ 191.0 | $ - | $ - | $ 3.3 | $ - | $ 194.3 |
| - Arena FINCOs | 169.0 | - | - | 0.4 | - | 169.4 |
| | $ 360.0 | $ - | $ - | $ 3.7 | $ - | $ 363.7 |

| | Nine months ended September 30, 2021 | | |
|---|---|---|---|
| | Opening Balance | Increase in unrealized value before dividends | Ending Balance |
| Investments in private entities: | | | |
| - Skyward Specialty | $ 180.8 | $ 11.5 | $ 192.3 |
| - Arena FINCOs | 163.0 | 9.3 | 172.3 |
| | $ 343.8 | $ 20.8 | $ 364.6 |

| | Nine months ended September 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 | $ - | $ (14.7) | $ - | $ 194.3 |
| - Arena FINCOs | 205.8 | - | (12.1) | (1.6) | (22.7) | 169.4 |
| | $ 370.8 | $ 44.0 | $ (12.1) | $ (16.3) | $ (22.7) | $ 363.7 |

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Investment in Arena Investors | | | | |
| Opening balance | $ 19.4 | $ 11.1 | $ 20.2 | $ 12.3 |
| Decrease in Revolving loan from the Company | - | - | (4.0) | - |
| The Company's share of profit (loss) | 1.0 | (0.3) | 4.2 | (1.5) |
| Ending balance | $ 20.4 | $ 10.8 | $ 20.4 | $ 10.8 |

**(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 September 30, 2021 | | | Three months ended September 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] | $ 90.3 | $ 1.4 | $ 91.7 | $ 92.0 | $ - | $ 1.6 | $ 93.6 |
| HIIG Partnership-Company's share of other partnership assets | 0.5 | - | 0.5 | 0.5 | - | - | 0.5 |
| Skyward Specialty convertible preferred shares held by the Company | 98.5 | 1.6 | 100.1 | 98.5 | - | 1.7 | 100.2 |
| | $ 189.3 | $ 3.0 | $192.3 | $ 191.0 | $ - | $ 3.3 | $ 194.3 |

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

| | Nine months ended September 30, 2021 | | | Nine months ended September 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 | $ 5.5 | $ 91.7 | $164.3 | $ - | $ (70.7) | $ 93.6 |
| 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 | 6.0 | 100.1 | - | 44.0 | 56.2 | 100.2 |
| | $ 180.8 | $ 11.5 | $192.3 | $ 165.0 | $ 44.0 | $ (14.7) | $ 194.3 |

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

At September 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 $91.7.

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 September 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 $100.1.

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 September 30, 2021 (December 31, 2020 – 44.5%).

At September 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 September 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 $192.3 at September 30, 2021 and $180.8 at December 31, 2020.

**(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 $3.0 and $11.5 in the three and nine months ended September 30, 2021, respectively, and an increase in unrealized value on its investment in Skyward Specialty of $3.3 and a decrease in unrealized value of $14.7 in the three and nine months ended September 30, 2020, respectively.

The Company's share of Skyward Specialty's net comprehensive income (loss) excluding unusual items was $3.0 and $12.2 in the three and nine months ended September 30, 2021, respectively, and the Company's share of Skyward Specialty's net comprehensive income (loss) excluding unusual items was $3.6 and $5.4 in the three and nine months ended September 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 September 30 2021 | Three months ended September 30 2020 | Nine months ended September 30 2021 | Nine months ended September 30 2020 |
|---|---|---|---|---|
| Opening Balance | $ 189.3 | $ 191.0 | $ 180.8 | $ 165.0 |
| Additional equity contribution | - | - | - | 44.0 |
| Net comprehensive income excluding unusual items | 3.0 | 3.6 | 12.2 | 5.6 |
| Change in HIIG Partnership other assets | - | - | - | (0.2) |
| The Company's share of net comprehensive income excluding unusual items | 3.0 | 3.6 | 12.2 | 5.4 |
| Unusual items: | | | | |
| Impact of LPT (defined herein) net of tax | - | - | - | (4.1) |
| Goodwill impairment net of tax | - | - | (0.7) | - |
| Other unusual net expenses net of tax | - | (0.3) | - | (1.1) |
| Change in valuation multiple (1.1x to 1.0x) | - | - | - | (14.9) |
| The Company's share of unusual items | - | (0.3) | (0.7) | (20.1) |
| Total increase (decrease) in unrealized value of investment | 3.0 | 3.3 | 11.5 | (14.7) |
| Ending Balance | $ 192.3 | $ 194.3 | $ 192.3 | $ 194.3 |

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 nine months ended September 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 nine months ended September 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.

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

## 3. INVESTMENTS (continued)

Skyward Specialty Condensed Consolidated Balance Sheets

| | September 30, 2021 | December 31, 2020[1] |
|---|---|---|
| Assets | | |
| Investments | $ 925.0 | $ 766.6 |
| Cash and restricted cash | 91.5 | 112.0 |
| Insurance related assets | 981.0 | 947.3 |
| Deferred tax asset | 33.3 | 41.1 |
| Goodwill and intangible assets | 93.1 | 86.2 |
| Total assets | $ 2,123.9 | $ 1,953.2 |
| Liabilities | | |
| Insurance related liabilities | $ 1,567.4 | $ 1,430.0 |
| Payable for securities purchased | 1.9 | 0.1 |
| Notes payable | 50.0 | 50.0 |
| Trust preferred securities | 78.5 | 78.4 |
| Total liabilities | $ 1,697.8 | $ 1,558.5 |
| Stockholders' equity | | |
| Stockholders' equity | $ 435.7 | $ 405.5 |
| Stock notes receivable | (9.6) | (10.8) |
| Total stockholders' equity | $ 426.1 | $ 394.7 |
| Total liabilities and stockholders' equity | $ 2,123.9 | $ 1,953.2 |

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

In the nine months ended September 30, 2021, Skyward Specialty recorded a net increase in goodwill and intangibles of $6.9. 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 partially offset by the exit of a professional liability product.

**(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 September 30 2021 | Three months ended September 30 2020[4] | Nine months ended September 30 2021 | Nine months ended September 30 2020[4] |
|---|---|---|---|---|
| Gross written premium | $ 215.1 | $ 191.4 | $ 715.7 | $ 677.3 |
| Net written premium | 123.8 | 99.8 | 369.9 | 310.7 |
| | | | | |
| Net earned premium | 123.4 | 101.8 | 339.3 | 294.7 |
| Commission and fee income | 1.1 | 2.8 | 2.9 | 5.2 |
| Less: Losses and LAE excluding LPT [1] | (83.6) | (73.7) | (229.0) | (208.8) |
| Less: Policy acquisition costs | (12.4) | (6.8) | (25.4) | (18.3) |
| Less: Operating expenses [2] | (24.0) | (20.0) | (69.7) | (62.6) |
| **Underwriting result excluding LPT [1,2]** | **4.5** | **4.1** | **18.1** | **10.2** |
| | | | | |
| Net investment income | 8.0 | 4.1 | 23.0 | 10.5 |
| Net realized and unrealized gains (losses) | (1.2) | 1.7 | 9.4 | (9.0) |
| Investment income | 6.8 | 5.8 | 32.4 | 1.5 |
| | | | | |
| Interest expense | (1.2) | (1.2) | (3.6) | (4.4) |
| Amortization expense | (0.4) | (0.3) | (1.2) | (1.2) |
| Income before taxes excluding unusual items | 9.7 | 8.4 | 45.7 | 6.1 |
| Income tax expense | 2.0 | 1.7 | 9.5 | 1.1 |
| **Net income excluding unusual items** | **7.7** | **6.7** | **36.2** | **5.0** |
| Impact of LPT net of tax[3] | - | - | - | (43.7) |
| Other net expenses, net of tax | - | (0.3) | - | (2.2) |
| Goodwill impairment net of tax | - | - | (1.5) | - |
| **Net income (loss)** | **7.7** | **6.4** | **34.7** | **(40.9)** |
| Total other comprehensive income (loss) | (1.4) | 0.2 | (5.4) | 6.6 |
| Comprehensive income (loss) | $ 6.3 | $ 6.6 | $ 29.3 | $ (34.3) |
| | | | | |
| Other Select Financial Information | | | | |
| Loss ratio excluding LPT [1] | 67.8% | 72.4% | 67.5% | 70.8% |
| Expense ratio [2] | 28.6% | 23.5% | 27.2% | 25.7% |
| Combined ratio excluding LPT [1,2] | 96.4% | 95.9% | 94.7% | 96.5% |

| | Three months ended September 30 2021 | Three months ended September 30 2020[4] | Three months change | Nine months ended September 30 2021 | Nine months ended September 30 2020[4] | Nine months change |
|---|---|---|---|---|---|---|
| Continuing lines | $ 116.4 | $ 81.1 | 43.4% | $ 336.6 | $ 243.6 | 38.2% |
| Discontinued lines | 7.4 | 18.7 | (60.0%) | 33.3 | 67.1 | (50.4%) |
| Net written premium | $ 123.8 | $ 99.8 | 24.1% | $ 369.9 | $ 310.7 | 19.1% |

[1] Excludes adverse development on prior years" claims reserves subject to the LPT of $40.0 for the nine months ended September 30, 2020.
[2] Excludes other unusual net expense of $0.5 ($0.3 after tax) and $2.8 ($2.2 after tax) for the three and nine months ended September 30,2020, respectively.
[3] 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 nine months ended September 30, 2020.
[4] Adjusted to conform to the presentation of the current period.

**Gross written premiums** - Gross written premiums were $215.1 for the three months ended September 30, 2021 compared to $191.4 for the three months ended September 30, 2020, an increase of 12.4% and $715.7 for the nine months ended September 30, 2021 compared to $677.3 for the nine months ended September 30, 2020, an increase of 5.7%. 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 $123.8 for the three months ended September 30, 2021 compared to $99.8 for the three months ended September 30, 2020, an increase of 24.1% and $369.9 for the nine months ended September 30, 2021 compared to $310.7 for the nine months ended September 30, 2020, an increase of 19.1%. The current quarter net written premiums were impacted by the growth in gross written premiums and higher retentions for the period.

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

## 3. INVESTMENTS (continued)

**Net earned premiums** - Net earned premiums were $123.4 for the three months ended September 30, 2021 compared to $101.8 for the three months ended September 30, 2020, an increase of 21.2% and $339.3 for the nine months ended September 30, 2021 compared to $294.7 for the nine months ended September 30, 2020, an increase of 15.1%. The current quarter increase in net earned premiums was due to Skyward Specialty's net written premium changes over the past 24 months.

**Losses and LAE excluding LPT** – In the three months ended September 30, 2021 and 2020, Skyward Specialty's Loss ratio, excluding loss and LAE subject to the LPT was 67.8% and 72.4% respectively and in the nine months ended September 30, 2021 and 2020, Skyward Specialty's Loss ratio, excluding claims subject to the LPT was 67.5% and 70.8% respectively. The improvement in the Loss ratio is driven by underwriting actions including rate increases over the past two years. The Loss ratio, excluding catastrophes and prior years' development for the three months ended September 30, 2021 was 63.0% compared to 68.8% for the three months ended September 30, 2020 and for the nine months ended September 30, 2021 was 64.8% compared to 69.4% for the nine months ended September 30, 2020.

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2020 | | 2021 | | 2020 | |
| Losses and LAE | $ 83.6 | 67.8% | $ 73.7 | 72.4% | $ 229.0 | 67.5% | $ 208.8 | 70.8% |
| Less: Catastrophes | 6.0 | 4.8% | 3.4 | 3.3% | 9.3 | 2.7% | 3.4 | 1.2% |
| Less: Prior years' development | - | - | 0.3 | 0.3% | - | - | 0.5 | 0.2% |
| Losses and LAE excluding catastrophes and prior years' development | $ 77.6 | 63.0% | $ 70.0 | 68.8% | $ 219.7 | 64.8% | $ 204.9 | 69.4% |

**Operating results** (net income excluding unusual items; all amounts net of income tax) - The net income excluding unusual items was $7.7 for the three months ended September 30, 2021 compared to $6.7 for the three months ended September 30, 2020 and the net income excluding unusual items was $36.2 for the nine months ended September 30, 2021 compared to $4.9 for the nine months ended September 30, 2020. The improvements of $1.0 and $31.3 in the three and nine months ended September 30, 2021, respectively, were primarily the result of increased investment income and an improved underwriting result. The combined ratio excluding LPT slightly worsened due to the impact of an increase of catastrophes to 96.4% from 95.9% for the three months ended September 30, 2021 and 2020, respectively and the combined ratio excluding LPT improved to 94.7% from 96.5% for the nine months ended September 30, 2021 and 2020.

**Net income (loss)** (all amounts net of income tax) - The operating result of Skyward Specialty was a net income of $7.7 for the three months ended September 30, 2021 compared to $6.4 for the three months ended September 30, 2020 and a net income of $34.7 for the nine months ended September 30, 2021 compared to a net loss of $40.9 for the nine months ended September 30, 2020. The increase of $1.3 in net income for the three months ended September 30, 2021 was primarily attributable to the improvement in the operating results of $1.0 described above. The increase of $75.7 in net income for the nine months ended September 30, 2021 was primarily attributable to the net impact of the LPT of $nil in the nine months ended September 30, 2021 versus $43.7 in the nine months ended September 30, 2020 and by the improvement in the operating results of $31.3 described above.

**Stockholders' equity** - Skyward Specialty stockholders' equity increased to $426.1 at September 30, 2021 from $394.7 at December 31, 2020. The increase of $31.4 resulted primarily from net income for the period of $34.7 and a decrease in the stockholder notes receivables of $1.2, partially offset by the other comprehensive loss of $5.4 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.

<u>Accounting for the Arena FINCOs</u>

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 September 30, 2021, in the amount of $172.3 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 $172.3 and $163.0 at September 30, 2021 and December 31, 2020, respectively.

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

### 3. INVESTMENTS (continued)

The Company recorded a decrease in the unrealized value of its investments in the Arena FINCOs of $0.8 and an increase in the unrealized value of $9.3 in the three and nine months ended September 30, 2021, respectively and an increase in the unrealized value of its investments in the Arena FINCOs of $0.4 and a decrease in the unrealized value of its investments of $1.6 before dividends paid to the Company of $22.7 in the three and nine months ended September 30, 2020, respectively. There were no dividends paid or capital returned to the Company in the three and nine months ended September 30, 2021 and the three months ended September 30, 2020. The Company received a return of capital from the Arena FINCOs of $12.1 in the nine months ended September 30, 2021.

<u>Select Financial Information of the Arena FINCOs</u>

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 nine months ended September 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:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| | Fair value | Fair value |
| Cash and cash equivalents | $ 9.1 | $ 21.4 |
| Due from brokers, net | (25.6) | (5.5) |
| Investments: | | |
| Loans / Private assets | 150.7 | 145.9 |
| Other Securities | 79.0 | 34.4 |
| Total investments | 229.7 | 180.3 |
| Senior secured notes payable | (43.6) | (43.4) |
| Other net assets | 2.7 | 10.2 |
| Net assets of the Arena FINCOs | $ 172.3 | $ 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 July 2, 2021, Arena Finance II LLC ("AFII"), one of the Arena FINCOs, secured a revolving credit facility with third party lenders with an initial commitment amount of $13 and initial termination date of September 30, 2023. Unpaid principal amounts under the revolving credit facility will bear interest at the London Interbank Offered Rate ("LIBOR") plus 2.8%. The loan is secured by AFII's equity interests in its subsidiaries, carries a parental guarantee from AF, and ranks senior to AFII's senior secured notes payable. The net proceeds received under the revolving credit facility are intended to be used as working capital and liquidity support in lieu of maintaining cash reserves and therefore are expected to keep AFII's equity and term debt capital fully invested in productive, yield-earning investments.

On September 29, 2020, AFII 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.

**(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 September 30 2021 | Three months ended September 30 2020 | Nine months ended September 30 2021 | Nine months ended September 30 2020 |
|---|---|---|---|---|
| **Net operating results of the Arena FINCOs:** | | | | |
| Investment income | $ 2.6 | $ 1.8 | $ 5.6 | $ 5.4 |
| Net gains (losses) on investments | (1.1) | (0.1) | 11.1 | (2.9) |
| Interest expense | (0.9) | - | (2.6) | - |
| Net investment income | 0.6 | 1.7 | 14.1 | 2.5 |
| Management and asset servicing fees | (1.1) | (1.0) | (3.2) | (3.2) |
| Incentive fees recovery (fees) | 0.1 | - | (0.8) | (0.1) |
| Other operating expenses | (0.4) | (0.2) | (0.7) | (0.6) |
| **Net operating results before holding companies' expenses** | (0.8) | 0.5 | 9.4 | (1.4) |
| Arena FINCOs holding companies' expenses: | | | | |
| Advisory fees paid to the Company | - | - | (0.1) | (0.1) |
| Other expenses | - | (0.1) | - | (0.1) |
| **Net operating results of the Arena FINCOs** | **$ (0.8)** | **$ 0.4** | **$ 9.3** | **$ (1.6)** |

The Net Return on the investment portfolios of the Arena FINCOs was -0.4% and +5.8% for the three and nine months ended September 30, 2021, respectively and +0.2% and -0.9% for the three and nine months ended September 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 September 30 2021 | Three months ended September 30 2020 | Nine months ended September 30 2021 | Nine months ended September 30 2020 |
|---|---|---|---|---|
| Opening balance | $ 173.1 | $ 169.0 | $ 163.0 | $ 205.8 |
| Return of capital to the Company | - | - | - | (12.1) |
| Unrealized (loss) gain before dividends | (0.8) | 0.4 | 9.3 | (1.6) |
| Dividends paid to the Company | - | - | - | (22.7) |
| Ending balance | $ 172.3 | $ 169.4 | $ 172.3 | $ 169.4 |

#### 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.

As of September 30, 2021, Arena Investors had committed AUM of approximately $2.6 billion. The committed AUM included the net assets of the Arena FINCOs and the Company's investment in ASOF LP of approximately $175. 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.

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

## 3. INVESTMENTS (continued)

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 September 30, 2021. Arena Investors had drawn down the loan facility by $24.0 at September 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 $20.4 and $20.2 at September 30, 2021 and December 31, 2020, respectively. The Company's 51% share of profit of $1.0 and $4.2 for the three and nine months ended September 30, 2021, respectively and a share of loss of $0.3 and $1.5 for the three and nine months ended September 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 nine months ended September 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:

Statement of Financial Position

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Cash and cash equivalents | $ 2.6 | $ 1.0 |
| Restricted cash | 10.4 | 13.9 |
| Arena Investors' Revolving Loan from the Company | (24.0) | (28.0) |
| Other net assets (liabilities) | 3.7 | (2.5) |
| Net liabilities | $ (7.3) | $ (15.6) |
| Company's share | $ (3.6) | $ (7.8) |
| Arena Investors' Revolving Loan from the Company | 24.0 | 28.0 |
| Carrying amount of the Company's investment in associates | $ 20.4 | $ 20.2 |

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

**(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 September 30 2021 | Three months ended September 30 2020[1] | Nine months ended September 30 2021 | Nine months ended September 30 2020[1] |
|---|---|---|---|---|
| Management and asset servicing fees | $ 8.3 | $ 5.0 | $ 21.7 | $ 14.8 |
| Incentive fees | 5.7 | 2.9 | 19.0 | 3.6 |
| Net gains on investments | 0.1 | 0.1 | 0.3 | 0.2 |
| Total revenue | 14.1 | 8.0 | 41.0 | 18.6 |
| Salaries and benefits | (8.9) | (7.1) | (24.8) | (16.8) |
| Professional fees | (1.9) | (0.7) | (4.4) | (1.9) |
| General, administration and other expenses | (1.0) | (0.6) | (2.4) | (2.1) |
| Interest expense on the Revolving Loan from the Company | (0.3) | (0.3) | (1.1) | (0.8) |
| Total expenses | (12.1) | (8.7) | (32.7) | (21.6) |
| Profit (loss) and comprehensive income (loss) | $ 2.0 | $ (0.7) | $ 8.3 | $ (3.0) |
| Company's share of profit (loss) of associates (51%) | $ 1.0 | $ (0.3) | $ 4.2 | $ (1.5) |

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

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 $3.1 at September 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 nominal and $0.2 in the three and nine months ended September 30, 2021, respectively, and $0.1 in each of the three and nine months ended September 30, 2020, respectively.

### 4. FINANCING

Preferred Securities

On June 2, 2017, the Company closed the sale to certain affiliates of Fairfax Financial Holdings Limited (collectively referred to as "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 September 30, 2021 of $39.5 (December 31, 2020 - $39.2). See Note 6, *Preferred Securities* in the Notes to the Financial Statements.

Canadian Dollar Currency Forward Contracts

At September 30, 2021, the Company has a 365 day C$ exchange forward contract to purchase C$50 million. Additionally, during the nine months ended September 30, 2021, the Company settled three C$ exchange forward contracts to purchase C$40 million. During 2020, the Company settled four C$ exchange 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.

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 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 September 30, 2021, a liability of $0.6 (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.

**(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 September 30 | | | | Nine months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2021 | | 2020 | | 2021 | | 2020 |
| Revenue | | | | | | | | |
| Interest income | $ | 0.4 | $ | 0.3 | $ | 1.1 | $ | 0.9 |
| Dividend income from investments in private entities | | - | | - | | - | | 22.7 |
| Advisory fees | | 0.2 | | 0.2 | | 0.7 | | 0.7 |
| | $ | 0.6 | $ | 0.5 | $ | 1.8 | $ | 24.3 |
| Net results of investments | | 3.2 | | 3.5 | | 25.2 | | (40.4) |
| Net expenses | | | | | | | | |
| Salaries and benefits | | (1.2) | | (0.9) | | (3.6) | | (2.7) |
| General, administrative and other | | (0.2) | | (0.2) | | (0.6) | | (0.6) |
| Professional fees | | (0.3) | | (0.2) | | (0.8) | | (0.9) |
| Site restoration recovery (expense) | | - | | - | | 2.6 | | (0.1) |
| Share-based compensation (expense) recovery | | (0.2) | | (0.8) | | (1.0) | | 0.4 |
| Foreign exchange (loss) gain | | (0.1) | | (0.5) | | (0.9) | | 0.5 |
| Interest on preferred securities | | (0.5) | | (0.5) | | (1.5) | | (1.4) |
| Derivative warrant gain (loss) | | 0.3 | | (0.3) | | 0.4 | | 1.0 |
| | $ | 2.2 | $ | 3.4) | $ | (5.4) | $ | (3.8) |
| Income tax expense | | - | | - | | - | | (0.1) |
| GAAP profit (loss) and comprehensive income (loss) | $ | 1.6 | $ | 0.6 | $ | 21.6 | $ | (20.0) |
| Adjusted profit and comprehensive income excluding unusual items [1] | $ | 1.6 | $ | 0.9 | $ | 22.3 | $ | 0.1 |

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

### 5.1 Revenue

In the three months ended September 30, 2021, the Company earned interest on loans made to Arena Investors of $0.4 (2020 - $0.3). In the same period, the Company earned advisory fees from Skyward Specialty of $0.1 (2020 - $0.1) and from the Arena FINCOs and Arena Investors of $0.1 (2020 - $0.1).

In the nine months ended September 30, 2021, the Company earned interest on loans made to Arena Investors of $1.1 (2020 - $0.8) and dividends from the Arena FINCOs of $nil (2020 - $22.7). In the same period, the Company earned advisory fees from Skyward Specialty of $0.4 (2020 - $0.4) and from the Arena FINCOs and Arena Investors of $0.3 (2020 - $0.3).

### 5.2 Net Results of Investments

In the three months ended September 30, 2021, the net results of investments consisted of an increase in the unrealized value of the Company's investments in private entities of $2.2 (2020 – $3.7), an increase in the unrealized value of other investments of nominal (2020 - $0.1), and the Company's share of profit from its investment in associates of $1.0 (2020 – share of loss of $0.3).

In the nine months ended September 30, 2021, the net results of investments consisted of an increase in the unrealized value of the Company's investments in private entities of $20.8 before dividends paid of $nil (2020 – a decrease in the unrealized value of $39.0, which was $16.3 before dividends paid of $22.7), an increase in the unrealized value of other investments of $0.2 (2020 - $0.1), and the Company's share of profit from its investment in associates of $4.2 (2020 – share of loss of $1.5).

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 September 30, 2021, the Company recorded an increase in unrealized value of $3.0 on its investment in Skyward Specialty (2020 – $3.3), and a decrease in unrealized value of $0.8 on its investment in the Arena FINCOs (2020 – increase of $0.4).

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

## 5. ANALYSIS OF FINANCIAL RESULTS (continued)

In the nine months ended September 30, 2021, the Company recorded an increase in unrealized value of $11.5 on its investment in Skyward Specialty (2020 – a decrease in unrealized value of $14.7), and an increase in unrealized value of $9.3 on its investment in the Arena FINCOs (2020 – a decrease of $1.6 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 September 30, 2021, the associates earned management and asset servicing fees of $8.3 (2020 - $5.0), incentive fees of $5.7 (2020 - $2.9), net gains on investment of $0.1 (2020 - $0.1) offset by salaries and benefits of $8.9 (2020 - $7.1), professional fees of $1.9 (2020 - $0.7), general, administrative and other expenses of $1.0 (2020 - $0.6), and interest expense on the Revolving Loan from the Company of $0.3 (2020 - $0.3) resulting in a profit of $2.0 (2020 – loss of $0.7).

In the nine months ended September 30, 2021, the associates earned management and asset servicing fees of $21.7 (2020 - $14.8), incentive fees of $19.0 (2020 - $3.6), net gains on investment of $0.3 (2020 - $0.2) offset by salaries and benefits of $24.8 (2020 - $16.8), professional fees of $4.4 (2020 - $1.9), general, administrative and other expenses of $2.4 (2020 - $2.1), and interest expense on the Revolving Loan from the Company of $1.1 (2020 - $0.8) resulting in a profit of $8.3 (2020 – loss of $3.0).

The total of the Company's 51% share of profit of the associates amounted to $1.0 and $4.2 in the three and nine months ended September 30, 2021, respectively, and its share of loss of the associates amounted to $0.3 and $1.5 in the three and nine months ended September 30, 2020, respectively.

5.3 *Expenses*

Salaries and benefits increased by $0.9 in the nine months ended September 30, 2021 when compared to the corresponding period in the prior year resulting partially from the appreciation in the Canadian dollar, which the majority of compensation is paid in.

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

Professional fees decreased by $0.1 in the nine months ended September 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:

| | September 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 |
| Ending balance | $ 2.2 | $ 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 nine months ended September 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 nine months ended September 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 nine months ended September 30, 2021 and 2020:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Foreign exchange (losses) gains relating to: | | | | |
| - Site restoration provision | $ 0.1 | $ (0.1) | $ - | $ 0.1 |
| - Liabilities for RSUs and DSUs | 0.2 | (0.2) | - | 0.3 |
| - Preferred securities | 0.8 | (0.8) | (0.3) | 0.9 |
| - Derivative warrant liability | - | (0.1) | - | 0.1 |
| - Canadian dollar currency forward contracts | (1.2) | 0.6 | (0.5) | (0.9) |
| - Other | - | 0.1 | (0.1) | - |
| | $ (0.1) | $ (0.5) | $ (0.9) | $ 0.5 |

## 6. ANALYSIS OF FINANCIAL POSITION

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

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Assets | | |
| Cash | $ 8.7 | $ 8.7 |
| Income tax receivable | 0.1 | 0.1 |
| Other assets | 0.6 | 1.6 |
| Investments | 388.1 | 366.9 |
| | $ 397.5 | $ 377.3 |
| Liabilities | | |
| Accounts payable and accrued liabilities | $ 12.7 | $ 11.0 |
| Income tax payable | - | 0.3 |
| Preferred securities | 39.5 | 39.2 |
| Derivative warrant liability | 0.6 | 1.0 |
| Site restoration provision | 2.2 | 4.9 |
| Deferred tax liability | 0.4 | 0.4 |
| | 55.4 | 56.8 |
| Shareholders' equity | 342.1 | 320.5 |
| Total liabilities and shareholders' equity | $ 397.5 | $ 377.3 |

### 6.1 Cash

At September 30, 2021 and December 31, 2020, the Company had cash of $8.7.

### 6.2 Income Tax Receivable

At September 30, 2021 and December 31, 2020, the Company had an income tax receivable of $0.1.

## 6. ANALYSIS OF FINANCIAL POSITION (continued)

### 6.3 Other Assets

Other assets were $0.6 and $1.6 at September 30, 2021 and December 31, 2020, respectively. Other assets at September 30, 2021 included receivables from related parties of nominal (December 31, 2020 - $0.8), right of use asset of $0.4 (December 31, 2020 - $0.5), and other receivables of $0.2 (December 31, 2020 - $0.3). See Note 3, *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 September 30, 2021 were determined to be $192.3 and $172.3, 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 September 30, 2021 was $20.4 (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 September 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 $12.7 and $11.0 at September 30, 2021 and at December 31, 2020, respectively. Accounts payable and accrued liabilities at September 30, 2021 included liabilities related to accrued employee bonuses of $2.0 (December 31, 2020 - $1.8), RSUs of $6.5 (December 31, 2020 - $5.9), DSUs of $2.2 (December 31, 2020 - $1.7), lease liability of $0.4 (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 $0.5 (December 31, 2020 - $nil), and other accrued liabilities of $0.6 (December 31, 2020 - $0.6). See Note 3, *Other Assets* in the Notes to the Financial Statements 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 September 30, 2021, the Company had an income tax payable of nominal (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 September 30, 2021 of $39.5 (December 31, 2020 - $39.2). See discussion in Section 4, *Financing* of this MD&A.

### 6.8 Derivative Warrant Liability

At September 30, 2021, a liability of $0.6 (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 $2.2 at September 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.

**(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:

| | September 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 | (55.6) | (77.2) |
| Shareholders' equity | $ 342.1 | $ 320.5 |

*Common Shares*

Westaim had 143,186,718 Common Shares outstanding at September 30, 2021 and December 31, 2020.

*Contributed Surplus*

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

*Accumulated Other Comprehensive Loss*

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

*Deficit*

The decrease in deficit of $21.6 from December 31, 2020 to September 30, 2021 is due to the profit and comprehensive income for the nine months ended September 30, 2021.

## 7. OUTLOOK

The Company continues to closely monitor the impact of COVID-19 on the Company, including on Skyward Specialty, Arena Investors and Arena FINCOs. To date, the pandemic has not had a material financial impact on the Company. 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 75+ 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 hardening insurance market and accelerate its profitable growth and return on equity. Skyward Specialty has raised capital, acquired additional 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, improved investment returns, 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.

## 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

Westaim's authorized share capital consists of an unlimited number of Common Shares, Class A preferred shares and Class B preferred shares.

At September 30, 2021 and at December 31, 2020, Westaim 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 September 30, 2021 and at December 31, 2020. For further details, see Note 18, *Subsequent Event* in the Notes to the Financial Statements.

### Dividends

No dividends were paid in the three and nine months ended September 30, 2021 and 2020.

### Share-based Compensation Plans

Westaim's long-term equity incentive plan (the "Incentive Plan") provides for grants of RSUs, DSUs, stock appreciation rights and other share-based awards. Westaim 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 Westaim, 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 September 30, 2021 and at December 31, 2020, Westaim had 10,428,337 stock options outstanding at strike prices ranging from C$3.00 to C$3.25.

Westaim also had 3,034,261 RSUs outstanding at September 30, 2021 and at December 31, 2020. The RSUs, at the election of the holder, can be settled in Common Shares or cash based on the prevailing market price of the common shares on the settlement date. In the nine months ended September 30, 2021 and 2020, no RSUs were exercised.

At September 30, 2021, 1,030,479 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 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 nine months ended September 30, 2021 and 2020, no DSUs were exercised.

At September 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 $2.2 (December 31, 2020 - $1.7).

For further details, see Note 12, *Share-based Compensation* in the Notes to the Financial Statements.

### Market for Securities

Westaim's Common Shares trade on the TSX Venture Exchange ("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.

**(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:

| September 30, 2021 | One year or less | One to five years | No specific date / later than five years | Total |
|---|---|---|---|---|
| Financial assets: | | | | |
| Cash | $ 8.7 | $ - | $ - | $ 8.7 |
| Other assets (excluding capital assets and right-of-use asset) | 0.2 | - | - | 0.2 |
| Investments | - | 24.0 | 364.2 | 388.2 |
| Total financial assets | 8.9 | 24.0 | 364.2 | 397.1 |
| Financial obligations: | | | | |
| Accounts payable and accrued liabilities (excluding lease liabilities) | 3.6 | - | 8.7 | 12.3 |
| Preferred securities | - | - | 39.5 | 39.5 |
| Site restoration provision | - | - | 2.2 | 2.2 |
| Total financial obligations | 3.6 | - | 50.4 | 54.0 |
| Financial assets net of financial obligations | $ 5.3 | $ 24.0 | $ 313.8 | $ 343.1 |

| 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 |
| Total financial obligations | 3.2 | - | 51.7 | 54.9 |
| Financial assets net of financial obligations | $ 6.7 | $ 28.0 | $ 287.2 | $ 321.9 |

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 and directors, 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.

**(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 September 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 September 30, 2021. The significant unobservable inputs used in the valuation of Skyward Specialty and the Arena FINCOs at September 30, 2021 were the equity of each of the entities at September 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 September 30, 2021, there were no new pronouncements that impacted the Company.

## 12. QUARTERLY FINANCIAL INFORMATION

| | Q3 2021 | Q2 2021 | Q1 2021 | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020 | Q4 2019 |
|---|---|---|---|---|---|---|---|---|
| Revenue | $ 0.6 | $ 0.6 | $ 0.6 | $ 0.6 | $ 0.5 | $ 0.5 | $ 23.3 | $ 4.5 |
| Increase (decrease) in unrealized value of investments, less dividends | 3.2 | 9.9 | 12.1 | (10.5) | 3.5 | 3.2 | (47.1) | (14.4) |
| Net (expenses) recovery of expenses | (2.2) | 0.4 | (3.6) | (4.6) | (3.4) | (3.7) | 3.3 | (2.2) |
| Income tax expense | - | - | - | - | - | (0.1) | - | (0.9) |
| Profit (loss) and comprehensive income (loss) | $ 1.6 | $ 10.9 | $ 9.1 | $ (14.5) | $ 0.6 | $ (0.1) | $ (20.5) | $ (13.0) |

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.

**(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 | | | | | | September 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 | 27 | $ 53.3 | $ 56.9 | 24.8% | 8.9% | 15.9% |
| Real Estate Private Credit and Real Estate Assets | 28 | 37.2 | 34.5 | 15.0% | 12.5% | 2.5% |
| Commercial and Industrial Assets | 26 | 39.8 | 43.4 | 18.9% | 12.9% | 6.0% |
| Structured Finance | 2 | 3.4 | 3.5 | 1.5% | 1.5% | - |
| Consumer Assets | 16 | 17.9 | 12.4 | 5.4% | 5.4% | - |
| Other Securities | 127 | 77.5 | 79.0 | 34.4% | 11.1% | 23.3% |
| | 226 | $ 229.1 | $ 229.7 | 100.0% | 52.3% | 47.7% |

| 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 | September 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 | $ 121.9 | $ 121.6 | 52.9% | $ 103.4 | $ 102.6 | 56.9% |
| Europe | 19.6 | 18.0 | 7.8% | 15.5 | 14.9 | 8.3% |
| Asia/Pacific | 10.1 | 11.1 | 4.9% | 27.1 | 28.2 | 15.6% |
| Latin America | - | - | - | 0.3 | 0.2 | 0.1% |
| | 151.6 | 150.7 | 65.6% | 146.3 | 145.9 | 80.9% |
| Other Securities [1] | | | | | | |
| North America | 42.4 | 48.2 | 21.0% | 20.8 | 23.9 | 13.2% |
| Europe | 13.6 | 12.0 | 5.2% | 7.2 | 5.2 | 2.9% |
| Asia/Pacific | 9.5 | 9.8 | 4.3% | 4.2 | 2.9 | 1.6% |
| Latin America | 3.0 | 1.0 | 0.5% | 0.6 | 0.5 | 0.3% |
| Other | 9.0 | 8.0 | 3.5% | 3.1 | 1.9 | 1.1% |
| | 77.5 | 79.0 | 34.4% | 35.9 | 34.4 | 19.1% |
| | $ 229.1 | $ 229.7 | 100.0% | $ 182.2 | $ 180.3 | 100.0% |

[1] Net of short positions.

**(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** | September 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 | $ 14.8 | $ 15.5 | 6.7% | $ 14.6 | $ 15.3 | 8.5% |
| Financial Services | 1.1 | 1.1 | 0.5% | 0.8 | 0.8 | 0.4% |
| Healthcare Services | 0.1 | 0.3 | 0.1% | 0.1 | 0.1 | 0.1% |
| Oil and Gas (1) | 20.5 | 25.5 | 11.1% | 17.9 | 17.6 | 9.8% |
| Other Assets | 14.4 | 12.1 | 5.3% | 12.9 | 11.8 | 6.5% |
| Retail | 2.4 | 2.4 | 1.1% | 0.6 | 0.6 | 0.3% |
| | 53.3 | 56.9 | 24.8% | 46.9 | 46.2 | 25.6% |
| Real Estate Private Credit and Real Estate Assets | | | | | | |
| Commercial | 10.5 | 8.6 | 3.7% | 3.0 | 1.8 | 1.0% |
| Hospitality | 3.6 | 3.6 | 1.6% | 3.8 | 3.9 | 2.2% |
| Land - Commercial Development | 6.8 | 6.5 | 2.8% | 6.8 | 6.2 | 3.4% |
| Land - Multi-Family Development | 6.7 | 5.9 | 2.6% | 4.9 | 5.6 | 3.1% |
| Land - Single-Family Development | 3.6 | 4.0 | 1.7% | 22.3 | 23.3 | 13.0% |
| Mixed Use | - | - | - | 1.2 | 1.2 | 0.7% |
| Residential | 6.0 | 5.9 | 2.6% | 7.7 | 7.8 | 4.2% |
| Storage | - | - | - | 0.1 | 0.1 | 0.1% |
| | 37.2 | 34.5 | 15.0% | 49.8 | 49.9 | 27.7% |
| Commercial and Industrial Assets | | | | | | |
| Lease/Equipment | 3.0 | 4.3 | 1.9% | 2.6 | 4.7 | 2.6% |
| Other Assets | 36.8 | 39.1 | 17.0% | 24.3 | 26.1 | 14.5% |
| | 39.8 | 43.4 | 18.9% | 26.9 | 30.8 | 17.1% |
| Structured Finance | | | | | | |
| Other Assets | 3.4 | 3.5 | 1.5% | 4.9 | 5.2 | 2.9% |
| | 3.4 | 3.5 | 1.5% | 4.9 | 5.2 | 2.9% |
| Consumer Assets | | | | | | |
| Consumer | 17.9 | 12.4 | 5.4% | 17.8 | 13.8 | 7.6% |
| | 17.9 | 12.4 | 5.4% | 17.8 | 13.8 | 7.6% |
| Total Loans / Private Assets | 151.6 | 150.7 | 65.6% | 146.3 | 145.9 | 80.9% |
| Other Securities (2) | | | | | | |
| Basic Materials | 1.0 | 1.0 | 0.5% | - | - | - |
| Consumer Products | 7.7 | 8.4 | 3.6% | 6.3 | 4.6 | 2.5% |
| Diversified | 36.1 | 37.7 | 16.4% | 6.8 | 7.7 | 4.3% |
| Financial Services | 6.9 | 5.5 | 2.4% | 0.9 | 1.1 | 0.6% |
| Foreign Exchange Forwards/Options | 0.3 | 0.8 | 0.4% | - | (1.5) | (0.8)% |
| Healthcare Services | 0.6 | 1.1 | 0.5% | 2.8 | 3.1 | 1.7% |
| Hospitality | - | - | - | 0.7 | 0.7 | 0.4% |
| Industrial | 3.9 | 4.4 | 1.9% | 3.1 | 2.6 | 1.4% |
| Information Technology | 5.9 | 5.6 | 2.4% | 1.9 | 2.2 | 1.2% |
| Mining | 0.3 | 0.3 | 0.1% | 0.1 | 0.1 | 0.1% |
| Media | 0.8 | 0.3 | 0.1% | - | - | - |
| Oil and Gas | 2.4 | 1.9 | 0.9% | 1.4 | 0.6 | 0.4% |
| Other Assets | - | - | - | 3.2 | 3.3 | 1.8% |
| Real Estate | 2.3 | 2.2 | 1.0% | 0.3 | 0.4 | 0.2% |
| Telecommunications | 9.3 | 9.8 | 4.3% | 8.4 | 9.5 | 5.3% |
| | 77.5 | 79.0 | 34.4% | 35.9 | 34.4 | 19.1% |
| | $ 229.1 | $ 229.7 | 100.0% | $ 182.2 | $ 180.3 | 100.0% |

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

2 Net of short positions.

**(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** | | | | | | | | **September 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 | $ 11.9 | $ 13.6 | $ 11.2 | Europe | Equity | n/a (14) | n/a (14) |
| CPC-3198 | Oil and Gas | 4.5 | 4.5 | 6.7 | North America | Hard Asset | n/a (4) | n/a (4) |
| CPC-3222 | Oil and Gas | 4.7 | 4.7 | 6.4 | North America | Hard Asset | n/a (4) | n/a (4) |
| CPC-3349 | Business Services | 6.1 | 4.1 | 5.6 | Asia Pacific | Second Lien | 12.00% | 100%+ |
| CPC-5325 | Oil and Gas | 3.5 | 3.7 | 4.3 | North America | First Lien | 12.00% | 31.0% |
| CPC-3083 | Business Services | 4.6 | 4.6 | 3.0 | North America | Equity | n/a (13) | n/a (13) |
| CPC-3199EQ | Oil and Gas | 2.6 | 2.6 | 2.8 | North America | Hard Asset | n/a (4) | n/a (4) |
| CPC-4108 | Oil and Gas | 1.6 | 1.6 | 2.4 | North America | Hard Asset | n/a (4) | n/a (4) |
| CPC-3677 | Business Services | 1.1 | 1.1 | 2.0 | North America | Equity | n/a (14) | n/a (14) |
| CPC-6678TL | Retail | 1.6 | 1.6 | 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% | 17.0% |
| CPC-5830 | Business Services | 0.6 | 0.7 | 0.9 | Europe | First Lien | 10.00% | 5.0% |
| CPC-6532 | Business Services | 0.9 | 0.9 | 0.9 | North America | Second Lien | n/a (14) | n/a (14) |
| CPC-5974 | Other Assets | 2.0 | 0.9 | 0.9 | Asia Pacific | First Lien | 8.00% | 67.0% |
| CPC-5143 | Oil and Gas | 0.8 | 0.8 | 0.8 | North America | First Lien | 12.00% | 21.0% |
| CPC-2397 | Financial Services | 0.9 | 0.8 | 0.8 | North America | Equity | n/a (14) | n/a (14) |
| CPC-6374 | Business Services | 0.5 | 0.5 | 0.8 | Europe | Equity | n/a (15) | n/a (15) |
| CPC-5913 | Business Services | 0.6 | 0.6 | 0.7 | Europe | First Lien | 10.00% | 5.0% |
| CPC-5027 | Retail | 0.6 | 0.6 | 0.6 | North America | First Lien | 9.13% | 83.0% |
| CPC-2170 | Oil and Gas | 1.7 | 1.1 | 0.5 | North America | First Lien | 3.50% | 100%+ |
| CPC-5914 | Business Services | 0.4 | 0.4 | 0.5 | Europe | First Lien | 10.00% | 5.0% |
| CPC-6859 | Business Services | 0.3 | 0.4 | 0.4 | Asia Pacific | First Lien | 11.00% | 26.0% |
| CPC-4248 | Healthcare Services | 0.1 | 0.1 | 0.3 | North America | Equity | n/a (15) | n/a (15) |
| CPC-7167 | Business Services | 0.2 | 0.2 | 0.2 | North America | Second Lien | 9.08% | 63.0% |
| CPC-6510 | Financial Services | 0.2 | 0.2 | 0.2 | Asia Pacific | First Lien | 8.00% | 14.0% |
| CPC-6373 | Business Services | 0.2 | 0.2 | 0.2 | Europe | First Lien | 10.00% | 8.0% |
| CPC-1010 | Oil and Gas | 0.2 | 0.2 | 0.2 | North America | First Lien | 14.00% | 43.0% |
| CPC-5856 | Business Services | 0.1 | 0.2 | 0.2 | Europe | First Lien | 11.00% | 5.0% |
| CPC-7199 | Retail | 0.1 | 0.1 | 0.1 | North America | Equity | 14.00% | 67.0% |
| CPC-6678EQ | Retail | 0.1 | 0.1 | 0.1 | North America | Equity | n/a (14) | n/a (14) |
| CPC-5889 | Business Services | 0.1 | 0.1 | 0.1 | North America | First Lien | 22.00% | 27.0% |
| CPC-3349EQY | Business Services | 0.8 | 0.8 | 0.0 | Asia Pacific | Equity | n/a (14) | n/a (14) |
| Subtotal / Weighted average % | | 54.9 | 53.3 | 56.9 | | | 11.10% | 60.4% |

**(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)** — **September 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 | 3.8 | 3.8 | 3.8 | 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 | 3.1 | North America | Real Property | n/a (12) | n/a (12) |
| REPC-6162 | Land - Multi-Family Development | 2.4 | 2.4 | 2.4 | North America | First Mortgage | 12.00% | 46.0% |
| REPC-6437TL | Commercial | 2.1 | 2.1 | 2.1 | North America | First Mortgage | 13.00% | 53.6% |
| REPC-6053 | Land - Single-Family Development | 1.7 | 1.6 | 2.1 | Asia Pacific | First Mortgage | 5.40% | 70.0% |
| REPC-4220 | Residential | 2.3 | 2.3 | 2.1 | North America | First Mortgage | 12.00% | 83.0% |
| REPC-5591 | Land - Commercial Development | 1.6 | 1.6 | 1.6 | North America | First Mortgage | 13.50% | 59.0% |
| REPC-5348 | Commercial | 1.3 | 1.6 | 1.6 | Europe | First Mortgage | 15.00% | 54.0% |
| REPC-2592 | Land - Commercial Development | 1.9 | 1.9 | 1.3 | North America | First Mortgage | 10.50% | 100%+ |
| REPC-2560 | Hospitality | 0.9 | 0.9 | 0.9 | North America | Real Property | n/a (12) | n/a (12) |
| REPC-2497 | Hospitality | 0.9 | 0.9 | 0.9 | North America | Real Property | n/a (12) | n/a (12) |
| REPC-6899 | Hospitality | 0.7 | 0.8 | 0.7 | Europe | First Mortgage | 4.00% | 50.0% |
| REPC-6592 | Hospitality | 0.6 | 0.6 | 0.7 | North America | First Mortgage | 8.00% | 80.0% |
| REPC-1942 | Commercial | 2.4 | 2.4 | 0.5 | North America | Real Property | n/a (12) | n/a (12) |
| REPC-6129TL | Hospitality | 0.4 | 0.4 | 0.4 | North America | First Mortgage | 10.50% | 61.0% |
| REPC-4698 | Land - Multi-Family Development | 0.4 | 0.4 | 0.4 | North America | First Mortgage | 11.50% | 54.0% |
| REPC-5476 | Land - Single-Family Development | 0.4 | 0.4 | 0.4 | Asia Pacific | First Mortgage | 11.50% | 78.0% |
| REPC-6505 | Land - Single-Family Development | 0.3 | 0.3 | 0.3 | Asia Pacific | First Mortgage | 11.50% | 69.0% |
| REPC-6054 | Land - Single-Family Development | 0.3 | 0.3 | 0.3 | Asia Pacific | First Mortgage | 10.00% | 74.0% |
| REPC-6506TL1 | Land - Single-Family Development | 0.3 | 0.3 | 0.3 | Asia Pacific | First Mortgage | 8.00% | 79.0% |
| REPC-6048 | Commercial | 0.2 | 0.2 | 0.2 | Europe | Real Property | n/a (12) | n/a (12) |
| REPC-6242 | Land - Single-Family Development | 0.2 | 0.2 | 0.2 | Asia Pacific | First Mortgage | 11.00% | 80.0% |
| REPC-1047 | Land - Commercial Development | 0.1 | 0.1 | 0.1 | North America | First Mortgage | 15.00% | 53.0% |
| REPC-7098A | Land - Single-Family Development | 0.1 | 0.1 | 0.1 | Asia Pacific | First Mortgage | 12.00% | 69.0% |
| REPC-6194 | Land - Single-Family Development | 0.2 | 0.1 | 0.1 | 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-6276 | Land - Single-Family Development | 0.1 | 0.1 | 0.1 | Asia Pacific | First Mortgage | 8.00% | 74.0% |
| REPC-1015 | Land - Commercial Development | 0.2 | 0.1 | 0.0 | North America | Real Property | n/a (12) | n/a (12) |
| Subtotal / Weighted average % | | 37.1 | 37.2 | 34.5 | | | 11.01% | 65.5% |

**(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)** | | | | | | | | **September 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-3045 | Other assets | 2.9 | 2.9 | 4.9 | North America | Asset Pool | n/a (7) | 49.0% |
| CI-6785 | Other assets | 4.2 | 4.1 | 4.1 | North America | First Lien | 13.50% | 85.0% |
| CI-4188 | Other assets | 3.9 | 3.9 | 4.0 | North America | First Lien | 15.00% | 43.0% |
| CI-2651 | Other assets | 4.0 | 4.3 | 3.7 | North America | Hard Asset | n/a (4) | n/a (4) |
| CI-6253 | Other assets | 3.3 | 3.0 | 3.0 | North America | First Lien | 17.42% | 20.0% |
| CI-1999EQ | Other assets | 3.1 | 3.1 | 2.9 | North America | Equity | n/a (14) | n/a (14) |
| CI-3978 | Other assets | 1.7 | 1.7 | 2.2 | North America | Hard Asset | n/a (4) | n/a (4) |
| CI-6752 | Other assets | 2.1 | 2.1 | 2.1 | North America | First Lien | 15.00% | 61.0% |
| CI-2201 | Lease/Equipment | 0.8 | 0.8 | 1.9 | North America | Hard Asset | n/a (4) | n/a (4) |
| CI-2000 | Other assets | 0.5 | 0.5 | 1.4 | North America | Equity | n/a (13) | n/a (13) |
| CI-4282 | Lease/Equipment | 1.1 | 1.1 | 1.2 | North America | First Lien | 12.00% | 79.0% |
| CI-6006 | Lease/Equipment | 1.0 | 1.1 | 1.1 | North America | First Lien | 14.30% | 85.0% |
| CI-6016 | Other assets | 1.0 | 1.0 | 1.0 | North America | First Lien | 15.00% | 82.0% |
| CI-5777 | Other assets | 0.9 | 0.9 | 0.9 | North America | First Lien | 12.00% | 90.0% |
| CI-6750 | Other assets | 0.9 | 0.9 | 0.9 | Europe | First Lien | 24.00% | 61.0% |
| CI-7164 | Other assets | 0.8 | 0.8 | 0.8 | North America | First Lien | 30.00% | 61.0% |
| CI-2686 | Other assets | 1.1 | 1.1 | 0.7 | North America | Equity | n/a (14) | n/a (14) |
| CI-7140 | Other assets | 1.5 | 0.7 | 0.7 | North America | Equity | n/a (4) | n/a (4) |
| CI-6556 | Other assets | 0.7 | 0.7 | 0.7 | North America | First Lien | 15.00% | 61.0% |
| CI-6648TL | Other assets | 0.7 | 0.7 | 0.7 | North America | First Lien | 16.20% | 61.0% |
| CI-6653TL | Other assets | 0.7 | 0.7 | 0.7 | North America | First Lien | 16.20% | 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 | 18.00% | 61.0% |
| CI-5554 | Other assets | 0.5 | 0.5 | 0.5 | North America | First Lien | 10.00% | 80.0% |
| CI-7004 | Other assets | 0.5 | 0.5 | 0.5 | North America | First Lien | 15.00% | 61.0% |
| CI-5554A | Other assets | 0.5 | 0.5 | 0.5 | North America | First Lien | 10.00% | 80.0% |
| CI-1520 | Other assets | 0.2 | 0.2 | 0.3 | North America | First Lien | n/a (11) | 48.0% |
| CI-5177 | Other assets | 0.4 | 0.4 | 0.4 | North America | Hard Asset | n/a (4) | n/a (4) |
| CI-1035 | Other assets | 0.4 | 0.4 | 0.3 | North America | First Lien | 9.90% | 100%+ |
| CI-5001 | Other assets | 0.0 | 0.0 | 0.1 | North America | First Lien | 13.20% | 68.0% |
| CI-1999 | Other assets | 0.1 | 0.1 | 0.0 | North America | First Lien | n/a (16) | n/a (16) |
| CI-5490 | Other assets | 0.0 | 0.0 | 0.0 | Latin America | First Lien | 18.00% | 77.0% |
| CI-1800 | Other assets | 0.0 | 0.0 | 0.0 | North America | First Lien | 14.00% | 77.0% |
| CI-5372 | Other assets | 0.0 | 0.0 | 0.0 | Latin America | First Lien | 18.00% | 77.0% |
| CI-5113 | Other assets | 0.0 | 0.0 | 0.0 | North America | First Lien | 13.20% | 68.0% |
| CI-1018 | Other assets | 0.2 | 0.2 | 0.0 | North America | First Lien | 9.26% | 100%+ |
| Subtotal / Weighted average % | | 40.6 | 39.8 | 43.4 | | | 15.46% | 60.1% |
| | | | | | | | | |
| **Structured Finance** | | | | | | | | |
| SF-2239 | Other Assets | 3.1 | 3.3 | 3.4 | 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 % | | 3.2 | 3.4 | 3.5 | | | 15.00% | 11.1% |

**(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)** | | | | | | | | **September 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) |
| **Consumer Assets** | | | | | | | | |
| CA-4946 | Consumer | 3.8 | 3.8 | 3.8 | 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-1788/1933/1934 | Consumer | 4.0 | 4.0 | 1.7 | North America | First Lien | n/a (6) | n/a (4) |
| CA-5898 | Consumer | 1.5 | 1.5 | 1.5 | North America | Asset Pool | n/a | 60.0% |
| CA-4718 | Consumer | 0.5 | 0.5 | 0.9 | North America | Asset Pool | n/a (7) | n/a (7) |
| CA-1052F | Consumer | 2.6 | 2.5 | 0.7 | North America | First Lien | 15.66% | 100%+ |
| CA-6384 | Consumer | 0.5 | 0.5 | 0.5 | North America | Asset Pool | n/a (6) | n/a (10) |
| CA-5596 | Consumer | 0.4 | 0.4 | 0.4 | North America | Asset Pool | n/a (6) | n/a (6) |
| CA-6288 | Consumer | 0.2 | 0.2 | 0.2 | North America | First Lien | 10.00% | 54.0% |
| CA-7092 | Consumer | 0.2 | 0.2 | 0.2 | North America | First Lien | 9.00% | 75.0% |
| CA-4727 | Consumer | 0.2 | 0.1 | 0.2 | North America | First Lien | 29.00% | 66.0% |
| CA-6834 | Consumer | 0.2 | 0.2 | 0.2 | North America | Asset Pool | n/a (6) | n/a (10) |
| CA-2729 | Consumer | 0.4 | 0.3 | 0.1 | North America | First Lien | n/a (9) | 100%+ |
| CA-2373 | Consumer | 0.3 | 0.3 | 0.1 | North America | Asset Pool | n/a (9) | n/a (10) |
| CA-6154 | Consumer | 0.0 | 0.0 | 0.0 | Europe | First Lien | 15.00% | 50.0% |
| CA-5060 | Consumer | 0.0 | 0.0 | 0.0 | North America | Asset Pool | 25.00% | 64.0% |
| CA-1052S | Consumer | 1.5 | 1.5 | 0.0 | North America | First Lien | 15.66% | 100%+ |
| Subtotal / Weighted average % | | 18.2 | 17.9 | 12.4 | | | 15.28% | 83.6% |
| Total / Weighted average % | | $ 154.0 | $ 151.6 | $ 150.7 | | | 12.92% | 62.2% |

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 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 September 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 September 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 September 30, 2021.
9 Investment with no stated coupon rate.
10 Investment represents an unsecured credit pool purchase with no stated interest rate.
11 This investment represents a claim against proceeds subject to a litigation result whereby the FINCOs are not accruing interest.
12 Investment represents owned real estate acquired through direct purchase or lender default.
13 Investment is a preferred equity investment.
14 Investment is an equity interest in an operating company. Stated coupon and LTV are not applicable.
15 Investment is a warrant to purchase an equity interest in an operating company. Stated coupon and LTV are not applicable.
16 Investment is in maturity default where the Company and its partners acquired the borrower in bankruptcy. LTV is not applicable.

**(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<br>-Single-Family Development | 12.2 | 11.4 | 11.6 | Asia/Pacific | First Mortgage | 10.00% | 74.0% |
| REPC-5754 | Land<br>-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<br>-Multi-Family Development | 2.5 | 2.6 | 3.3 | North America | Real Property | n/a [4] | n/a [4] |
| REPC-2277 | Land<br>-Commercial Development | 3.1 | 3.1 | 3.2 | North America | First Mortgage | 15.00% | 65.0% |
| REPC-6194 | Land<br>-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<br>-Multi-Family Development | 1.9 | 1.9 | 1.9 | North America | First Mortgage | 9.50% | 75.0% |
| REPC-6053 | Land<br>-Single-Family Development | 1.8 | 1.6 | 1.9 | Asia/Pacific | First Mortgage | 5.40% | 70.0% |
| REPC-5591 | Land<br>-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<br>-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<br>-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<br>-Single-Family Development | 0.3 | 0.2 | 0.3 | Asia/Pacific | First Mortgage | 11.50% | 77.0% |
| REPC-5967 | Land<br>-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<br>-Commercial Development | 0.1 | 0.1 | 0.1 | North America | First Mortgage | 15.00% | 53.0% |
| REPC-1015 | Land<br>-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% |

**(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 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.

**(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:

| | September 30, 2021 | December 31, 2020 | September 30, 2020 |
|---|---|---|---|
| Book value: | | | |
| Shareholders' equity per IFRS | $ 342.1 | $ 320.5 | $ 335.0 |
| Adjustments: | | | |
| RSU liability [1] | 6.5 | 5.9 | 5.2 |
| Derivative warrant liability [2] | 0.6 | 1.0 | 0.8 |
| | $ 349.2 | $ 327.4 | $ 341.0 |
| Number of Common Shares: | | | |
| Number of Common Shares outstanding | 143,186,718 | 143,186,718 | 143,186,718 |
| Adjustments for assumed exercise of: | | | |
| Outstanding RSUs [1] | 3,034,261 | 3,034,261 | 3,034,261 |
| Adjusted number of Common Shares [3] | 146,220,979 | 146,220,979 | 146,220,979 |
| Book value per share - in US$ | $ 2.39 | $ 2.24 | $ 2.33 |
| Book value per share - in C$ [4] | $ 3.02 | $ 2.85 | $ 3.10 |
| Westaim TSXV closing share price - in C$ | $ 2.70 | $ 2.49 | $ 2.28 |

[1] See note 12 to the Company's unaudited consolidated financial statements for the three and nine months ended September 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 nine months ended September 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 September 30, 2021, December 31, 2020 and September 30, 2020.

[3] See note 12 to the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 2021 and 2020. No adjustments were made for options at September 30, 2021, December 31, 2020 and September 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: 1.26585 at September 30, 2021, 1.27395 at December 31, 2020 and 1.33125 at September 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 and comprehensive income, and adjusted earnings per share – diluted, excluding unusual items

Adjusted profit and comprehensive income 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 and comprehensive income 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 and comprehensive income excluding unusual items on a diluted basis divided by the weighted average number of Common Shares outstanding on a diluted basis.

**(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 and comprehensive income excluding unusual items:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| The Company's GAAP profit (loss) and comprehensive income (loss) | $ 1.6 | $ 0.6 | $ 21.6 | $ (20.0) |
| The Company's share of Skyward Specialty unusual items: [1] | | | | |
| Impact of LPT net of tax | - | - | - | (4.1) |
| Other unusual net expenses net of tax | - | (0.3) | - | (1.1) |
| Change in valuation multiple (1.1x to 1.0x) | - | - | - | (14.9) |
| Goodwill impairment net of tax | - | - | (0.7) | - |
| Total of the Company's share of unusual items | - | (0.3) | (0.7) | (20.1) |
| The Company's adjusted profit and comprehensive income excluding unusual items | $ 1.6 | $ 0.9 | $ 22.3 | $ 0.1 |

[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 September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Adjusted profit and comprehensive income excluding unusual items | $ 1.6 | $ 0.9 | $ 22.3 | $ 0.1 |
| Dilutive RSU recovery and related changes in foreign exchange [1] | - | - | - | (1.0) |
| Adjusted profit (loss) and comprehensive income (loss) excluding unusual items on a diluted basis | $ 1.6 | $ 0.9 | $ 22.3 | $ (0.9) |
| 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 | $ 0.01 | $ 0.01 | $ 0.16 | $ (0.01) |

[1] The RSUs for the three months ended September 30, 2020 and for the nine months ended September 30, 2021 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 Westaim'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) | | September 30 2021 | | December 31 2020 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash | $ | 8,747 | $ | 8,741 |
| Income tax receivable (note 14) | | 64 | | 64 |
| Other assets (note 3) | | 577 | | 1,637 |
| Investments (note 4) | | 388,095 | | 366,911 |
| | $ | 397,483 | $ | 377,353 |
| **LIABILITIES** | | | | |
| Accounts payable and accrued liabilities (note 5) | $ | 12,660 | $ | 10,994 |
| Income tax payable (note 14) | | 30 | | 337 |
| Preferred securities (note 6) | | 39,499 | | 39,248 |
| Derivative warrant liability (note 8) | | 612 | | 1,026 |
| Site restoration provision (note 9) | | 2,239 | | 4,864 |
| Deferred tax liability (note 14) | | 363 | | 362 |
| | | 55,403 | | 56,831 |
| 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 | | (55,610) | | (77,168) |
| | | 342,080 | | 320,522 |
| | $ | 397,483 | $ | 377,353 |

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)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| (thousands of United States dollars except share and per share data) | 2021 | 2020 | 2021 | 2020 |
| Revenue | | | | |
| Interest income (note 13) | $ 341 | $ 266 | $ 1,065 | $ 892 |
| Dividend income from investments in private entities (note 4 and 13) | - | - | - | 22,733 |
| Fee income (note 13) | 238 | 238 | 713 | 713 |
| | 579 | 504 | 1,778 | 24,338 |
| Net results of investments | | | | |
| Increase (decrease) in unrealized value of investments in private entities, less dividends (note 4) | 2,156 | 3,791 | 20,728 | (38,942) |
| Share of income (loss) from investment in associates (note 4) | 1,026 | (330) | 4,248 | (1,507) |
| Increase in unrealized value of other investments (note 4) | 43 | 86 | 208 | 108 |
| | 3,225 | 3,547 | 25,184 | (40,341) |
| Net expenses | | | | |
| Salaries and benefits | 1,149 | 956 | 3,543 | 2,739 |
| General, administrative and other | 182 | 173 | 626 | 608 |
| Professional fees | 258 | 256 | 785 | 951 |
| Site restoration (recovery) expense (note 9) | - | (12) | (2,596) | 54 |
| Share-based compensation expense (recovery) (note 12) | 220 | 756 | 1,026 | (441) |
| Foreign exchange loss (gain) | 177 | 443 | 911 | (544) |
| Interest on preferred securities (note 6) | 498 | 472 | 1,491 | 1,371 |
| Derivative warrant (gain) loss (note 8) | (282) | 334 | (427) | (997) |
| | 2,202 | 3,378 | 5,359 | 3,741 |
| Income (loss) before income tax | 1,602 | 673 | 21,603 | (19,744) |
| Income tax expense (note 14) | (8) | (18) | (45) | (103) |
| Profit (loss) and comprehensive income (loss) | $ 1,594 | $ 655 | $ 21,558 | $ (19,847) |
| Earnings (loss) per share (note 15) | | | | |
| Basic and diluted | $ 0.01 | $ 0.00 | $ 0.15 | $ (0.14) |
| 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)

| **Nine months ended September 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 income | | - | | - | | - | | 21,558 | | 21,558 |
| Balance at September 30, 2021 | $ | 382,182 | $ | 17,735 | $ | (2,227) | $ | (55,610) | $ | 342,080 |

| **Nine months ended September 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) | | - | | 187 | | - | | - | | 187 |
| Loss and comprehensive loss | | - | | - | | - | | (19,847) | | (19,847) |
| Balance at September 30, 2020 | $ | 382,182 | $ | 17,673 | $ | (2,227) | $ | (62,615) | $ | 335,013 |

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) | Nine Months Ended September 30 2021 | 2020 |
|---|---|---|
| **Operating activities** | | |
| Profit (loss) | $ 21,558 | $ (19,847) |
| (Increase) decrease in unrealized value of investments in private entities, less dividends (note 4) | (20,728) | 38,942 |
| Share of (income) loss from investment in associates (note 4) | (4,248) | 1,507 |
| Increase in unrealized value of other investments (note 4) | (208) | (108) |
| Share-based compensation expense (recovery) (note 12) | 1,026 | (441) |
| Site restoration (recovery) expense (note 9) | (2,675) | 54 |
| Depreciation and amortization | 110 | 115 |
| Unrealized foreign exchange loss (gain) | 840 | (1,044) |
| Derivative warrant gain (note 8) | (427) | (997) |
| Change in income tax receivable, payable and deferred (note 14) | (306) | (128) |
| Change in other assets | 961 | 446 |
| Change in other accounts payable and accrued liabilities | 113 | (527) |
| Cash (used in) provided from operating activities | (3,984) | 17,972 |
| **Investing activities** | | |
| Purchase of investments in private entities (note 4) | - | (44,004) |
| Purchase of capital assets | (10) | (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 | 3,990 | (31,921) |
| Net increase (decrease) in cash | 6 | (13,949) |
| Cash, beginning of period | 8,741 | 22,240 |
| Cash, end of period | $ 8,747 | $ 8,291 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $ 1,486 | $ 1,384 |

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

## 1 Nature of Operations

The Westaim Corporation ("Westaim") was incorporated on May 7, 1996 by articles of incorporation under the Business Corporations Act (Alberta). Westaim's head office is located at Suite 1700, 70 York Street, Toronto, Ontario, Canada. These consolidated financial statements were authorized for issue by the Board of Directors of Westaim on November 18, 2021.

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

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the global financial services industry. The Company's principal investments consist of Skyward Specialty Insurance Group Inc. ("Skyward Specialty"), Arena FINCOs (as defined in note 4) and Arena Investors (as defined in note 4). Westaim's common shares ("Common Shares") are traded on the TSX Venture Exchange ("TSXV") under the symbol "WED".

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

## 2 Summary of Significant Accounting Policies

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

*(a) Basis of preparation*

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

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

The Company meets the definition of an investment entity under IFRS 10 "*Consolidated Financial Statements*" ("IFRS 10") and measures its investments in relevant subsidiaries at fair value through profit or loss ("FVTPL"), instead of consolidating those subsidiaries in its consolidated financial statements. Entities accounted for at FVTPL consist of Skyward Specialty (including Westaim HIIG Limited Partnership (the "HIIG Partnership")), and the Arena FINCOs (as defined in note 4).

Investment in associates are accounted for using the equity method in accordance with IAS 28 "*Investments in Associates and Joint Ventures*" ("IAS 28") and consists of investments in corporations or limited partnerships where the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over these policies. The Company's investment in associates consist of its investment in Arena Investors (as defined in note 4), and is reported under investments in the consolidated statements of financial position, with the Company's share of profit (loss) and comprehensive income (loss) of the associates reported under "Net results of investments" in the consolidated statements of profit (loss) and comprehensive income (loss).

*(b) Functional and presentation currency*

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

*(c) Use of estimates*

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

## 2 Summary of Significant Accounting Policies (continued)

*(d) Judgments made by management*

Key areas where management has made difficult, complex or subjective judgments in the process of applying the Company's accounting policies, often as a result of matters that are inherently uncertain, include determining that the Company meets the definition of an investment entity under IFRS 10, valuation techniques for fair value determination of investments in private entities, applying the equity method of accounting for associates and determining that the Company's functional currency is the US$. For additional information on these judgments, see note 4 for investments in private entities and associates and note 2(b) for functional currency.

*(e) Foreign currency translation*

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

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

*(f) Revenue recognition*

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

*(g) Cash and cash equivalents*

Cash and cash equivalents generally consist of cash on deposit and highly liquid short-term investments with original maturities of 90 days or less. At September 30, 2021, the Company's cash consisted of cash on deposit in both Canadian dollars ("C$") and US$, including restricted cash on deposit of $3,000 (December 31, 2020 - $3,000) (see note 7).

*(h) Capital assets*

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

*(i) Leases*

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

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

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

**2 Summary of Significant Accounting Policies (continued)**

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

In accordance with IFRS 16 "*Leases*" ("IFRS 16"), the Company has elected not to recognize right of use assets and lease liabilities for short term leases of less than a term of 12 months and leases of low value. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the term of the lease.

*(j) Investments*

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

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

Investment in Arena Special Opportunities Fund, LP ("ASOF LP") (as defined in note 4), is classified as FVTPL and is carried at fair value.

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

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

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

*(k) Income taxes*

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

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

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

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

## 2 Summary of Significant Accounting Policies (continued)

*(l) Warrants*

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

*(m) Site restoration provision*

Future site restoration costs relate to industrial sites previously owned by the Company and are estimated taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The estimated amount of future restoration costs is reviewed periodically based on available information. The amount of the provision is the estimated future restoration expenditures.

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

*(n) Contributed surplus*

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

*(o) Accumulated other comprehensive loss*

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

*(p) Share-based compensation*

The Company maintains share-based compensation plans, which are described in note 12. The value attributed to stock options at issuance are recognized in income as an expense over the period from the issue date to the vesting date with a corresponding increase in contributed surplus. Any consideration paid by stock option holders for the purchase of stock is credited to share capital.

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

*(q) Earnings (loss) per share*

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

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

## 3 Other Assets

Other assets consist of the following:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Capital assets | $ 38 | $ 42 |
| Right of use asset (a) | 399 | 494 |
| Receivables from related parties (b) | - | 830 |
| Accounts receivable and other | 140 | 271 |
| | $ 577 | $ 1,637 |

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

## 3 Other Assets (continued)

(a) Effective, December 1, 2019, the Company entered into a new operating lease for its office premises in Toronto, Ontario, Canada expiring on November 30, 2024. At the commencement date of the lease, in accordance with IFRS 16, a right of use asset was recorded at cost under other assets and a lease liability was recorded at amortized cost under accounts payable and accrued liabilities in the consolidated statements of financial position. Subsequent to initial recognition, the right of use asset is depreciated using the straight-line method over the term of the lease with depreciation recorded in the consolidated statements of profit (loss) and comprehensive income (loss). Each lease payment reduces the lease liability and the accretion of the lease liability is recorded as interest expense included under general, administrative and other in the consolidated statements of profit (loss) and comprehensive income (loss).

The right of use asset recorded for the Company's office premises was $399 and $494 at September 30, 2021 and December 31, 2020, respectively. The depreciation on the right of use asset was $32 and $95 in the three and nine months ended September 30, 2021, respectively and $31 and $94 in the three and nine months ended September 30, 2020, respectively.

The lease liability recorded for the Company's office premises was $446 and $541 at September 30, 2021 and December 31, 2020, respectively. The lease payments were $33 and $99 in the three and nine months ended September 30, 2021, respectively and the interest expense on the lease liability was $1 and $5 in the three and nine months ended September 30, 2021, respectively. The lease payments were $33 and $88 in the three and nine months ended September 30, 2020, respectively and the interest expense on the lease liability was $2 and $7 in the three and nine months ended September 30, 2020, respectively. The Company recorded an unrealized foreign exchange gain relating to the lease liability of $11 and $1 in the three and nine months ended September 30, 2021 and an unrealized foreign exchange loss relating to the lease liability of $11 and an unrealized foreign exchange gain of $16 in the three and nine months ended September 30, 2020, respectively.

(b) Receivables from related parties totaled $nil at September 30, 2021 and $830 at December 31, 2020 which included certain expenses paid by the Company on behalf of Arena FINCOs and Arena Investors from time to time which were subject to reimbursement.

## 4 Investments

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

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Investments in private entities | $ 364,573 | $ 343,845 |
| Investment in associates | 20,418 | 20,170 |
| Investment in ASOF LP | 3,104 | 2,896 |
| | $ 388,095 | $ 366,911 |

The Company's principal investments consist of its investment in Skyward Specialty, Arena FINCOs and Arena Investors. Investments in private entities are measured at FVTPL and investment in associates is accounted for using the equity method.

| | Place of establishment | Principal place of business | Ownership interest at September 30, 2021 | Ownership interest at December 31, 2020 |
|---|---|---|---|---|
| Investments in private entities: | | | | |
| - Skyward Specialty | Delaware, U.S. | Texas, U.S. | 44.0% owned by the Company[1] | 44.5% owned by the Company[1] |
| - Arena FINCOs (as hereinafter defined) | Delaware, U.S. | New York, U.S. | 100% owned by the Company | 100% owned by the Company |
| Investment in associates: | | | | |
| - Arena Investors (as hereinafter defined) | Delaware, U.S. | New York, U.S. | 51% beneficially owned by the Company[2] | 51% beneficially owned by the Company[2] |

[1] At September 30, 2021, the Company owned Skyward Specialty's preferred shares which are convertible into Skyward Specialty common shares representing 23.0% of the fully diluted Skyward Specialty common shares (December 31, 2020 – 23.2%). The Company also owned 21.0% of the Skyward Specialty fully diluted common shares through the HIIG Partnership which is established and operates in Ontario, Canada (December 31, 2020 – 21.3%). Accordingly, the Company's total look-through ownership interest in Skyward Specialty is 44.0% (December 31, 2020 – 44.5%). Based on the Company's control of the HIIG Partnership, and its ownership of preferred shares, the Company held a 56.9% and 57.5% voting interest in Skyward Specialty at September 30, 2021 and December 31, 2020, respectively.

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

<u>Skyward Specialty</u>

The Company's investment in Skyward Specialty is recorded as an investment in private entities and is measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below for a further description of the Company's investment in Skyward Specialty.

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

**4 Investments (continued)**

Arena FINCOs

Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit investments for their own account and a company that facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. The Company's investments in the Arena FINCOs are measured at FVTPL in the Company's consolidated financial statements. See "Investments in Private Entities" below.

Arena Investors

Arena Investors Group Holdings, LLC ("AIGH"), through its subsidiaries, operates as a US based investment manager offering third-party clients access to primarily fundamentals-based, asset-oriented credit investments that aim to deliver attractive yields with low volatility. AIGH is the sole limited partner of Arena Investors, LP, a limited partnership established under the laws of Delaware to provide investment services to third-party clients and Arena FINCOs. The Company's investment in Arena Investors is accounted for using the equity method in the Company's consolidated financial statements. See "Investment in Associates" below.

**INVESTMENTS IN PRIVATE ENTITIES**

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

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

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

| September 30, 2021 | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments in private entities: | | | | |
| - Skyward Specialty | $ 192,219 | - | - | $ 192,219 |
| - Arena FINCOs | 172,354 | - | - | 172,354 |
| | $ 364,573 | $ - | $ - | $ 364,573 |

| December 31, 2020 | Fair value | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Investments in private entities: | | | | |
| - Skyward Specialty | $ 180,776 | - | - | $ 180,776 |
| - Arena FINCOs | 163,069 | - | - | 163,069 |
| | $ 343,845 | $ - | $ - | $ 343,845 |

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

| Three months ended September 30, 2021 | Opening balance | Increase (decrease) in unrealized value | Ending Balance |
|---|---|---|---|
| Investments in private entities: | | | |
| - Skyward Specialty | $ 189,333 | $ 2,886 | $ 192,219 |
| - Arena FINCOs | 173,084 | (730) | 172,354 |
| | $ 362,417 | $ 2,156 | $ 364,573 |

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

**4 Investments (continued)**

| Three months ended September 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 | $ 190,912 | $ - | $ - | $ 3,406 | $ - | $ 194,318 |
| - Arena FINCOs | 169,045 | - | - | 385 | - | 169,430 |
| | $ 359,957 | $ - | $ - | $ 3,791 | $ - | $ 363,748 |

| Nine months ended September 30, 2021 | Opening balance | Increase in unrealized value | Ending Balance |
|---|---|---|---|
| Investments in private entities: | | | |
| - Skyward Specialty | $ 180,776 | $ 11,443 | $ 192,219 |
| - Arena FINCOs | 163,069 | 9,285 | 172,354 |
| | $ 343,845 | $ 20,868 | $ 364,573 |

| Nine months ended September 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 | $ 164,953 | $ 44,004 | $ - | $ (14,639) | $ - | $ 194,318 |
| - Arena FINCOs | 205,850 | - | (12,117) | (1,570) | (22,733) | 169,430 |
| | $ 370,803 | $ 44,004 | $ (12,117) | $ (16,209) | $ (22,733) | $ 363,748 |

There were no transfers among Levels 1, 2 and 3 during the nine months ended September 30, 2021 and 2020.

***Investment in Skyward Specialty***

At September 30, 2021, the Company's $192,219 valuation of its investment in Skyward Specialty consisted of the aggregate fair value of: (i) Skyward Specialty convertible preferred shares held directly by the Company of $100,079, (ii) its share of the Skyward Specialty common shares held by the HIIG Partnership of $91,675, and (iii) its share of the other net assets of the HIIG Partnership of $465. At December 31, 2020, the Company's $180,776 valuation of its investment in Skyward Specialty consisted of the aggregate fair value of: (i) Skyward Specialty convertible preferred shares held directly by the Company of $94,077, (ii) its share of the Skyward Specialty common shares held by the HIIG Partnership of $86,177, and (iii) its share of the other net assets of the HIIG Partnership of $522.

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 total gross proceeds of $100,000 to Skyward Specialty. As part of the rights offering, Westaim purchased $44,004 of the Skyward Specialty convertible 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 September 30, 2021, the adjustments, if effective, would result in a conversion price of $1.38 per share. At December 31, 2020, the conversion price subject to adjustments, if effective, was $1.38 per share. At September 30, 2021, the Company's direct ownership of the Skyward Specialty preferred shares, which are convertible into Skyward Specialty common shares represented 23.0% (December 31, 2020 – 23.2%) of the fully diluted Skyward Specialty common shares outstanding.

At September 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 Skyward Specialty common shares through the HIIG Partnership was 21.0% (December 31, 2020 – 21.3%).

The Company's direct ownership of the Skyward Specialty preferred shares, combined with its interest in the HIIG Partnership, resulted in a 44.0% look-through interest in Skyward Specialty at September 30, 2021 (December 31, 2020 – 44.5%).

The Company, through HIIG GP, entered into a management services agreement with Skyward Specialty (the "Skyward Specialty MSA"), whereby HIIG GP was entitled to receive from Skyward Specialty an advisory fee. Effective August 1, 2019, the Skyward Specialty MSA was amended such that HIIG GP is entitled to receive from Skyward Specialty an advisory fee of $500 annually.

**4 Investments (continued)**

FVTPL

The investment in Skyward Specialty is accounted for at FVTPL. The fair value of the Company's investment in Skyward Specialty was determined to be $192,219 at September 30, 2021 and $180,776 at December 31, 2020.

Management used a multiple of net asset value as the primary valuation technique to arrive at the fair value of the Company's investment in Skyward Specialty at September 30, 2021. The fair value of the investment in Skyward Specialty at September 30, 2021 was derived from a valuation of the Skyward Specialty fully diluted common shares and other net assets held by the HIIG Partnership, and the Skyward Specialty convertible preferred shares held by Westaim at September 30, 2021. The carrying values of the HIIG Partnership's other net assets, consisting of monetary assets including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair values due to the short maturity of these financial instruments. In valuing the Skyward Specialty fully diluted common shares, management determined that using net asset value as the primary valuation technique produced the best indicator of the fair value of the Skyward Specialty fully diluted common shares at September 30, 2021 and December 31, 2020, given that this is the valuation technique which a market participant would employ. The Skyward Specialty convertible preferred shares were valued at their common share equivalent on an as converted basis.

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 September 30, 2021 (December 31, 2020 - 1.0x). The adjusted stockholders' equity of Skyward Specialty at September 30, 2021 reflects the Skyward Specialty stockholders' equity obtained from the unaudited financial statements of Skyward Specialty at and for the nine months ended September 30, 2021 prepared in accordance with accounting principles generally accepted in the United States of America, adjusted for a reclassification of a stock notes receivable from employees relating to their purchase of Skyward Specialty common and convertible preferred shares. The adjusted stockholders' equity contained certain significant judgments and estimates made by management of Skyward Specialty including the provision for loss and loss adjustment expenses ("LAE"), the valuation of goodwill and intangible assets, and the valuation allowance recorded against deferred income tax assets.

Due to market uncertainty, the Company felt it appropriate to reduce the fair value of Skyward Specialty's valuation multiple from 1.1x to 1.0x adjusted stockholders' equity at March 31, 2020 which resulted in an unrealized loss of $nil and $14,936 for the three and nine months ended September 30, 2020, respectively, to the Company solely due to this reduction in the valuation multiple.

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

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The Company recorded an increase in the unrealized value on its investment in Skyward Specialty of $2,886 and $11,443 in the three and nine months ended September 30, 2021, respectively, and an increase in the unrealized value of $3,406 and a decrease in the unrealized value of $14,639 in the three and nine months ended September 30, 2020, respectively.

For purposes of assessing the sensitivity of Skyward Specialty stockholders' equity on the valuation of the Company's investment in Skyward Specialty, if Skyward Specialty stockholders' equity at September 30, 2021 was higher by $1,000, the fair value of the Company's investment in Skyward Specialty at September 30, 2021 would have increased by approximately $440 (December 31, 2020 - $445) and the change in the unrealized value of investments in private entities for the three and nine months ended September 30, 2021 would have increased by approximately $440 (for the three and nine months ended September 30, 2020 - $445). If Skyward Specialty stockholders' equity at September 30, 2021 was lower by $1,000, an opposite effect would have resulted.

***Investment in the Arena FINCOs***

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

FVTPL

The Company's investment in the Arena FINCOs is accounted for at FVTPL and are included in investments in private entities. The fair value of the Company's investment in the Arena FINCOs was determined to be $172,354 at September 30, 2021 and $163,069 at December 31, 2020.

**4 Investments (continued)**

Management used net asset value as the primary valuation technique and determined that 100% (or 1.0x) of the equity of the Arena FINCOs at September 30, 2021 in the amount of $172,354 approximated the fair value of the Company's investment in the Arena FINCOs. Management determined that the net asset value valuation technique produced the best indicator of the fair value of the Arena FINCOs at September 30, 2021. This same valuation technique was used to determine the fair value of the Company's investment in the Arena FINCOs of $163,069 at December 31, 2020.

The significant unobservable inputs used in the valuation of the Arena FINCOs at September 30, 2021 were the aggregate equity of the Arena FINCOs at September 30, 2021 and the multiple applied. Management applied a multiple of 1.0x as the equity of each of the entities reflected the net assets of the respective entity which were carried at fair value at September 30, 2021, as described below (December 31, 2020 – 1.0x). The equity contained certain significant judgments and estimates made by management of the Arena FINCOs, including the determination of the fair value of their subsidiaries' investments as noted below.

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

- Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange. Equity securities traded on inactive markets and certain foreign equity securities are valued using significant other observable inputs, if available, which include broker quotes or evaluated price quotes received from pricing services. If the inputs are not observable or available on a timely basis, the values of these securities are determined using valuation methodologies for Level 3 investments described below.

- Corporate bonds are valued using various inputs and techniques, which include third-party pricing services, dealer quotations, and recently executed transactions in securities of the issuer or comparable issuers. Adjustments to individual bonds can be applied to recognize trading differences compared to other bonds issued by the same issuer. Values for high-yield bonds are based primarily on pricing services and dealer quotations from relevant market makers. The dealer quotations received are supported by credit analysis of the issuer that takes into consideration credit quality assessments, daily trading activity, and the activity of the underlying equities, listed bonds, and sector-specific trends. If these inputs are not observable or timely, the values of corporate bonds and convertible bonds are determined using valuation methodologies for Level 3 investments described below.

- Private loans and other private investments are valued using valuation methodologies for Level 3 investments. When valuing private loans, factors evaluated include the impact of changes in market yields, credit quality of the borrowers and estimated collateral values. If there is sufficient credit coverage, a yield analysis is performed by projecting cash flows for the instrument and discounting the cash flows to present value using a market-based, risk adjusted rate. On each valuation date, an analysis of market yields is also performed to determine if any adjustments to the fair values are necessary. Techniques used to value collateral, real estate, and other hard assets include discounted cash flows, with the discount rate being the primary unobservable input, recent transaction pricing and third-party appraisals. Private investments held through joint ventures are valued net of each respective joint venture waterfall and other joint venture assets and liabilities.

- Warrants that are actively traded on a securities exchange are valued based on quoted prices. Warrants that are traded over the counter or are privately issued are valued based on observable market inputs, if available. If these inputs are not observable or timely, the values of warrants are determined using valuation methodologies for Level 3 investments described below.

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

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

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

**4 Investments (continued)**

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

The Company recorded a decrease in the unrealized value of its investment in the Arena FINCOs of $730 in the three months ended September 30, 2021 and an increase in the unrealized value of its investment in the Arena FINCOs of $9,285 in the nine months ended September 30, 2021, in the consolidated statements of profit (loss) and comprehensive income (loss). There were no dividends paid or capital returned in the three and nine months ended September 30, 2021. The Company recorded an increase in the unrealized value of its investment in the Arena FINCOs of $385 in the three months ended September 30, 2020 and a decrease in the unrealized value of its investment in the Arena FINCOs of $1,570 before dividends paid to the Company of $22,733 in the nine months ended September 30, 2020. In addition, Arena FINCOs returned capital in the amount of $12,117 in the nine months ended September 30, 2020.

For purposes of assessing the sensitivity of the equity of the Arena FINCOs on the valuation of the Company's investment in the Arena FINCOs, if the equity of the Arena FINCOs at September 30, 2021 was higher by $1,000, the fair value of the Company's investment in the Arena FINCOs at September 30, 2021 would have increased by $1,000 (December 31, 2020 - $1,000) and the change in the unrealized value of the investments in private entities for the three and nine months ended September 30, 2021 would have increased by $1,000 (for the three and nine months ended September 30, 2020 - $1,000). If the equity of the Arena FINCOs at September 30, 2021 was lower by $1,000, an opposite effect would have resulted.

**INVESTMENT IN ASSOCIATES**

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

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

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

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Financial information of associates: | | |
| Assets | $ 47,639 | $ 36,091 |
| Liabilities | (54,913) | (51,695) |
| Net liabilities | $ (7,274) | $ (15,604) |
| Company's share | $ (3,582) | $ (7,830) |
| Arena Investors' Revolving Loan with the Company | 24,000 | 28,000 |
| Carrying amount of the Company's investment in associates | $ 20,418 | $ 20,170 |

| | Three months ended September 30 2021 | 2020 | Nine months ended September 30 2021 | 2020 |
|---|---|---|---|---|
| Financial information of associates: | | | | |
| Revenue | $ 13,728 | $ 7,869 | $ 40,932 | $ 18,676 |
| Operating expenses [1] | (11,717) | (8,514) | (32,602) | (21,630) |
| Profit (loss) and comprehensive income (loss) | $ 2,011 | $ (645) | $ 8,330 | $ (2,954) |
| Company's share of profit (loss) of associates (51%) | $ 1,026 | $ (330) | $ 4,248 | $ (1,507) |

[1] Includes interest expense on the Arena Investors' Revolving Loan granted by the Company of $339 and $1,059 in the three and nine months ended September 30, 2021, respectively and $264 and $786 in the three and nine months ended September 30, 2020, respectively.

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

## 4 Investments (continued)

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

| | Three months ended September 30 2021 | Three months ended September 30 2020 | Nine months ended September 30 2021 | Nine months ended September 30 2020 |
|---|---|---|---|---|
| Carrying amount of investment in associates: | | | | |
| Opening balance | $ 19,392 | $ 11,096 | $ 20,170 | $ 12,273 |
| Company's share of profit (loss) of associates (51%) | 1,026 | (330) | 4,248 | (1,507) |
| Decrease in Arena Investors' Revolving Loan with the Company | - | - | (4,000) | - |
| Ending balance | $ 20,418 | $ 10,766 | $ 20,418 | $ 10,766 |

The Company has a revolving loan to the associates (the "Arena Investors' Revolving Loan") with a limit of $35,000 at September 30, 2021 (December 31, 2020 - $35,000) in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility has been extended to March 31, 2023 and bears an interest rate of 5.60% per annum, effective December 22, 2020. Arena Investors had drawn down the loan facility by $24,000 at September 30, 2021 and $28,000 at December 31, 2020. The loan facility is secured by all the assets of Arena Investors. The Company earned and received interest on the Arena Investors' Revolving Loan of $339 and $1,059 for the three and nine months ended September 30, 2021, respectively and $264 and $786 for the three and nine months ended September 30, 2020, respectively, which was reported under "Interest income" in the consolidated statements of profit (loss) and comprehensive income (loss).

The total of the Company's 51% share of profit of the associates was $1,026 and $4,248 in the three and nine months ended September 30, 2021, respectively and share of loss was $330 and $1,507 in the three and nine months ended September 30, 2020, respectively, which was reported under "Share of income (loss) from investment in associates" in the consolidated statements of profit (loss) and comprehensive income (loss).

**INVESTMENTS IN ASOF-LP**

The Company's investments in ASOF LP, a fund managed by Arena Investors, is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At September 30, 2021 and December 31, 2020, the fair value of the Company's interest in ASOF LP was determined by Arena Investors to be $3,104 and $2,896, respectively. The Company reported an increase in the unrealized value of its investment in ASOF LP of $43 and $208 in the three and nine months ended September 30, 2021, respectively, and an increase in the unrealized value of $86 and $108 in the three and nine months ended September 30, 2020, respectively, with respect to the investment in the consolidated statements of profit (loss) and comprehensive income (loss).

## 5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| RSUs (note 12) | $ 6,472 | $ 5,931 |
| DSUs (note 12) | 2,198 | 1,672 |
| Lease liability (note 3) | 446 | 541 |
| Interest on Preferred Securities (note 6) | 498 | 493 |
| C$ exchange forward contract payable (note 7) | 498 | 11 |
| Other accounts payable and accrued liabilities | 2,548 | 2,346 |
| Ending balance | $ 12,660 | $ 10,994 |

## 6 Preferred Securities

On April 3, 2017, the Company announced that it had entered into an agreement pursuant to which Fairfax Financial Holdings Limited, through certain of its subsidiaries (collectively, "Fairfax"), had agreed to make an investment of up to C$100 million in Westaim in exchange for the issuance by Westaim of 5% interest bearing notes (the "Preferred Securities") and Common Share purchase warrants (the "Warrants") (see note 8).

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

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

## 6 Preferred Securities (continued)

On June 2, 2017, the Company closed the subscription by Fairfax of C$50 million of Preferred Securities (the "Fairfax Financing"). The Company had discretion until January 1, 2018 to require Fairfax to purchase all or part of 5,000,000 additional Preferred Securities, and exercised its discretion not to do so. There were 5,000,000 Preferred Securities outstanding at September 30, 2021 and December 31, 2020.

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of profit (loss) and comprehensive income (loss). The carrying amount of the Preferred Securities, which approximated fair value, was $39,499 and $39,248 at September 30, 2021 and December 31, 2020, respectively. The Company recorded an unrealized foreign exchange gain relating to the Preferred Securities of $793 and an unrealized foreign exchange loss of $251 in the three and nine months ended September 30, 2021, respectively and an unrealized foreign exchange loss of $758 and an unrealized foreign exchange gain of $943 relating to the Preferred Securities in the three and nine months ended September 30, 2020, respectively.

Interest expense on the Preferred Securities amounted to $498 and $1,491 in the three and nine months ended September 30, 2021, respectively, and $472 and $1,371 in the three and nine months ended September 30, 2020, respectively. Accrued interest expense was $498 and $493 at September 30, 2021 and December 31, 2020, respectively, and was reported under accounts payable and accrued liabilities in the consolidated statements of financial position.

## 7 C$ Exchange Forward Contracts

At September 30, 2021, the Company has entered into a 365 day C$ exchange forward contract to purchase C$50 million. Additionally, during the nine months ended September 30, 2021, the Company settled three C$ exchange forward contracts to purchase C$40 million. During 2020, the Company settled four C$ exchange forward contracts to purchase C$40 million each. The impact was to primarily offset C$ currency gains or losses on the Company's underlying C$ currency liabilities, including the currency exposure arising from the Preferred Securities.

The Company has not designated these C$ exchange forward contracts as accounting hedges.

Changes to the C$ exchange forward contract payable was as follows:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| C$ exchange forward contract (payable) receivable, opening balance | $ (11) | $ 244 |
| Change in value of C$ exchange forward contracts – (loss) gain | (481) | 370 |
| Net cash settlements (received) from C$ exchange forward contracts | (6) | (625) |
| C$ exchange forward contract (payable), closing balance | $ (498) | $ (11) |

A C$ exchange forward contract payable was accrued in the amount of $498 and $11 at September 30, 2021 and December 31, 2020, respectively and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. The change in value of C$ exchange forward contract resulted in a net loss of $1,190 and $481 for the three and nine months ended September 30, 2021, respectively, and a net gain of $554 and a net loss of $920 for the three and nine months ended September 30, 2020, respectively, and was reported under foreign exchange (loss) gain in the consolidated statements of profit (loss) and comprehensive income (loss).

In connection with C$ exchange forward contracts which the Company has settled, the Company had obtained a credit facility under which the Company pledged cash on deposit of $3,000 (December 31, 2020 - $3,000) as security. There is no required security for the current C$ exchange forward contract.

## 8 Derivative Warrant Liability

In connection with the Preferred Securities (see note 6), Westaim issued to Fairfax 14,285,715 Warrants, each exercisable for one Common Share at an exercise price of C$3.50. The Warrants vest proportionately based upon the aggregate percentage of Preferred Securities purchased by Fairfax, with 14,285,715 having vested on June 2, 2017. Each vested Warrant is exercisable on or prior to June 2, 2022, but the expiry date will be extended to June 2, 2024 if the volume-weighted average trading price of the Common Shares for the 10 day period ending on June 2, 2022 is less than C$5.60. After June 2, 2020, the Company can also elect to require early exercise of the Warrants if the volume-weighted average trading price of the Common Shares for any 10 day period prior to the election is at least C$5.60.

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

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

## 8 Derivative Warrant Liability (continued)

Changes to the derivative warrant liability are as follows:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Opening balance | $ 1,026 | $ 1,921 |
| Change in fair value – gain | (427) | (795) |
| Unrealized foreign exchange – loss (gain) | 13 | (100) |
| Ending balance | $ 612 | $ 1,026 |

The Company recorded an unrealized gain resulting from a change in the fair value of the vested Warrants of $282 and $427 in the three and nine months ended September 30, 2021, respectively, and an unrealized loss resulting from a change in the fair value of the vested Warrants of $334 and an unrealized gain of $997 in the three and nine months ended September 30, 2020, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the vested Warrants of $18 and an unrealized foreign exchange loss of $13 in the three and nine months ended September 30, 2021, respectively, and an unrealized foreign exchange loss with respect to the vested Warrants of $9 and an unrealized foreign exchange gain of $135 in the three and nine months ended September 30, 2020, respectively, under foreign exchange in the consolidated statements of profit (loss) and comprehensive income (loss). At September 30, 2021 and December 31, 2020, a liability of $612 and $1,026, respectively, had been recognized with respect to the vested Warrants in the consolidated statements of financial position.

The fair value liability of the vested Warrants at September 30, 2021 of $612 (December 31, 2020 - $1,026) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the Common Shares, a risk-free interest rate of 0.25% (December 31, 2020 – 0.17%), an expiration date between October 1, 2021 and June 2, 2024 (December 31, 2020: January 1, 2021 and June 2, 2024), a volatility of the underlying Common Shares of 27.51% (December 31, 2020 – 28.36%), a closing price of the Common Shares of C$2.70 (December 31, 2020 - C$2.49) and a strike price of C$3.50. The amounts computed according to the Monte Carlo pricing model may not be indicative of the actual values realized upon the exercise of the vested Warrants by Fairfax.

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

## 9 Site Restoration Provision

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. The site restoration provision is based on periodic independent estimates of costs associated with soil and groundwater reclamation and remediation of these industrial sites. The ultimate environmental costs are uncertain as they are dependent on the future use of the land and future laws and regulations.

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:

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Opening balance | $ 4,864 | $ 4,097 |
| Changes due to: | | |
| Indemnity payment to a third party | (2,705) | - |
| Estimates of future expenditures | 30 | 686 |
| Present value adjustment | - | (5) |
| Unrealized foreign exchange loss | 50 | 86 |
| Ending balance | $ 2,239 | $ 4,864 |

The Company conducts periodic reviews of the underlying assumptions supporting the provision, taking into consideration the anticipated method and extent of the remediation consistent with regulatory requirements, industry practices, current technology and possible uses of the site. The amount of the provision is adjusted for the estimated future restoration costs.

In the second quarter of 2021, the Company negotiated a settlement of C$3,400 ($2,705) 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$3,300 ($2,626) indemnity recovery from the previous owners of these same industrial sites. The indemnity recovery 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 nine months ended September 30, 2021.

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

### 9 Site Restoration Provision (continued)

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

### 10 Commitments and Contingent Liabilities

Effective, December 1, 2019, Westaim entered into a new operating lease for the office premises in Toronto expiring on November 30, 2024. At September 30, 2021, the Company had a total commitment of $910 for future occupancy cost payments including payments due not later than one year of $282 and payments due later than one year of $628. At December 31, 2020, the Company had a total commitment of $1,114 for future occupancy cost payments including payments due not later than one year of $280 and payments due later than one year of $834.

### 11 Share Capital

Westaim's authorized share capital consists of an unlimited number of Common Shares with no par value, Class A preferred shares with no par value and Class B preferred shares with no par value.

At September 30, 2021 and December 31, 2020, Westaim had a total of 143,186,718 Common Shares issued and outstanding, with a stated capital of $382,182. There were no changes in share capital in the nine months ended September 30, 2021 and the year ended December 31, 2020. Refer to note 18 - Subsequent Event for activity after September 30, 2021 related to Westaim share capital.

No shares of Westaim are held by the Company, and there were no Class A preferred shares or Class B preferred shares outstanding at September 30, 2021 and December 31, 2020.

### 12 Share-based Compensation

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

The Option Plan is a "rolling plan" which provides that the aggregate number of Common Shares which may be reserved for issuance under the Option Plan is limited to not more than 10% of the aggregate number of Common Shares outstanding or 14,318,671 at September 30, 2021. 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 Westaim, which exceed 10% of the aggregate number of Common Shares outstanding. As the DSUs are settled solely in cash, they are not included in the 10% limitation referred to above.

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

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

| | Nine months ended September 30, 2021 | | Nine months ended September 30, 2020 | |
|---|---|---|---|---|
| | Number | Weighted Average Exercise Price | Number | Weighted Average Exercise Price |
| Opening balance | 10,428,337 | C$ 3.10 | 10,428,337 | C$ 3.10 |
| Granted | - | C$ - | - | C$ - |
| Ending balance | 10,428,337 | C$ 3.10 | 10,428,337 | C$ 3.10 |
| Options vested at end of period | 10,428,337 | C$ 3.10 | 9,156,670 | C$ 3.10 |

| September 30, 2021<br>Exercise prices | Number of stock options outstanding | Weighted Average Remaining Contractual Life (years) | Outstanding Weighted Average Exercise Price | Number of stock options vested | Vested Weighted Average Exercise Price |
|---|---|---|---|---|---|
| C$ 3.10 | 3,815,000 | 3.30 | C$ 3.10 | 3,815,000 | C$ 3.10 |
| C$ 3.00 | 3,860,397 | 2.51 | C$ 3.00 | 3,860,397 | C$ 3.00 |
| C$ 3.25 | 2,752,940 | 1.50 | C$ 3.25 | 2,752,940 | C$ 3.25 |
| | 10,428,337 | 2.53 | C$ 3.10 | 10,428,337 | C$ 3.10 |

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

**12 Share-based Compensation (continued)**

| December 31, 2020<br>Exercise prices | Number of stock options outstanding | Weighted Average Remaining Contractual Life (years) | Outstanding Weighted Average Exercise Price | Number of stock options vested | Vested Weighted Average Exercise Price |
|---|---|---|---|---|---|
| C$ 3.10 | 3,815,000 | 4.05 | C$ 3.10 | 3,815,000 | C$ 3.10 |
| C$ 3.00 | 3,860,397 | 3.26 | C$ 3.00 | 3,860,397 | C$ 3.00 |
| C$ 3.25 | 2,752,940 | 2.25 | C$ 3.25 | 2,752,940 | C$ 3.25 |
| | 10,428,337 | 3.28 | C$ 3.10 | 10,428,337 | C$ 3.10 |

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

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

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

No options were granted or issued in the nine months ended September 30, 2021 and the year ended December 31, 2020.

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

Compensation expense relating to options was $nil in each of the three and nine months ended September 30, 2021 and $63 and $187 in the three and nine months ended September 30, 2020, respectively, with a corresponding increase to contributed surplus.

***Restricted Share Units*** - RSUs vest on specific dates and became payable when vested with either cash or Common Shares, at the option of the holder.

Changes to the number of RSUs are as follows:

| | Nine months ended September 30 | |
|---|---|---|
| | 2021 | 2020 |
| Opening balance | 3,034,261 | 3,034,261 |
| Exercised | - | - |
| Ending balance | 3,034,261 | 3,034,261 |

On November 14, 2014, an aggregate of 2,375,000 RSUs were granted to certain officers, employees and consultants of Westaim. These RSUs have a term of fifteen years from date of issue and at September 30, 2021, all of these RSUs had vested, of which 265,937 RSUs had been exercised and 2,109,063 RSUs were outstanding.

On April 1, 2016, an additional 925,198 RSUs were granted to certain officers and employees of Westaim. These RSUs have a term of fifteen years from date of issue and at September 30, 2021, all of these RSUs had vested and none have been exercised.

There were 3,034,261 RSUs outstanding at September 30, 2021 and December 31, 2020. No RSUs were granted or exercised in the nine months ended September 30, 2021 and the year ended December 31, 2020.

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

## 12 Share-based Compensation (continued)

Compensation expenses relating to RSUs, including the impact of the change in the market value of the Common Shares was an expense of $72 and $506 for the three and nine months ended September 30, 2021, respectively, and an expense of $478 and a recovery of $744 for the three and nine months ended September 30, 2020, respectively. At September 30, 2021, a liability of $6,472 (December 31, 2020 - $5,931) had been accrued by Westaim with respect to outstanding RSUs in the consolidated statements of financial position.

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

Changes to the number of DSUs are as follows:

| | Nine months ended September 30 | |
|---|---|---|
| | 2021 | 2020 |
| Opening balance | 855,228 | 642,779 |
| Granted | 175,251 | 162,709 |
| Ending balance | 1,030,479 | 805,488 |

In the nine months ended September 30, 2021, 175,251 DSUs were issued in lieu of director fees of $375 and in the nine months ended September 30, 2020, 162,709 DSUs were issued in lieu of director fees of $246. No DSUs were exercised in the nine months ended September 30, 2021 and 2020.

Compensation expenses relating to DSUs, including the impact of the change in the market value of the Common Shares was an expense of $148 and $520 in the three and nine months ended September 30, 2021, respectively, and an expense of $215 and $116 in the three and nine months ended September 30, 2020, respectively. At September 30, 2021, a liability of $2,198 (December 31, 2020 - $1,672) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

## 13 Related Party Transactions

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

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Salaries and benefits[1] | $ 1,006 | $ 828 | $ 3,086 | $ 2,363 |
| Share-based compensation expense (recovery) | 218 | 744 | 1,015 | (427) |
| Compensation expense | $ 1,224 | $ 1,572 | $ 4,101 | $ 1,936 |

[1] Salaries and benefits include director fees paid in cash totaling $27 and $82 in the three and nine months ended September 30, 2021, respectively, and $55 and $81 in the three and nine months ended September 30, 2020.

Fees paid to Hartford Consulting, Inc. ("Hartford"), a company owned by William R. Andrus, a director of Skyward Specialty, for insurance industry related consulting services were $20 and $60 in the three and nine months ended September 30, 2021, respectively, and $19 and $55 in the three and nine months ended September 30, 2020, respectively. Compensation relating to RSUs issued to Hartford was an expense of $1 and $10 in the three and nine months ended September 30, 2021, respectively, and an expense of $9 and a recovery of $15 in the three and nine months ended September 30, 2020, respectively, and the amounts were included in the consolidated statements of profit (loss) and comprehensive income (loss) under share-based compensation expense. At September 30, 2021, a liability of $126 (December 31, 2020 - $115) had been accrued in the consolidated statements of financial position with respect to outstanding RSUs held by Hartford.

The Company received a dividend from the Arena FINCOs in the amount of $nil in each of the three and nine months ended September 30, 2021 and $nil and $22,733 in the three and nine months ended September 30, 2020, respectively.

Arena FINCOs returned capital to the Company in the amount of $nil in each of the three and nine months ended September 30, 2021 and $nil and $12,117 in the three and nine months ended September 30, 2020, respectively.

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

## 13 Related Party Transactions (continued)

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

| | Three months ended September 30 2021 | Three months ended September 30 2020 | Nine months ended September 30 2021 | Nine months ended September 30 2020 |
|---|---|---|---|---|
| Related parties: | | | | |
| Arena Investors Revolving Loan (note 4) | $ 339 | $ 264 | $ 1,059 | $ 786 |
| | $ 339 | $ 264 | $ 1,059 | $ 786 |
| Unrelated parties: | | | | |
| Interest earned on bank balances | 2 | 2 | 6 | 106 |
| | $ 341 | $ 266 | $ 1,065 | $ 892 |

The Company earned advisory fees of $125 from Skyward Specialty in each of the three months ended September 30, 2021 and 2020, and $375 in each of the nine months ended September 30, 2021 and 2020. The Company earned advisory fees of $50 and $63 from the Arena FINCOs and Arena Investors, respectively, in each of the three months ended September 30, 2021 and 2020, and $150 and $188 from the Arena FINCOS and Arena Investors, respectively, in each of the nine months ended September 30, 2021 and 2020. Advisory fees are included in fee income in the consolidated statements of profit (loss) and comprehensive income (loss).

## 14 Income Taxes

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

| | Three months ended September 30 2021 | Three months ended September 30 2020 | Nine months ended September 30 2021 | Nine months ended September 30 2020 |
|---|---|---|---|---|
| Unrealized (gain) loss on investments in private entities | $ (856) | $ 1 | $ (1,765) | $ 5 |
| Non-capital loss carry-forwards | 861 | - | 1,772 | - |
| Difference between statutory and foreign tax credits | (6) | 1 | (6) | (8) |
| Deferred tax (recovery) expense | $ (1) | $ 2 | $ 1 | $ (3) |

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

| | September 30, 2021 | December 31, 2020 |
|---|---|---|
| Non-capital loss carry-forwards | $ 54,069 | $ 60,363 |
| Capital loss carry-forwards | 5,520 | 5,485 |
| Deductible temporary differences | 12,102 | 16,675 |
| Corporate minimum tax credits | 351 | 349 |
| Investment tax credits | 2,179 | 2,166 |

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2041, as follows:

| Non-capital losses by year of expiry: | |
|---|---|
| 2028 | $ 4,780 |
| 2029 | 7,148 |
| 2030 | 81 |
| 2031 | 199 |
| 2032 | 16,564 |
| 2033 | 3,026 |
| 2034 | 3,854 |
| 2035 | 2,016 |
| 2036 | 47 |
| 2037 | 5,970 |
| 2038 | 5,902 |
| 2039 | 2,916 |
| 2040 | 1,566 |
| | $ 54,069 |

| Investment tax credits by year of expiry: | |
|---|---|
| 2021 | $ 508 |
| 2022 | 256 |
| 2023 | 138 |
| 2024 | 314 |
| 2025 | 265 |
| Beyond 2025 | 698 |
| | $ 2,179 |

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

## 14 Income Taxes (continued)

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| Profit (loss) before income tax | $ 1,602 | $ 673 | $ 21,603 | $ (19,744) |
| Statutory income tax rates | 26.5% | 26.5% | 26.5% | 26.5% |
| Income taxes at statutory income tax rates | 425 | 179 | 5,725 | (5,232) |
| Variations due to: | | | | |
| Non-taxable portion of unrealized loss (gain) on investments in private entities | (861) | (856) | (1,772) | 5,670 |
| Tax losses allocated from the HIIG Partnership | (7) | - | (16) | (34) |
| Non-deductible (non-taxable) items | (61) | 108 | (91) | (6,365) |
| Difference between statutory and foreign tax rates | 128 | 17 | 50 | 46 |
| Unrecognized temporary differences | 2,428 | 252 | 2,283 | (297) |
| Unrecognized tax losses | (2,044) | 318 | (6,134) | 6,315 |
| Income tax expense | $ 8 | $ 18 | $ 45 | $ 103 |

At September 30, 2021, current income tax receivable from the United States tax authority of $64 (December 31, 2020 - $64) and current income tax payable to the Canadian federal tax authority of $nil (December 31, 2020 - $3) and United States federal tax authority of $30 (December 31, 2020 - $334) were recorded in the consolidated statements of financial position.

At September 30, 2021, a deferred tax liability for Canadian federal taxes of $7 (December 31, 2020 - $6) and United States federal taxes of $356 (December 31, 2020 - $356) was recorded in the consolidated statements of financial position.

## 15 Earnings (Loss) per Share

Westaim had 10,428,337 stock options, 3,034,261 RSUs and 14,285,715 Warrants outstanding at September 30, 2021 and 2020. The stock options and Warrants for the three and nine months ended September 30, 2021 and 2020 and the RSUs for the nine months ended September 30, 2021 and the RSUs for the three months ended September 30, 2020 were excluded in the calculation of diluted earnings (loss) per share as they were not dilutive. The RSUs for the three months ended September 30, 2021 and for the nine months ended September 30, 2020 were included in the calculation of diluted earnings (loss) per share as they were dilutive.

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

## 15 Earnings (Loss) per Share (continued)

Earnings (loss) per share, basic and diluted, are as follows:

| | Three months ended September 30 2021 | 2020 | Nine months ended September 30 2021 | 2020 |
|---|---|---|---|---|
| Basic earnings (loss) per share: | | | | |
| Profit (loss) | $ 1,594 | $ 655 | $ 21,558 | $ (19,847) |
| Weighted average number of Common Shares outstanding | 143,186,718 | 143,186,718 | 143,186,718 | 143,186,718 |
| Basic earnings (loss) per share | $ 0.01 | $ 0.00 | $ 0.15 | $ (0.14) |
| Diluted earnings (loss) per share: | | | | |
| Profit (loss) | $ 1,594 | $ 655 | $ 21,558 | $ (19,847) |
| Dilutive RSU recovery and related foreign exchange[1] | (56) | - | - | (995) |
| Profit (loss) on a diluted basis | $ 1,538 | $ 655 | $ 21,558 | $ (20,842) |
| 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 dilutive basis | 146,220,979 | 143,186,718 | 143,186,718 | 146,220,979 |
| Diluted earnings (loss) per share | $ 0.01 | $ 0.00 | $ 0.15 | $ (0.14) |

[1] The RSUs for the three months ended September 30, 2020 and for the nine months ended September 30, 2021 are not dilutive.

## 16 Capital Management

Westaim's capital currently consists of the Preferred Securities and Common Shares.

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

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

## 17 Financial Risk Management

The Company is exposed to a number of risks due to its business operations. The Company's consolidated statement of financial position at September 30, 2021 consists of short-term financial assets and financial liabilities with maturities of less than one year, investments in private entities and associates, Preferred Securities, derivative warrant liability and the site restoration provision. The most significant identified risks which arise from holding financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and equity risk. The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business.

Credit risk

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

Liquidity risk

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

## 17 Financial Risk Management (continued)

The Company has made investments in private entities and associates which do not typically have an active market. Private investment transactions can be highly structured and the Company takes measures, where possible, to create defined liquidity events and as part of its

strategy, the Company has sought to create or accelerate such liquidity events. However, such liquidity events are rarely expected in the first two or three years of making an investment and may not be realized as expected.

At September 30, 2021, the Company's short-term financial liabilities amounted to $3,574 (December 31, 2020 - $3,187), and the Company has access to cash and other resources to meet these financial obligations.

Currency risk

The Company's C$ denominated monetary liabilities exceed C$ denominated monetary assets and most of its operating expenses are paid in C$. From time to time, the Company may enter into C$ to US$ exchange forward contracts to manage its C$ currency exposures. The Company's C$50 million C$ exchange forward contract in affect at September 30, 2021 is effective at reducing a significant portion of the risk associated with changes in the C$ currency exchange. At September 30, 2021, it is estimated a 10% strengthening of the C$ against the US$ would have increased the foreign exchange loss for the three and nine months ended September 30, 2021 by approximately $806. A similar weakening of the C$ would result in an opposite effect.

The Company has not designated any foreign exchange forward contracts as accounting hedges.

Interest rate risk

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

Equity risk

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

## 18 Subsequent Event

On September 23, 2021, the Company announced that the TSX Venture Exchange (the "TSXV") had accepted a notice (the "Notice") filed by the Company for its intention to make a Normal Course Issuer Bid ("NCIB"). The Notice provided that the Company may, during the 12-month period commencing October 1, 2021 and ending September 30, 2022, purchase up to 11,208,044 Common Shares in total, representing approximately 10% of the Company's public float as of September 23, 2021.

As of November 18, 2021, 500,000 Common Shares have been repurchased and cancelled by the Company pursuant to the NCIB at an average price of C$ 2.61 ($2.10). The purchase of $1,055 for the Common Shares has been made by the Company in accordance with the rules and policies of the TSXV. The price the Company will pay for any Common Shares acquired will be at the market price of such securities at the time of acquisition.

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