



**Third Quarter Report to Shareholders
for the quarter ended September 30, 2022**

TABLE OF CONTENTS

1. THE COMPANY
 2. OVERVIEW OF PERFORMANCE
 3. INVESTMENTS
 4. FINANCING
 5. ANALYSIS OF FINANCIAL RESULTS
 6. ANALYSIS OF FINANCIAL POSITION
 7. OUTLOOK
 8. LIQUIDITY AND CAPITAL RESOURCES
 9. RELATED PARTY TRANSACTIONS
 10. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS
 11. CRITICAL ACCOUNTING POLICIES AND RECENTLY ADOPTED AND PENDING ACCOUNTING PRONOUNCEMENTS
 12. QUARTERLY FINANCIAL INFORMATION
 13. RISKS
 14. ADDITIONAL ARENA FINCOS INVESTMENT SCHEDULES
 15. NON-GAAP MEASURES
 16. CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION
-

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 interim consolidated financial statements including notes for the three and nine months ended September 30, 2022 and 2021 as set out on pages 37 to 59 of this quarterly report. Financial data in this MD&A has been derived from the unaudited interim consolidated financial statements for the three and nine months ended September 30, 2022 and 2021 and is intended to enable the reader to assess the Company's results of operations for the three and nine months ended September 30, 2022 and financial condition as at September 30, 2022. The Company reports its interim consolidated financial statements using generally accepted accounting principles ("GAAP") and 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 10, 2022. 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.

Supplementary financial measures (the "Skyward Specialty Supplementary Financial Measures") concerning Skyward Specialty Insurance Group, Inc. ("Skyward Specialty") contained in this MD&A are unaudited and have been derived from the unaudited consolidated financial statements of Skyward Specialty for the three and nine months ended September 30, 2022 and 2021, and audited consolidated financial statements of Skyward Specialty for the year ended December 31, 2021 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 Supplementary Financial Measures, including any Skyward Specialty non-GAAP measures contained therein, have 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 Supplementary Financial Measures 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 Supplementary Financial Measures have been provided solely by Skyward Specialty. Although Westaim has no knowledge that would indicate that any of the Skyward Specialty Supplementary Financial Measures 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 Supplementary Financial Measures, 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

Supplementary financial measures concerning the Arena FINCOs (as hereinafter defined) and Arena Investors (as hereinafter defined) (the "Arena Supplementary Financial Measures") contained in this MD&A are unaudited and have been derived from the unaudited financial statements of the Arena FINCOs and Arena Investors for the three and nine months ended September 30, 2022 and 2021, and the audited financial statements of the Arena FINCOs and Arena Investors for the year ended December 31, 2021, 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 Supplementary Financial Measures, 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 Supplementary Financial Measures 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 Supplementary Financial Measures have 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 Supplementary Financial Measures contained herein are 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 Supplementary Financial Measures, its accuracy, completeness or by reason of reliance by any person on any of it.

Forward-Looking 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 April 13, 2022 for its fiscal year ended December 31, 2021 which is available on SEDAR at www.sedar.com. Please refer to Section 16, *Cautionary Note Regarding Forward-Looking Information* of this MD&A.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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		Nine months ended September 30	
	2022	2021	2022	2021
Revenue and net change in unrealized value of investments	\$ (15.1)	\$ 3.8	\$ (7.7)	\$ 27.0
Net expenses	(2.5)	(2.2)	(7.3)	(5.4)
Income tax recovery	0.9	-	0.2	-
GAAP (loss) profit and comprehensive (loss) income	\$ (16.7)	\$ 1.6	\$ (14.8)	\$ 21.6
Adjusted (loss) profit and comprehensive (loss) income excluding unusual items ¹	\$ (13.5)	\$ 1.6	\$ (11.6)	\$ 22.3
GAAP (loss) earnings per share – basic and diluted	\$ (0.12)	\$ 0.01	\$ (0.10)	\$ 0.15
Adjusted (loss) earnings per share – diluted ¹	\$ (0.10)	\$ 0.01	\$ (0.08)	\$ 0.16
At September 30:				
Shareholders' equity	\$ 330.4	\$ 342.1	\$ 330.4	\$ 342.1
Number of Common Shares outstanding ²	141,386,718	143,186,718	141,386,718	143,186,718
Book value per fully diluted share – in US\$ ¹	\$ 2.33	\$ 2.39	\$ 2.33	\$ 2.39
Book value per fully diluted share – in C\$ ³	\$ 3.22	\$ 3.02	\$ 3.22	\$ 3.02

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

² Westaim's common shares ("Common Shares") are listed and posted for trading on the TSX Venture Exchange ("TSXV") under the symbol "WED".

³ Period end exchange rates: 1.38135 at September 30, 2022 and 1.26585 at September 30, 2021.

Three months ended September 30, 2022 and 2021

The Company reported a loss and comprehensive loss of \$16.7 and a profit and comprehensive income of \$1.6 for the three months ended September 30, 2022 and 2021, respectively.

Revenue and net change in unrealized value of investments was a net decrease of \$15.1 for the three months ended September 30, 2022 (2021 – net increase of \$3.8), and consisted of interest income of \$0.3 (2021 - \$0.4), dividend income paid to the Company from the Arena FINCOs of \$2.9 (2021 - \$nil), advisory fees of \$0.2 (2021 - \$0.2), a decrease of \$14.1 in the unrealized value of the Company's investments in private entities, which was a decrease of \$11.2 before dividends paid of \$2.9 (2021 – increase of \$2.2 before dividends paid of \$nil), a decrease in unrealized value of other investments of \$0.2 (2021 – increase of a nominal amount) and the Company's share of loss and comprehensive loss of Arena Investors of \$4.2 (2021 – profit and comprehensive income of \$1.0).

Net expenses for the three months ended September 30, 2022 of \$2.5 (2021 – \$2.2) consisted of salaries and benefits of \$1.1 (2021 - \$1.2), general, administrative and other expenses of \$0.2 (2021 - \$0.2), professional fees of \$0.3 (2021 - \$0.3), site restoration provision expense of \$nil (2021 – nominal amount), share-based compensation expense \$0.7 (2021 – \$0.2), a foreign exchange gain of \$0.2 (2021 – loss of \$0.1), interest on preferred securities of \$0.4 (2021 - \$0.5) and an unrealized loss resulting from a change in the fair value of the vested Warrants (as hereinafter defined) of a nominal amount (2021 – gain of \$0.3).

The Company reported income tax expense recovery for the three months ended September 30, 2022 of \$0.9 (2021 – expense of a nominal amount).

Nine months ended September 30, 2022 and 2021

The Company reported a loss and comprehensive loss of \$14.8 and a profit and comprehensive income of \$21.6 for the nine months ended September 30, 2022 and 2021, respectively.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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 was a net decrease of \$7.7 for the nine months ended September 30, 2022 (2021 – net increase of \$27.0), and consisted of interest income of \$1.0 (2021 - \$1.1), dividend income paid to the Company from the Arena FINCOs of \$7.9 (2021 - \$nil), advisory fees of \$0.7 (2021 - \$0.7), a decrease of \$17.9 in the unrealized value of the Company's investments in private entities, which was a decrease of \$10.0 before dividends paid of \$7.9 (2021 – increase of \$20.8 before dividends paid of \$nil), an increase in unrealized value of other investments of a nominal amount (2021 - \$0.2) and the Company's share of profit and comprehensive income of Arena Investors of \$0.6 (2021 - \$4.2).

Net expenses for the nine months ended September 30, 2022 of \$7.3 (2021 – \$5.4) consisted of salaries and benefits of \$3.6 (2021 - \$3.6), general, administrative and other expenses of \$0.7 (2021 - \$0.6), professional fees of \$1.3 (2021 - \$0.8), site restoration provision expense of \$nil (2021 – recovery of \$2.6), share-based compensation expense of \$0.7 (2021 – \$1.0), a foreign exchange gain of \$0.3 (2021 – loss of \$0.9), interest on preferred securities of \$1.4 (2021 - \$1.5) and an unrealized gain resulting from a change in the fair value of the vested Warrants of \$0.1 (2021 – \$0.4).

The Company reported income tax recovery for the three months ended September 30, 2022 of \$0.2 (2021 – expense of a nominal amount).

3. INVESTMENTS

The Company's investments in private entities and associates are included under investments in the interim 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, 2022	Ownership interest at December 31, 2021
Investment in private entities:				
- Skyward Specialty	Delaware, U.S.	Texas, U.S.	43.8% owned by the Company	44.0% owned by the Company
- Arena FINCOs	Delaware, U.S.	New York, U.S.	100% owned by the Company	100% owned by the Company
Investment in associates:				
- Arena Investors	Delaware, U.S.	New York, U.S.	51% owned the Company ¹	51% beneficially owned the Company ¹

¹ Legal equity ownership is 51% (December 31, 2021 - 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". Effective April 1, 2022, BP LLC achieved the threshold to increase its equity ownership of Arena Investors from 0% to 49% and as a result, the Company's equity ownership decreased from 100% to 51%.

For additional information on the Company's corporate structure, see the Company's Annual Information Form dated April 13, 2022 for its fiscal year ended December 31, 2021 which is available on SEDAR at www.sedar.com.

Skyward Specialty

The Company owns a significant ownership interest of 43.8% 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 interim consolidated financial statements.

Arena FINCOs

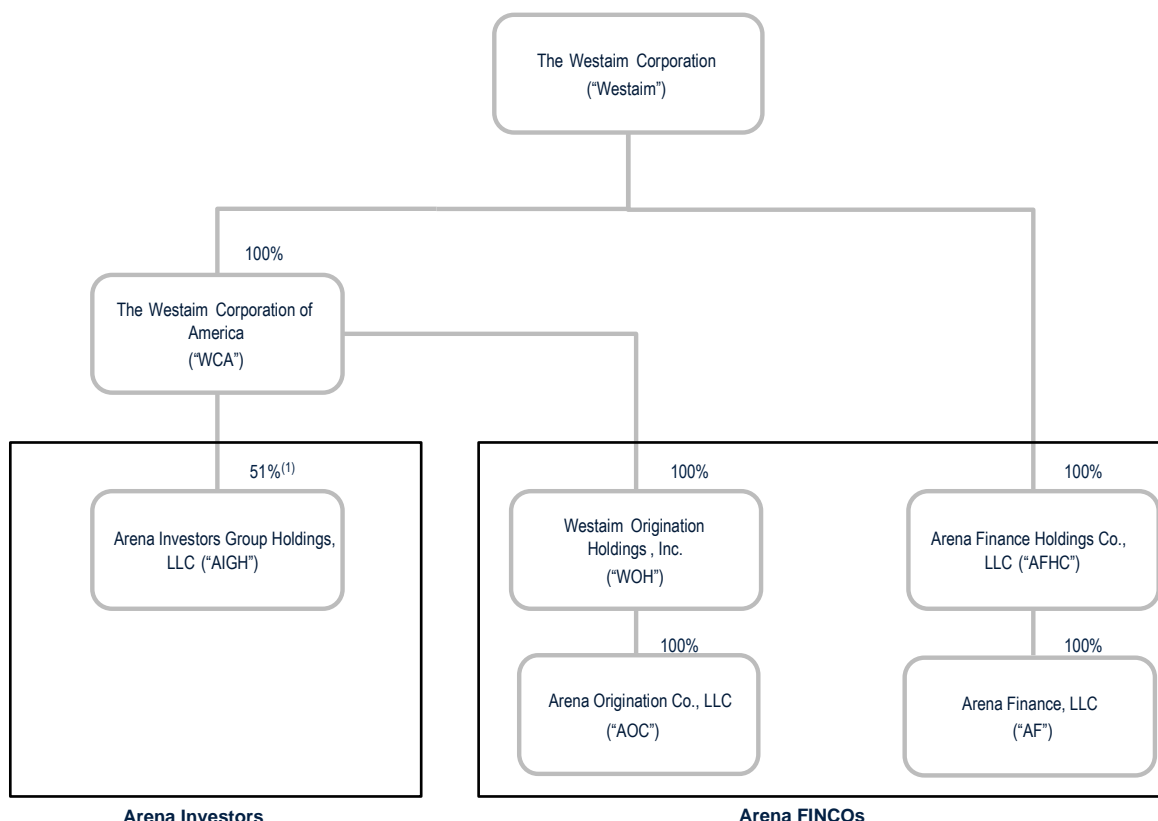
The Arena FINCOs include specialty finance companies that primarily purchase fundamentals-based, asset-oriented credit and other investments for their own account and a company that primarily facilitates the origination of fundamentals-based, asset-oriented credit investments for its own account and/or 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 interim consolidated financial statements. Arena FINCOs refers to WOH, AFHC (as each is defined hereinafter) and each of their respective subsidiaries.

Arena Investors

Arena Investors Group Holdings, LLC ("AIGH" or "Arena Investors"), through its subsidiaries, operates as an investment manager offering clients access to fundamentals-based, asset-oriented credit and other 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 and profit percentage are 51%. Ownership and profit percentage are 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 Arena Investors and the Arena FINCOs, see the Company's Annual Information Form dated April 13, 2022 for its fiscal year ended December 31, 2021 which is available on SEDAR at www.sedar.com.

Accounting for the Company's Investments

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

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

In determining the valuation of investments in private entities at September 30, 2022 and 2021, 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 4, *Investments* in the Notes to the Financial Statements.

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

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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, 2022				
	Opening Balance	Decrease in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 187.0	\$ (8.6)	\$ -	\$ 178.4
- Arena FINCOs	174.1	(2.6)	(2.9)	168.6
	<u>\$ 361.1</u>	<u>\$ (11.2)</u>	<u>\$ (2.9)</u>	<u>\$ 347.0</u>
Three months ended September 30, 2021				
	Opening Balance	Increase (decrease) in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 189.3	\$ 3.0	\$ -	\$ 192.3
- Arena FINCOs	173.1	(0.8)	-	172.3
	<u>\$ 362.4</u>	<u>\$ 2.2</u>	<u>\$ -</u>	<u>\$ 364.6</u>
Nine months ended September 30, 2022				
	Opening Balance	(Decrease) increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 192.1	\$ (13.7)	\$ -	\$ 178.4
- Arena FINCOs	172.8	3.7	(7.9)	168.6
	<u>\$ 364.9</u>	<u>\$ (10.0)</u>	<u>\$ (7.9)</u>	<u>\$ 347.0</u>
Nine months ended September 30, 2021				
	Opening Balance	Increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 180.8	\$ 11.5	\$ -	\$ 192.3
- Arena FINCOs	163.0	9.3	-	172.3
	<u>\$ 343.8</u>	<u>\$ 20.8</u>	<u>\$ -</u>	<u>\$ 364.6</u>

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

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Investment in Arena Investors				
Opening balance	\$ 31.0	\$ 19.4	\$ 26.2	\$ 20.2
Decrease in revolving loan from the Company	-	-	-	(4.0)
The Company's share of (loss) profit and comprehensive (loss) income	(4.2)	1.0	0.6	4.2
Ending balance	<u>\$ 26.8</u>	<u>\$ 20.4</u>	<u>\$ 26.8</u>	<u>\$ 20.4</u>

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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, 2022			Three months ended September 30, 2021		
	Opening Balance	Decrease in unrealized value of investment	Ending Balance	Opening Balance	Increase in unrealized value of investment	Ending Balance
Investment in Skyward Specialty:						
HIIG Partnership-Company's share of Skyward Specialty common shares ¹	\$ 93.3	\$ (4.3)	\$ 89.0	\$ 90.3	\$ 1.4	\$ 91.7
HIIG Partnership-Company's share of other partnership net assets	0.4	-	0.4	0.5	-	0.5
Skyward Specialty convertible preferred shares held by the Company	93.3	(4.3)	89.0	98.5	1.6	100.1
	<u>\$ 187.0</u>	<u>\$ (8.6)</u>	<u>\$ 178.4</u>	<u>\$ 189.3</u>	<u>\$ 3.0</u>	<u>\$ 192.3</u>

¹ The Company's share of Skyward Specialty common shares held by the Westaim HIIG Limited Partnership (the "HIIG Partnership").

	Nine months ended September 30, 2022			Nine months ended September 30, 2021		
	Opening Balance	Decrease in unrealized value of investment	Ending Balance	Opening Balance	Increase in unrealized value of investment	Ending Balance
Investment in Skyward Specialty:						
HIIG Partnership-Company's share of Skyward Specialty common shares ¹	\$ 95.8	\$ (6.8)	\$ 89.0	\$ 86.2	\$ 5.5	\$ 91.7
HIIG Partnership-Company's share of other partnership net assets	0.4	-	0.4	0.5	-	0.5
Skyward Specialty convertible preferred shares held by the Company	95.9	(6.9)	89.0	94.1	6.0	100.1
	<u>\$ 192.1</u>	<u>\$ (13.7)</u>	<u>\$ 178.4</u>	<u>\$ 180.8</u>	<u>\$ 11.5</u>	<u>\$ 192.3</u>

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

At September 30, 2022, the Company owned approximately 62.0% (December 31, 2021 – 62.0%) of the HIIG Partnership and the HIIG Partnership held Skyward Specialty common shares representing approximately 35.3% (December 31, 2021 – 35.5%) 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 21.9% (December 31, 2021 – 22.0%) and had a fair value of \$89.0 (December 31, 2021 - \$95.8).

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 are convertible into Skyward Specialty common shares based on a final conversion price equal to \$1.51 per share. The fair value of Westaim's ownership of the Skyward Specialty convertible preferred shares was \$89.0 (December 31, 2021 - \$95.9).

The Company's look-through interest in the HIIG Partnership of 21.9% (December 31, 2021 – 22.0%), combined with its direct ownership of the Skyward Specialty preferred shares, which were convertible into Skyward Specialty common shares representing 21.9% (December 31, 2021 – 22.0%) of the fully diluted Skyward Specialty common shares outstanding, resulted in a 43.8% (December 31, 2021 – 44.0%) look-through interest in Skyward Specialty at September 30, 2022.

At September 30, 2022, based on the Company's control of the HIIG Partnership, and its ownership of convertible preferred shares, the Company held a 57.2% voting interest in Skyward Specialty (December 31, 2021 – 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, 2022 (December 31, 2021 - 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 \$178.4 at September 30, 2022 and \$192.1 at December 31, 2021.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(Currency amounts in millions of United States dollars except per share data, unless otherwise indicated)

3. INVESTMENTS (continued)

The Company recorded a decrease in unrealized value on its investment in Skyward Specialty of \$8.6 and \$13.7 in the three and nine months ended September 30, 2022, respectively, and 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. The Company's share of Skyward Specialty unusual items was \$3.2 in the three and nine months ended September 30, 2022 from a charge relating to the LPT (as hereinafter defined) and was \$nil and \$0.7 from impairment of goodwill and other intangible assets net of tax in the three and nine months ended September 30, 2021, respectively.

- (ii) Skyward Specialty Supplementary Financial Measures for the three and nine months ended September 30, 2022 and 2021 and December 31, 2021

In 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 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; "Adjusted operating income (loss)" and "Net income (loss)" provide measures of Skyward Specialty's overall profitability; and "Stockholders' equity" and "Tangible stockholders' equity" (calculated as total stockholders' equity less goodwill and other intangible assets) are measures that are generally used by investors to determine the value of insurance companies. The following ratios are measures generally used by investors to compare profitability and insurance company value: "Annualized return on equity ("ROE")" is net income (loss) expressed on an annualized basis as a percentage of average beginning and ending total stockholders' equity during the period; "Annualized adjusted ROE" is adjusted operating income (loss) expressed on an annualized basis as a percentage of average beginning and ending total stockholders' equity during the period; and "Annualized adjusted return on tangible equity ("ROTE")" is adjusted operating income (loss) expressed on an annualized basis as a percentage of average beginning and ending tangible stockholders' equity during the period.

Set out in the tables below are certain Skyward Specialty Supplementary Financial Measures, derived from the unaudited consolidated financial statements of Skyward Specialty for the three and nine months ended September 30, 2022 and 2021, 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 Supplementary Financial Measures 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.

Supplementary Financial Measures from Skyward Specialty's Consolidated Balance Sheets

	September 30, 2022	December 31, 2021
Assets		
Investments	\$ 1,017.9	\$ 949.4
Cash and restricted cash	106.1	107.3
Insurance related assets	1,052.3	936.5
Deferred tax asset	41.9	33.7
Goodwill and other intangible assets	90.2	91.3
Total assets	\$ 2,308.4	\$ 2,118.2
Liabilities		
Insurance related liabilities	\$ 1,780.1	\$ 1,563.6
Notes payable	50.0	50.0
Trust preferred securities	78.5	78.5
Total liabilities	\$ 1,908.6	\$ 1,692.1
Stockholders' equity		
Stockholders' equity	\$ 451.0	\$ 430.5
Accumulated other comprehensive (loss) income	(44.3)	4.7
Stock notes receivable	(6.9)	(9.1)
Total stockholders' equity	\$ 399.8	\$ 426.1
Total liabilities and stockholders' equity	\$ 2,308.4	\$ 2,118.2
Tangible stockholders' equity	\$ 309.6	\$ 334.8

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(Currency amounts in millions of United States dollars except per share data, unless otherwise indicated)

3. INVESTMENTS (continued)

Supplementary Financial Measures from Skyward Specialty's Consolidated Statements of Operations and Comprehensive (Loss) Income

	Three months ended September 30		Nine months ended September 30			
	2022	2021 ¹	2022	2021 ¹		
Gross written premium	\$ 270.2	\$ 215.1	\$ 879.1	\$ 715.7		
Net written premium	171.5	130.8	495.6	388.2		
Net earned premium	158.0	130.0	445.9	366.1		
Commission and fee income	1.4	1.0	3.6	2.7		
Less: Losses and LAE excluding LPT	(102.5)	(89.7)	(284.3)	(249.8)		
Less: Policy acquisition costs	(17.4)	(11.4)	(45.5)	(30.7)		
Less: Operating expenses	(30.0)	(22.6)	(86.7)	(68.3)		
Underwriting result excluding LPT	9.5	7.3	33.0	20.0		
Net investment income	6.0	8.1	31.7	20.6		
Interest expense	(1.7)	(1.2)	(4.3)	(3.5)		
Amortization expense	(0.4)	(0.4)	(1.2)	(1.2)		
Income excluding net realized gains (losses), net unrealized gains (losses) and unusual items before taxes	13.4	13.8	59.2	35.9		
Income tax expense	2.8	2.8	12.3	7.4		
Adjusted operating income	10.6	11.0	46.9	28.5		
Net realized (losses) gains net of tax	(0.7)	-	0.1	0.7		
Net unrealized (losses) gains on equity securities net of tax	(5.0)	(1.0)	(20.7)	7.2		
Impact of LPT net of tax	(7.3)	-	(7.3)	-		
Other net income net of tax	-	-	-	2.8		
Goodwill and other intangible impairment net of tax	-	-	-	(2.2)		
Net (loss) income	(2.4)	10.0	19.0	37.0		
Net change in unrealized (losses) gains on fixed income securities net of tax	(17.8)	(1.7)	(49.3)	(4.7)		
Reclassification adjustment for gains on fixed income securities no longer held net of tax	-	0.2	0.4	0.4		
Total other comprehensive (loss) income	(17.8)	(1.5)	(48.9)	(4.3)		
Comprehensive (loss) income	\$ (20.2)	\$ 8.5	\$ (29.9)	\$ 32.7		
Other Supplementary Financial Measures						
Loss ratio excluding LPT	64.8%	69.0%	63.8%	68.3%		
Expense ratio	29.1%	25.5%	28.8%	26.3%		
Combined ratio excluding LPT	93.9%	94.5%	92.6%	94.6%		
Annualized ROE	(2.3%)	9.4%	6.1%	12.0%		
Annualized adjusted ROE	10.4%	10.3%	15.2%	9.2%		
Annualized adjusted ROTE	13.4%	13.2%	19.4%	11.8%		
	Three months ended September 30		Nine months ended September 30			
	2022	2021 ¹	change	2022	2021 ¹	change
Continuing business	\$ 270.4	\$ 207.7	30.2%	\$ 874.7	\$ 650.6	34.5%
Discontinued business	(0.2)	7.4	(102.3%)	4.4	65.1	(93.3%)
Gross written premium	\$ 270.2	\$ 215.1	25.6%	\$ 879.1	\$ 715.7	22.8%

¹ Adjusted to conform to the presentation of the current period financial statements including restatement of comprehensive income of \$8.5 and \$32.7 compared to the previously reported comprehensive income of \$6.3 and \$29.3 for the three and nine months ended September 30, 2021, respectively. The unusual items disclosed above total \$nil and \$0.6 for the three and nine months ended September 30, 2021, respectively, are a restatement due to timing of the previously reported unusual items of \$nil and \$(1.5) in each of the three and nine months ended September 30, 2021, respectively.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(Currency amounts in millions of United States dollars except per share data, unless otherwise indicated)

3. INVESTMENTS (continued)

Gross written premiums - Gross written premiums were \$270.2 for the three months ended September 30, 2022 compared to \$215.1 for the three months ended September 30, 2021, an increase of 25.6% and \$879.1 for the nine months ended September 30, 2022 compared to \$715.7 for the nine months ended September 30, 2021, an increase of 22.8%. The gross written premiums were primarily impacted by rate increases and growth in the continuing business and was partially offset by a reduction in gross written premiums in discontinued business.

Net written premiums - Net written premiums were \$171.5 for the three months ended September 30, 2022 compared to \$130.8 for the three months ended September 30, 2021, an increase of 31.1% and \$495.6 for the nine months ended September 30, 2022 compared to \$388.2 for the nine months ended September 30, 2021, an increase of 27.7%. The net written premiums were impacted by the growth in gross written premiums as noted above and higher net premium retention.

Net earned premiums - Net earned premiums were \$158.0 for the three months ended September 30, 2022 compared to \$130.0 for the three months ended September 30, 2021, an increase of 21.6% and \$445.9 for the nine months ended September 30, 2022 compared to \$366.1 for the nine months ended September 30, 2021, an increase of 21.8%. The 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, 2022 and 2021, Skyward Specialty's Loss ratio, excluding loss and LAE subject to the LPT was 64.8% and 69.0% respectively and in nine months ended September 30, 2022 and 2021, Skyward Specialty's Loss ratio, excluding loss and LAE subject to the LPT was 63.8% and 68.3% respectively. The improvement in the Loss ratio is driven by changing the mix of business including continued run-off of discontinued business and rate increases over the past two years. The Loss ratio, excluding catastrophes and prior years' development for the three months ended September 30, 2022 was 62.0% compared to 64.4% for the three months ended September 30, 2021 and for the nine months ended September 30, 2022 was 62.8% compared to 65.8% for the nine months ended September 30, 2021.

	Three months ended September 30				Nine months ended September 30			
	2022		2021 ¹		2022		2021 ¹	
Losses and LAE	\$ 102.5	64.8%	\$ 89.7	69.0%	\$ 284.3	63.8%	\$ 249.8	68.3%
Less: Catastrophes	4.5	2.8%	6.0	4.6%	4.5	1.0%	9.3	2.5%
Less: Prior years' development	-	-	-	-	-	-	-	-
Losses and LAE excluding catastrophes and prior years' development	\$ 98.0	62.0%	\$ 83.7	64.4%	\$ 279.8	62.8%	\$ 240.5	65.8%

¹ Adjusted to conform presentation of the current period

Adjusted operating income (net income excluding net realized (losses) gains, net unrealized (losses) gains on equity securities and unusual items; all amounts net of income tax) - Adjusted operating income was \$10.6 for the three months ended September 30, 2022 compared to \$11.0 for the three months ended September 30, 2021 and \$46.9 for the nine months ended September 30, 2022 compared to \$28.5 for the nine months ended September 30, 2021. The decrease of \$0.4 in the three months ended September 30, 2022 compared to 2021, was primarily the result of lower net investment income and higher interest expenses partially offset by a higher underwriting result. The increase of \$18.4 in the nine months ended September 30, 2022 compared to 2021, was primarily the result of higher underwriting result of \$10.3 and higher net investment income of \$8.8. The combined ratio excluding LPT improved to 93.9% from 94.5% for the three months ended September 30, 2022 and 2021, respectively, and 92.6% from 94.6% for the nine months ended September 30, 2022 and 2021, respectively.

Net income (all amounts net of income tax) - The operating result of Skyward Specialty was a net loss of \$2.4 for the three months ended September 30, 2022 compared to net income of \$10.0 for the three months ended September 30, 2021, and a net income of \$19.0 for the nine months ended September 30, 2022 compared to \$37.0 for the nine months ended September 30, 2021. The decrease of \$12.4 and \$18.0 in net income for the three and nine months ended September 30, 2022 compared to 2021, respectively, was primarily attributable to the net unrealized losses on equity securities, the impact of the LPT and the changes in the adjusted operating income noted above.

Stockholders' equity - Skyward Specialty stockholders' equity decreased to \$399.8 at September 30, 2022 from \$426.1 at December 31, 2021. The decrease of \$26.3 resulted from the other comprehensive loss of \$48.9 primarily relating to the unrealized after-tax net change in the carrying value of Skyward Specialty's fixed income securities, offset by net income for the period of \$19.0, a decrease in the stockholder notes receivables of \$2.2, and additional paid in capital of \$1.5.

3. INVESTMENTS (continued)

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.

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.

3. INVESTMENTS (continued)

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.

(i) Accounting for the Arena FINCOs

The Company's investment in the Arena FINCOs is accounted for at FVTPL and are included in investments in private entities. Using net asset value as the primary valuation technique, management determined that 1.0x the book value, or 100% of the shareholder's equity of the Arena FINCOs at September 30, 2022, in the amount of \$168.6 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 \$168.6 and \$172.8 at September 30, 2022 and December 31, 2021, respectively.

The Company recorded a decrease in the unrealized value of its investments in the Arena FINCOs of \$5.5, which was a decrease of \$2.6 before dividends paid to the Company of \$2.9 in the three months ended September 30, 2022, and a decrease in the unrealized value of its investments in the Arena FINCOs of \$4.2, which was an increase of \$3.7 before dividends paid to the Company of \$7.9 in the nine months ended September 30, 2022. The Company recorded a decrease in the unrealized value of its investments in the Arena FINCOs of \$0.8 and an increase of \$9.3 in the three and nine months ended September 30, 2021. There were no dividends paid to the Company in the three and nine months ended September 30, 2021.

(ii) Arena FINCOs Supplementary Financial Measures for the three and nine months ended September 30, 2022 and 2021 and December 31, 2021

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. Supplementary Financial Measures 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, 2022 and 2021, 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, 2022	December 31, 2021
Cash and cash equivalents	\$ 11.7	\$ 36.3
Due from brokers, net	(29.0)	(1.7)
Investments:		
Loans / private assets	153.6	136.8
Other securities	74.8	46.1
Total investments	228.4	182.9
Senior secured notes payable	(43.9)	(43.7)
Revolving credit facility payable	(6.6)	(7.0)
Other net assets	8.0	6.0
Net assets of the Arena FINCOs	\$ 168.6	\$ 172.8

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.

During 2021, Arena Finance II LLC ("AFII"), one of the Arena FINCOs, secured a revolving credit facility with third party lenders with a commitment amount of \$25.0 and initial termination date of September 30, 2023. Unpaid principal amounts under the revolving credit facility will bear interest at the 3-month London Interbank Offered Rate ("LIBOR") plus 2.8%. Additionally, an unused facility fee accrues at a rate of 0.50% per annum and is payable monthly in arrears. The loan is secured by AFII's equity interests in its subsidiaries, carries a parental guarantee from AF, and ranks senior

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(Currency amounts in millions of United States dollars except per share data, unless otherwise indicated)

3. INVESTMENTS (continued)

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.

AFII also has a private placement of \$45.0 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.

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

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Net operating results of the Arena FINCOs:				
Investment (loss) income	\$ (0.8)	\$ 2.6	\$ 3.3	\$ 5.6
Net gains (losses) on investments	0.3	(1.1)	7.9	11.1
Interest expense	(1.0)	(0.9)	(3.0)	(2.6)
Net investment (loss) income	(1.5)	0.6	8.2	14.1
Management and asset servicing fees	(1.2)	(1.1)	(3.3)	(3.2)
Incentive fees recovery (expense)	0.2	0.1	(0.5)	(0.8)
Other operating expenses	(0.1)	(0.4)	(0.6)	(0.7)
Net operating results before holding companies' expenses	(2.6)	(0.8)	3.8	9.4
Arena FINCOs holding companies' expenses:				
Advisory fees paid to the Company	-	-	(0.1)	(0.1)
Net operating results of the Arena FINCOs	\$ (2.6)	\$ (0.8)	\$ 3.7	\$ 9.3

The Net Return on the investment portfolios of the Arena FINCOs was -1.5% and +2.2% for the three and nine months ended September 30, 2022, respectively, and -0.4% and +5.8% for the three and nine months ended September 30, 2021, 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.

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Opening balance	\$ 174.1	\$ 173.1	\$ 172.8	\$ 163.0
Unrealized (loss) gain before dividends	(2.6)	(0.8)	3.7	9.3
Dividends paid to the Company	(2.9)	-	(7.9)	-
Ending balance	\$ 168.6	\$ 172.3	\$ 168.6	\$ 172.3

C. INVESTMENT IN ARENA INVESTORS

Arena Investors operates as an investment manager offering third-party clients access to fundamentals-based, asset-oriented credit and other 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.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(Currency amounts in millions of United States dollars except per share data, unless otherwise indicated)

3. INVESTMENTS (continued)

As of September 30, 2022, Arena Investors had committed AUM of approximately \$3.5 billion. The committed AUM included the net assets of the Arena FINCOs and the Company's investment in ASOF LP of approximately \$172. As of December 31, 2021, Arena Investors had committed AUM of approximately \$2.8 billion which included the net assets of the Arena FINCOs and the Company's investment in ASOF LP of approximately \$176.

(i) 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 was 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. At April 1, 2022, under the Associate Agreements, BP LLC achieved the threshold to increase its equity ownership of Arena Investors from 0% to 49%. At September 30, 2022, the Company's equity ownership and profit sharing percentage of Arena Investors is 51%. At December 31, 2021, the thresholds in accordance with the Associate Agreements had not been met, therefore the Company's equity ownership of Arena Investors was 100% and its profit sharing percentage was 51%.

(ii) 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, 2022. Arena Investors had drawn down the loan facility by \$24.0 at September 30, 2022 (December 31, 2021 - \$24.0). 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 Arena Investors was \$26.8 and \$26.2 at September 30, 2022 and December 31, 2021. The Company's 51% share of Arena Investors' (loss) profit and comprehensive (loss) profit that amounted to (\$4.2) and \$0.6 for the three and nine months ended September 30, 2022, respectively, and a share of profit and comprehensive income that amounted to \$1.0 and \$4.2 for the three and nine months ended September 30, 2021, respectively, was reported under "Net results of investments" in the interim consolidated statements of (loss) profit and comprehensive (loss) income.

(iii) Arena Investors Supplementary Financial Measures for the three and nine months ended September 30, 2022 and 2021 and December 31, 2021

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. Supplementary Financial Measures 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, 2022 and 2021, which have been prepared in accordance with US GAAP. Such statements are the responsibility of the management of Arena Investors. Supplementary Financial Measures includes earnings before interest, taxes, depreciation and amortization expenses ("EBITDA") which is a common measure for operating profitability. Management of the Company concluded that any reconciling items to IFRS are not material.

Supplementary Financial Measures of Arena Investors is as follows:

Supplementary Financial Measures from Arena Investors' Statement of Financial Position

	September 30, 2022	December 31, 2021
Cash and cash equivalents	\$ 5.3	\$ 2.2
Restricted cash	32.8	13.4
Arena Investors' Revolving Loan from the Company	(24.0)	(24.0)
Other net (liabilities) assets	(8.8)	12.4
Net assets	\$ 5.3	\$ 4.0
Company's share	\$ 2.8	\$ 2.2
Arena Investors' Revolving Loan from the Company	24.0	24.0
Carrying amount of the Company's investment in Arena Investors	\$ 26.8	\$ 26.2

Restricted cash includes deposits received in advance for pre-funded work fees and prepaid deposits primarily from investment loans.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(Currency amounts in millions of United States dollars except per share data, unless otherwise indicated)

3. INVESTMENTS (continued)

Supplementary Financial Measures from Arena Investors' Statement of (Loss) Profit and Comprehensive (Loss) Income

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Management fees	\$ 8.1	\$ 6.4	\$ 23.6	\$ 16.8
Asset servicing fees	2.9	1.9	8.3	4.9
Net (losses) gains on investments	(0.2)	0.1	(0.1)	0.3
Total recurring revenue	10.8	8.4	31.8	22.0
Operating expenses (excluding incentive fees compensation expense)	(9.5)	(8.8)	(28.3)	(24.6)
Fee related earnings (loss)	1.3	(0.4)	3.5	(2.6)
Incentive fees	(8.9)	5.7	5.5	19.0
Incentive fees compensation expense	(0.2)	(3.0)	(6.5)	(6.9)
Net incentive fees	(9.1)	2.7	(1.0)	12.1
EBITDA	(7.8)	2.3	2.5	9.5
Depreciation	(0.1)	-	(0.2)	(0.1)
Revolving loan interest expense paid to the Company	(0.3)	(0.3)	(1.0)	(1.1)
Taxes	-	-	(0.1)	-
(Loss) profit and comprehensive (loss) income	\$ (8.2)	\$ 2.0	\$ 1.2	\$ 8.3
Company's share of (loss) profit and comprehensive (loss) income of Arena Investors (51%)	\$ (4.2)	\$ 1.0	\$ 0.6	\$ 4.2

The management, asset servicing and incentive fees were generated from the various segregated client accounts including Arena FINCOs and other 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 \$3.2 at both September 30, 2022 and December 31, 2021, is included in investments in the interim consolidated statements of financial position. The Company's decrease in unrealized value on its investment in ASOF LP was \$0.2 and an increase of a nominal amount in the three and nine months ended September 30, 2022, respectively, and was an increase of a nominal amount and \$0.2 in the three and nine months ended September 30, 2021, 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 interim 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, 2022 of \$36.2 (December 31, 2021 - \$39.5). See Note 6, *Preferred Securities* in the Notes to the Financial Statements.

Canadian Dollar Currency Forward Contracts

At September 30, 2022, the Company has a 188 day C\$ exchange forward contract to purchase C\$50 million maturing on March 28, 2023. During the three months ended September 30, 2022, the Company settled a C\$ exchange forward contract to purchase C\$50 million and incurred a realized foreign exchange loss of \$3.0. For the year ended December 31, 2021, the Company settled three 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 *C\$ Exchange 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 (the "Warrants") 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, 2022, a liability of \$0.1 (December 31, 2021 - \$0.2) representing the estimated fair value of the vested Warrants had been accrued in the interim consolidated statements of financial position. See Note 8 *Derivative Warrant Liability* in the Notes to the Financial Statements.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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	
	2022	2021	2022	2021
Revenue				
Interest income	\$ 0.3	\$ 0.4	\$ 1.0	\$ 1.1
Dividend income from investments in private entities	2.9	-	7.9	-
Advisory fees	0.2	0.2	0.7	0.7
	<u>\$ 3.4</u>	<u>\$ 0.6</u>	<u>\$ 9.6</u>	<u>\$ 1.8</u>
Net results of investments	(18.5)	3.2	(17.3)	25.2
Net expenses				
Salaries and benefits	(1.1)	(1.2)	(3.6)	(3.6)
General, administrative and other	(0.2)	(0.2)	(0.7)	(0.6)
Professional fees	(0.3)	(0.3)	(1.3)	(0.8)
Site restoration recovery	-	-	-	2.6
Share-based compensation	(0.7)	(0.2)	(0.7)	(1.0)
Foreign exchange gain (loss)	0.2	(0.1)	0.3	(0.9)
Interest on preferred securities	(0.4)	(0.5)	(1.4)	(1.5)
Derivative warrant gain	-	0.3	0.1	0.4
	<u>\$ (2.5)</u>	<u>\$ 2.2</u>	<u>\$ (7.3)</u>	<u>\$ (5.4)</u>
Income tax recovery	0.9	-	0.2	-
GAAP (loss) profit and comprehensive (loss) income	<u>\$ (16.7)</u>	<u>\$ 1.6</u>	<u>\$ (14.8)</u>	<u>\$ 21.6</u>
Adjusted (loss) profit and comprehensive (loss) income excluding unusual items ¹	<u>\$ (13.5)</u>	<u>\$ 1.6</u>	<u>\$ (11.6)</u>	<u>\$ 22.3</u>

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

5.1 Revenue

In the three months ended September 30, 2022, the Company earned interest on loans made to Arena Investors of \$0.3 (2021 - \$0.4), received dividends paid to the Company from the Arena FINCOs of \$2.9 (2021 - \$nil), and earned advisory fees from Skyward Specialty of \$0.1 (2021 - \$0.1) and from the Arena FINCOs and Arena Investors of \$0.1 (2021 - \$0.1).

In the nine months ended September 30, 2022, the Company earned interest on loans made to Arena Investors of \$1.0 (2021 - \$1.1), received dividends paid to the Company from the Arena FINCOs of \$7.9 (2021 - \$nil), and earned advisory fees from Skyward Specialty of \$0.4 (2021 - \$0.4) and from the Arena FINCOs and Arena Investors of \$0.3 (2021 - \$0.3).

5.2 Net Results of Investments

In the three months ended September 30, 2022, the net results of investments consisted of a decrease in the unrealized value of the Company's investments in private entities of \$14.1, which was a decrease of \$11.2 before dividends paid of \$2.9 (2021 - increase of \$2.2 before dividends paid of \$nil), a decrease in the unrealized value of other investments of \$0.2 (2021 - increase of a nominal amount), and the Company's share of loss and comprehensive loss from its investment in Arena Investors of \$4.2 (2021 - share of profit and comprehensive profit of \$1.0).

In the nine months ended September 30, 2022, the net results of investments consisted of a decrease in the unrealized value of the Company's investments in private entities of \$17.9, which was a decrease of \$10.0 before dividends paid of \$7.9 (2021 - increase of \$20.8 before dividends paid of \$nil), an increase in the unrealized value of other investments of a nominal amount (2021 - \$0.2), and the Company's share of profit and comprehensive income from its investment in Arena Investors of \$0.6 (2021 - \$4.2).

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

5. ANALYSIS OF FINANCIAL RESULTS (continued)

Investments in Private Entities

The Company's investments in private entities are accounted for at FVTPL. In the three months ended September 30, 2022, the Company recorded a decrease in unrealized value of \$8.6 on its investment in Skyward Specialty (2021 – increase of \$3.0), and a decrease in unrealized value of \$5.5, which was \$2.6 before dividends paid of \$2.9 on its investment in the Arena FINCOs (2021 – decrease of \$0.8 before dividends paid of \$nil).

In the nine months ended September 30, 2022, the Company recorded a decrease in unrealized value of \$13.7 on its investment in Skyward Specialty (2021 – increase of \$11.5), and a decrease in unrealized value of \$4.2, which was an increase of \$3.7 before dividends paid of \$7.9 on its investment in the Arena FINCOs (2021 – \$9.3 before dividends paid of \$nil).

Investment in Associates

The Company's investment in Arena Investors is accounted for using the equity method. In the three months ended September 30, 2022, Arena Investors earned total recurring revenue of \$10.8 (2021 - \$8.4), reduction of incentive fees of \$8.9 (2021 – incentive fees \$5.7) offset by operating expenses of \$9.5 (2021 - \$8.8), incentive fees compensation expense of \$0.2 (2021 - \$3.0), depreciation expense of \$0.1 (2021 – nominal amount), interest expense on the Revolving Loan from the Company of \$0.3 (2021 - \$0.3), and tax expense of a nominal amount (2021 – nominal amount) resulting in a loss and comprehensive loss of \$8.2 (2021 – profit and comprehensive profit of \$2.0).

In the nine months ended September 30, 2022, Arena Investors earned total recurring revenue \$31.8 (2021 - \$22.0), incentive fees of \$5.5 (2021 - \$19.0) offset by operating expenses of \$28.3 (2021 - \$24.6), incentive fees compensation expense of \$6.5 (2021 - \$6.9), depreciation expense of \$0.2 (2021 - \$0.1), interest expense on the Revolving Loan from the Company of \$1.0 (2021 - \$1.1), and tax expense of \$0.1 (2021 – nominal amount) resulting in a profit and comprehensive income of \$1.2 (2021 – \$8.3).

The total of the Company's 51% share of (loss) profit and comprehensive (loss) income of Arena Investors amounted to (\$4.2) and \$0.6 in the three and nine months ended September 30, 2022, respectively, its share of profit and comprehensive income of Arena Investors amounted to \$1.0 and \$4.2 in the three and nine months ended September 30, 2021, respectively.

5.3 Expenses

Salaries and benefits in the three and nine months ended September 30, 2022 were comparable to the corresponding period in the prior year.

General, administrative and other expenses in the three and nine months ended September 30, 2022 were comparable to the corresponding period in the prior year.

Professional fees increased by \$0.5 in the nine months ended September 30, 2022 when compared to the corresponding period in the prior year due to certain expenses relating to non-recurring consultation and legal fees. Professional fees in the three months ended September 30, 2022 were comparable to the corresponding period in the prior year.

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 restricted share units ("RSUs") and deferred share units ("DSUs"). 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, 2022 and 2021:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Foreign exchange gain (losses) relating to:				
- Liabilities for RSUs and DSUs	\$ 0.6	\$ 0.2	\$ 0.7	\$ -
- Preferred securities	2.7	0.8	3.4	(0.3)
- Canadian dollar currency forward contracts	(3.1)	(1.2)	(3.8)	(0.5)
- Other	-	0.1	-	(0.1)
	\$ 0.2	\$ (0.1)	\$ 0.3	\$ (0.9)

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(Currency amounts in millions of United States dollars except per share data, unless otherwise indicated)

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, 2022	December 31, 2021
Assets		
Cash	\$ 2.2	\$ 6.6
Income tax receivable	0.1	-
Other assets	0.4	0.8
Investments	377.0	394.3
	<u>\$ 379.7</u>	<u>\$ 401.7</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 12.7	\$ 13.7
Income tax payable	-	0.2
Preferred securities	36.2	39.5
Derivative warrant liability	0.1	0.2
Deferred tax liability	0.3	0.4
	<u>49.3</u>	<u>54.0</u>
Shareholders' equity	330.4	347.7
Total liabilities and shareholders' equity	<u>\$ 379.7</u>	<u>\$ 401.7</u>

6.1 Cash

At September 30, 2022, the Company had cash of \$2.2 (December 31, 2021 - \$6.6).

6.2 Income Tax Receivable

At September 30, 2022, the Company had an income tax receivable of \$0.1 (December 31, 2021 – nominal amount).

6.3 Other Assets

Other assets were \$0.4 and \$0.8 at September 30, 2022 and December 31, 2021, respectively. Other assets at September 30, 2022 included right of use asset of \$0.3 (December 31, 2021 - \$0.4), and other receivables of \$0.1 (December 31, 2021 - \$0.4). 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, 2022 were determined to be \$178.4 and \$168.6, respectively (December 31, 2021 - \$192.1 and \$172.8, 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, 2022 was \$26.8 (December 31, 2021 - \$26.2). 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, 2022 was determined to be \$3.2 (December 31, 2021 - \$3.2). See discussion in Section 3, *Investments* of this MD&A.

6. ANALYSIS OF FINANCIAL POSITION (continued)

6.5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were \$12.7 at September 30, 2022 (December 31, 2021 - \$13.7). Accounts payable and accrued liabilities at September 30, 2022 included liabilities related to accrued employee bonuses of \$1.8 (December 31, 2021 - \$2.6), RSUs of \$5.6 (December 31, 2021 - \$5.9), DSUs of \$2.4 (December 31, 2021 - \$2.2), lease liability of \$0.3 (December 31, 2021 - \$0.4), interest accrued on the Preferred Securities of \$0.5 (December 31, 2021 - \$0.5), fair value of Canadian dollar currency forward contract of \$1.2 (December 31, 2021 - \$0.4), and other accrued liabilities of \$0.9 (December 31, 2021 - \$1.7). 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, 2022, the Company had an income tax payable of a nominal amount (December 31, 2021 - \$0.2).

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, 2022 of \$36.2 (December 31, 2021 - \$39.5). See discussion in Section 4, *Financing* of this MD&A.

6.8 Derivative Warrant Liability

At September 30, 2022, a liability of \$0.1 (December 31, 2021 - \$0.2) representing the estimated fair value of the vested Warrants had been accrued in the interim consolidated statements of financial position. See discussion in Section 4, *Financing* of this MD&A.

6.9 Shareholders' Equity

The details of shareholders' equity are as follows:

	September 30, 2022	December 31, 2021
Common Shares	\$ 378.6	\$ 381.1
Contributed surplus	17.7	17.7
Accumulated other comprehensive loss	(2.2)	(2.2)
Deficit	(63.7)	(48.9)
Shareholders' equity	\$ 330.4	\$ 347.7

Common Shares

Westaim had 141,386,718 Common Shares outstanding at September 30, 2022 and 142,686,718 Common Shares at December 31, 2021. In the nine months ended September 30, 2022, Westaim cancelled 1,300,000 Common Shares that it had acquired at a cost of \$2.5 through its normal course issuer bid ("NCIB"). In the year ended December 31, 2021, Westaim cancelled 500,000 Common Shares that it had acquired at a cost of \$1.1 through the NCIB. The NCIB, which was approved by the TSXV, provides that Westaim 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 Westaim's public float as of September 23, 2021. The NCIB is restricted in that no more than 2,863,734 Common Shares within a 30 day period may be purchased within the market. Westaim is conducting the NCIB because it believes the Common Shares currently trade in a price range that represents an attractive investment and a desirable use of its corporate funds as cash becomes available. See Note 17, *Subsequent Event* in the Notes to the Financial Statements.

Contributed Surplus

The Company had \$17.7 in contributed surplus at September 30, 2022 and December 31, 2021.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of \$2.2 at September 30, 2022 and December 31, 2021 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.

6. ANALYSIS OF FINANCIAL POSITION (continued)

Deficit

The increase in deficit of \$14.8 from December 31, 2021 to September 30, 2022 is due to the loss and comprehensive loss for the nine months ended September 30, 2022.

7. OUTLOOK

With the Arena Investors' platform largely built (product suite, geographies, IT systems, investment capability), its 100+ professionals are poised to deploy committed capital, continue to increase AUM and demonstrate operating leverage to grow its earnings.

Generally, the US property and casualty insurance market has shifted to a cycle of increasing insurance rates and improved underwriting terms. Skyward Specialty is well positioned to take advantage of the hard insurance market and accelerate its profitable growth and return on equity. Skyward Specialty continues to acquire additional key talent, executes on underwriting actions to optimize its product mix, maintains protection under an LPT agreement signed in 2020 that helps minimize the impact of prior years' claims development and effectively manages its investment portfolio to result in improved investment returns. Skyward Specialty has an AM Best rating "A-" with a Stable Outlook. Skyward Specialty's objective is to build a top quartile property and casualty specialty insurer.

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

8. LIQUIDITY AND CAPITAL RESOURCES

Capital Management Objectives

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

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

The 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, 2022, Westaim had 141,386,718 Common Shares outstanding (December 31, 2021 – 142,686,718), with a stated capital of \$378.6 (December 31, 2021 - \$381.1).

There were no Class A or Class B preferred shares outstanding at September 30, 2022 or at December 31, 2021. For further details, see Note 10, *Share Capital* in the Notes to the Financial Statements.

Dividends

No dividends were paid by the Company in the three and nine months ended September 30, 2022 and 2021 or the year ended December 31, 2021.

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, subject to the terms of the Option Plan, the aggregate number of Common Shares which may be reserved for issuance thereunder 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, subject to the terms of the plan, the number of Common Shares issuable under such plan, together with all other security-based compensation arrangements of Westaim, shall not exceed 10% of the aggregate number of Common Shares outstanding. As the DSUs are settled solely in cash, they are not included in this 10% limitation.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(Currency amounts in millions of United States dollars except per share data, unless otherwise indicated)

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

At September 30, 2022 and at December 31, 2021, Westaim had 10,428,337 stock options outstanding at strike prices ranging from C\$3.00 to C\$3.25.

Westaim had 2,975,198 RSUs outstanding at September 30, 2022 and December 31, 2021. 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. There were no RSUs exercised in the three and nine months ended September 30, 2022 and 2021.

At September 30, 2022, 1,291,388 DSUs were vested and outstanding (December 31, 2021 – 1,093,603 DSUs). 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 three and nine months ended September 30, 2022 and 2021, no DSUs were redeemed by the Company.

At September 30, 2022, accounts payable and accrued liabilities included amounts related to outstanding RSUs of \$5.6 (December 31, 2021 - \$5.9) and outstanding DSUs of \$2.4 (December 31, 2021 - \$2.2).

For further details, see Note 11, *Share-based Compensation* in the Notes to the Financial Statements.

Market for Securities

Westaim's Common Shares are listed and posted for trading on the TSXV under the symbol "WED".

Cash Flow Objectives

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

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

September 30, 2022	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	\$ 2.2	\$ -	\$ -	\$ 2.2
Income tax receivable	0.1	-	-	0.1
Other assets (excluding capital assets and right-of-use asset)	0.1	-	-	0.1
Investments	-	24.0	353.0	377.0
Total financial assets	2.4	24.0	353.0	379.4
Financial obligations:				
Accounts payable and accrued liabilities (excluding lease liabilities)	4.4	-	8.0	12.4
Preferred securities	-	-	36.2	36.2
Total financial obligations	4.4	-	44.2	48.6
Net financial (obligations) assets	\$ (2.0)	\$ 24.0	\$ 308.8	\$ 330.8

8. LIQUIDITY AND CAPITAL RESOURCES (continued)

December 31, 2021	One year or less	One to five years	No specific date / later than five years	Total
Financial assets:				
Cash	\$ 6.6	\$ -	\$ -	\$ 6.6
Other assets (excluding capital assets and right-of-use asset)	0.4	-	-	0.4
Investments	-	24.0	370.3	394.3
Total financial assets	7.0	24.0	370.3	401.3
Financial obligations:				
Accounts payable and accrued liabilities (excluding lease liabilities)	5.2	-	8.1	13.3
Preferred securities	-	-	39.5	39.5
Total financial obligations	5.2	-	47.6	52.8
Net financial assets	\$ 1.8	\$ 24.0	\$ 322.7	\$ 348.5

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

9. RELATED PARTY TRANSACTIONS

Related parties include key management personnel 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.

For further details, see Note 12, *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.

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, 2022. 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, 2022. The significant unobservable inputs used in the valuation of Skyward Specialty and the Arena FINCOs at September 30, 2022 were the equity of each of the entities at September 30, 2022 and the multiple applied. For a detailed description of the valuation of the Company's investments in private entities, see Note 4, *Investments* in the Notes to the Financial Statements. 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.

Other key estimates include the Company's fair value of share-based compensation and unrecognized deferred tax assets. Details of these items are disclosed in Note 12 and Note 14, respectively, to the Company's audited annual consolidated financial statements for the years ended December 31, 2021 and 2020.

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, 2021 and 2020.

At September 30, 2022, there were no new pronouncements that impacted the Company.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(Currency amounts in millions of United States dollars except per share data, unless otherwise indicated)

12. QUARTERLY FINANCIAL INFORMATION

	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Revenue	\$ 3.4	\$ 3.2	\$ 3.0	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6	\$ 0.6
(Decrease) increase in unrealized value of investments, less dividends	(18.5)	(2.7)	3.9	6.2	3.2	9.9	12.1	(10.5)
Net (expenses) recovery of expenses	(2.5)	(2.4)	(2.4)	0.1	(2.2)	0.4	(3.6)	(4.6)
Income tax recovery (expense)	0.9	0.3	(1.0)	(0.2)	-	-	-	-
(Loss) profit and comprehensive (loss) income	\$ (16.7)	\$ (1.6)	\$ 3.5	\$ 6.7	\$ 1.6	\$ 10.9	\$ 9.1	\$ (14.5)

The Company's quarterly financial results do not follow any special trends and are not generally subject to seasonal variation but are instead impacted by general market and economic conditions, regulatory risks and foreign exchange fluctuations. In addition, the value of the derivative warrant liability 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 April 13, 2022 for its fiscal year ended December 31, 2021 which is available on SEDAR at www.sedar.com.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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, 2022
	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	26	\$ 54.6	\$ 56.3	24.6%	7.1%	17.5%
Real Estate Private Credit and Real Estate Assets	26	44.6	43.2	18.9%	12.1%	6.8%
Commercial and Industrial Assets	25	32.0	31.5	13.8%	9.0%	4.8%
Structured Finance	3	4.5	5.0	2.2%	2.2%	0.0%
Consumer Assets	16	23.2	17.6	7.7%	7.7%	0.0%
Other Securities	188	78.4	74.8	32.8%	8.5%	24.3%
	284	\$ 237.3	\$ 228.4	100.0%	46.6%	53.4%

Investments by Strategy						December 31, 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	28	\$ 57.2	\$ 54.9	30.0%	11.2%	18.8%
Real Estate Private Credit and Real Estate Assets	33	30.0	29.1	15.9%	12.5%	3.4%
Commercial and Industrial Assets	28	36.6	38.7	21.2%	14.2%	7.0%
Structured Finance	2	3.5	3.7	2.0%	2.0%	0.0%
Consumer Assets	12	16.1	10.4	5.7%	5.7%	0.0%
Other Securities	100	40.8	46.1	25.2%	10.3%	14.9%
	203	\$ 184.2	\$ 182.9	100.0%	55.9%	44.1%

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, 2022			December 31, 2021		
	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value	Cost	Fair value	Percentage of investments at fair value
Loans / Private Assets									
North America	\$ 113.8	\$ 110.7	48.4%	\$ 112.8	\$ 107.7	58.9%			
Europe	29.9	31.5	13.8%	19.2	18.6	10.2%			
Asia/Pacific	14.2	10.4	4.6%	11.4	10.5	5.7%			
Latin America	1.0	1.0	0.4%	-	-	0.0%			
	158.9	153.6	67.2%	143.4	136.8	74.8%			
Other Securities ¹									
North America	54.1	52.3	22.9%	13.5	24.7	13.5%			
Europe	8.2	7.9	3.5%	8.3	5.5	3.0%			
Asia/Pacific	7.1	7.8	3.4%	11.5	11.4	6.2%			
Latin America	2.4	0.2	0.1%	2.9	1.0	0.5%			
Other	6.6	6.6	2.9%	4.6	3.5	2.0%			
	78.4	74.8	32.8%	40.8	46.1	25.2%			
	\$ 237.3	\$ 228.4	100.0%	\$ 184.2	\$ 182.9	100.0%			

¹ Net of short positions.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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, 2022			December 31, 2021		
	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	\$ 16.4	\$ 8.9	3.9%	\$ 16.1	\$ 11.3	6.2%
Consumer Products	1.4	1.5	0.6%	0.6	0.6	0.3%
Financial Services	1.0	0.5	0.2%	1.1	1.1	0.6%
Oil and Gas ⁽¹⁾	20.7	28.0	12.3%	21.3	25.2	13.8%
Other Assets	14.4	16.7	7.3%	15.6	14.2	7.8%
Retail	0.7	0.7	0.3%	2.5	2.5	1.3%
	54.6	56.3	24.6%	57.2	54.9	30.0%
Real Estate Private Credit and Real Estate Assets						
Commercial	1.4	1.4	0.6%	0.9	0.9	0.5%
Hospitality	9.8	9.1	4.0%	3.7	3.7	2.0%
Land - Commercial Development	6.5	6.8	3.0%	8.1	7.6	4.2%
Land - Multi-Family Development	4.5	3.5	1.5%	5.8	5.1	2.8%
Land - Single-Family Development	3.9	3.3	1.4%	2.2	2.1	1.1%
Retail	6.3	6.3	2.8%	-	-	0.0%
Residential	12.2	12.8	5.6%	9.3	9.7	5.3%
	44.6	43.2	18.9%	30.0	29.1	15.9%
Commercial and Industrial Assets						
Lease/Equipment	2.6	3.3	1.5%	3.6	4.7	2.6%
Other Assets	29.4	28.2	12.3%	33.0	34.0	18.6%
	32.0	31.5	13.8%	36.6	38.7	21.2%
Structured Finance						
Other Assets	4.5	5.0	2.2%	3.5	3.7	2.0%
	4.5	5.0	2.2%	3.5	3.7	2.0%
Consumer Assets						
Consumer	23.2	17.6	7.7%	16.1	10.4	5.7%
	23.2	17.6	7.7%	16.1	10.4	5.7%
Total Loans / Private Assets	158.9	153.6	67.2%	143.4	136.8	74.8%
Other Securities ⁽²⁾						
Basic Materials	1.1	1.1	0.5%	1.3	1.4	0.8%
Biotechnology	0.9	0.9	0.4%	0.1	0.1	0.1%
Consumer Products	17.3	15.1	6.6%	7.2	6.3	3.4%
Diversified	26.8	26.2	11.5%	4.3	4.3	2.4%
Energy	0.4	0.5	0.2%	0.7	0.9	0.5%
Financial Services	8.8	6.3	2.8%	7.3	5.8	3.2%
Foreign Exchange Forwards/Options	-	4.7	2.0%	-	0.4	0.2%
Fund Investment	2.0	2.2	1.0%	-	-	0.0%
Healthcare Services	0.5	0.9	0.4%	1.2	1.4	0.7%
Industrial	2.9	3.6	1.6%	3.6	3.7	2.0%
Information Technology	0.9	0.5	0.2%	1.8	1.7	0.9%
Mining	0.3	0.3	0.1%	2.2	2.1	1.1%
Oil and Gas	0.1	1.4	0.6%	2.0	2.4	1.3%
Real Estate	2.0	1.1	0.5%	1.7	1.6	0.9%
Retail	0.5	0.4	0.2%	-	-	0.0%
Technology	10.5	6.4	2.8%	-	-	0.0%
Telecommunications	3.2	2.9	1.3%	7.4	14.0	7.7%
	78.4	74.8	32.8%	40.8	46.1	25.2%
	\$ 237.3	\$ 228.4	100.0%	\$ 184.2	\$ 182.9	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.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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 are as follows:

Details of Loan and Private Asset Positions							September 30, 2022	
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	13.7	16.0	Europe	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-3198	Oil & Gas	4.5	4.5	7.8	North America	Hard Asset	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-3222	Oil & Gas	5.4	5.6	7.5	North America	Hard Asset	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-3349	Business Services	5.7	6.8	4.4	Asia Pacific	2nd Lien	27.00%	100%+
CPC-4108	Oil & Gas	1.6	1.6	3.7	North America	Hard Asset	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-5325	Oil & Gas	2.7	2.9	3.1	North America	1st Lien	12.75%	31.0%
CPC-3199EQY	Oil & Gas	2.1	2.1	2.3	North America	Hard Asset	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-4985	Oil & Gas	1.3	1.3	1.6	North America	1st Lien	10.00%	17.0%
CPC-7044	Consumer Products	1.6	1.4	1.5	North America	1st Lien	14.00%	34.6%
CPC-5143EQY	Oil & Gas	1.3	1.3	1.4	North America	Hard Asset	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-6859	Business Services	0.9	1.0	1.1	Asia Pacific	1st Lien	11.00%	32.0%
CPC-7227	Other Assets	0.7	0.7	0.7	North America	Asset Pool	n/a ⁽⁷⁾	9.0%
CPC-5830	Business Services	0.5	0.6	0.6	Europe	1st Lien	10.00%	1.0%
CPC-5027	Retail	0.6	0.6	0.6	North America	1st Lien	9.13%	64.9%
CPC-2397	Financial Services	1.0	1.0	0.5	North America	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-7018	Business Services	0.4	0.5	0.5	Europe	1st Lien	9.50%	23.8%
CPC-6677	Business Services	0.4	0.5	0.4	Europe	1st Lien	10.00%	3.9%
CPC-6374	Business Services	0.0	0.1	0.4	Europe	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-2170	Oil & Gas	1.7	1.2	0.4	North America	1st Lien	3.50%	100%+
CPC-5913	Business Services	0.3	0.4	0.4	Europe	1st Lien	10.00%	1.4%
CPC-5914	Business Services	0.3	0.3	0.4	Europe	1st Lien	10.00%	2.3%
CPC - 7312EQY	Business Services	0.3	0.3	0.3	North America	Equity	n/a ⁽⁸⁾	n/a ⁽⁸⁾
CPC-6373	Business Services	0.2	0.3	0.3	Europe	1st Lien	10.00%	2.2%
CPC-1010	Oil & Gas	0.2	0.2	0.2	North America	1st Lien	14.00%	43.0%
CPC-5856	Business Services	0.1	0.1	0.1	Europe	1st Lien	11.00%	4.5%
CPC-7199	Retail	0.1	0.1	0.1	North America	1st Lien	11.00%	22.4%
CPC-5889	Consumer Products	0.0	0.0	0.0	North America	1st Lien	14.00%	34.6%
CPC-3083	Business Services	4.6	4.6	0.0	North America	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-6532	Business Services	0.1	0.1	0.0	North America	2nd Lien	1.00%	100%+
CPC-7167	Business Services	0.0	0.0	0.0	North America	2nd Lien	1.00%	100%+
CPC-3349EQY	Business Services	1.2	0.8	0.0	Asia Pacific	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
Subtotal / Weighted average %		51.7	54.6	56.3			15.66%	51.1%

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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 are as follows:

Details of Loan and Private Asset Positions (continued)							September 30, 2022	
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								
RECPC-7654	Retail	6.3	6.3	6.3	North America	1st Mortgage	7.00%	76.5%
RECPC-1068S4	Residential	3.8	3.8	4.9	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
	Land - Commercial							
RECPC-2277	Development	3.2	3.2	4.5	North America	1st Mortgage	19.00%	65.0%
RECPC-6932	Hospitality	3.3	4.6	4.0	Europe	1st Mortgage	13.80%	93.7%
	Land - Multi-Family							
RECPC-2683	Development	4.1	4.1	3.1	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
RECPC-7586	Residential	2.1	2.4	2.3	Europe	1st Mortgage	12.50%	74.5%
RECPC-4220	Residential	2.6	2.6	2.3	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
RECPC-7488	Residential	1.1	1.7	1.6	Asia Pacific	1st Mortgage	13.00%	66.5%
RECPC-8135	Hospitality	1.3	1.3	1.2	Europe	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
	Land - Commercial							
RECPC-2592	Development	2.0	2.0	1.1	North America	1st Mortgage	12.94%	100%+
RECPC-2560	Hospitality	0.9	0.9	1.1	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
	Land - Commercial							
RECPC-5905	Development	1.1	1.1	1.1	North America	1st Mortgage	16.00%	60.9%
RECPC-6592	Hospitality	0.9	0.9	1.0	North America	1st Mortgage	9.53%	50.1%
RECPC-7319	Residential	0.8	0.9	0.9	Europe	1st Mortgage	16.11%	42.7%
	Land - Single-Family							
RECPC-6996	Development	0.8	0.9	0.8	Asia Pacific	1st Mortgage	18.00%	55.0%
RECPC-7027	Hospitality	0.6	0.7	0.7	Europe	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
RECPC-2497	Hospitality	1.0	1.0	0.7	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
RECPC-7554	Commercial	0.6	0.6	0.6	Europe	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
	Land - Single-Family							
RECPC-5476	Development	0.6	0.7	0.6	Asia Pacific	1st Mortgage	20.00%	85.5%
	Land - Single-Family							
RECPC-6506TL1	Development	0.6	0.7	0.6	Asia Pacific	1st Mortgage	8.00%	54.7%
RECPC-6854	Residential	0.5	0.5	0.5	Europe	1st Mortgage	14.00%	47.7%
RECPC-6384EQ	Commercial	0.4	0.4	0.5	North America	1st Mortgage	n/a ⁽⁹⁾	n/a ⁽⁹⁾
	Land - Single-Family							
RECPC-6194	Development	0.4	0.5	0.4	Asia Pacific	1st Mortgage	15.00%	73.1%
RECPC-6129	Hospitality	0.4	0.4	0.4	North America	1st Mortgage	24.00%	75.2%
	Land - Multi-Family							
RECPC-4698	Development	0.4	0.4	0.4	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
	Land - Single-Family							
RECPC-6242	Development	0.3	0.4	0.3	Asia Pacific	1st Mortgage	9.18%	74.8%
	Land - Single-Family							
RECPC-6505	Development	0.3	0.4	0.3	Asia Pacific	1st Mortgage	11.50%	88.3%
RECPC-7390	Residential	0.3	0.3	0.3	North America	1st Mortgage	12.10%	21.1%
RECPC-6334	Commercial	0.2	0.2	0.2	Europe	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
	Land - Single-Family							
RECPC-6995	Development	0.2	0.2	0.2	Asia Pacific	1st Mortgage	12.00%	21.9%
RECPC-6048	Commercial	0.1	0.2	0.1	Europe	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
	Land - Single-Family							
RECPC-8118	Development	0.1	0.1	0.1	Asia Pacific	1st Mortgage	11.00%	20.8%
	Land - Commercial							
RECPC-1047	Development	0.1	0.1	0.1	North America	1st Mortgage	15.00%	53.0%
	Land - Commercial							
RECPC-1015	Development	0.2	0.1	0.0	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
Subtotal / Weighted average %		41.6	44.6	43.2			13.09%	75.6%

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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 are as follows:

Details of Loan and Private Asset Positions (continued)							September 30, 2022	
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-4898	Other Assets	4.0	4.0	4.2	North America	1st Lien	16.80%	42.1%
CI-6785	Other Assets	3.3	3.3	3.3	North America	1st Lien	13.50%	91.0%
CI-3045	Other Assets	1.5	1.5	3.1	North America	Asset Pool	n/a ⁽⁷⁾	29.4%
CI-2651	Other Assets	4.0	4.3	2.6	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-1999EQ	Other Assets	3.1	3.1	1.8	North America	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CI-2201	Lease/Equipment	0.9	0.9	1.8	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-3978	Other Assets	1.7	1.8	1.4	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-2000	Other Assets	0.9	0.9	1.4	North America	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CI-6253	Other Assets	1.4	1.3	1.3	North America	1st Lien	13.88%	71.0%
CI-6016	Other Assets	1.3	1.3	1.3	North America	1st Lien	15.00%	88.7%
CI-6750	Other Assets	1.1	1.1	1.1	Europe	Asset Pool	24.00%	66.8%
CI-5177	Other Assets	0.9	0.9	1.0	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-6006	Lease/Equipment	0.9	1.0	0.9	North America	1st Lien	13.79%	82.4%
CI-7001	Other Assets	0.8	0.8	0.8	North America	1st Lien	19.50%	81.4%
CI-6648TL	Other Assets	0.8	0.8	0.8	North America	1st Lien	16.20%	66.8%
CI-5554A	Other Assets	0.6	0.6	0.6	North America	1st Lien	10.00%	77.0%
CI-6006	Lease/Equipment	0.6	0.7	0.6	North America	1st Lien	13.79%	82.4%
CI-6565	Other Assets	0.5	0.5	0.5	North America	1st Lien	18.00%	66.8%
CI-7492	Other Assets	0.3	0.3	0.4	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-7166	Other Assets	0.3	0.3	0.4	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-5554	Other Assets	0.4	0.4	0.4	North America	1st Lien	10.00%	77.0%
CI-1520	Other Assets	0.2	0.2	0.3	North America	1st Lien	n/a ⁽¹¹⁾	48.0%
CI-1035	Other Assets	0.5	0.5	0.3	North America	1st Lien	9.90%	100.0%
CI-7759EQY	Other Assets	0.3	0.3	0.3	North America	1st Lien	18.00%	77.0%
CI-4967	Other Assets	0.2	0.2	0.3	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-7985	Other Assets	0.2	0.2	0.2	North America	1st Lien	15.00%	66.8%
CI-2064	Other Assets	0.0	0.0	0.2	North America	2nd Lien	15.00%	67.0%
CI-7140	Other Assets	1.0	0.4	0.2	North America	1st Lien	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CI-2686	Other Assets	0.2	0.2	0.0	North America	Equity	n/a ⁽⁸⁾	n/a ⁽⁸⁾
CI-5113	Other Assets	0.0	0.0	0.0	North America	1st Lien	14.00%	89.2%
CA-6328	Other Assets	0.0	0.0	0.0	North America	1st Lien	12.00%	80.0%
CI-1999	Other Assets	0.0	0.0	0.0	North America	1st Lien	n/a ⁽¹⁶⁾	n/a ⁽¹⁶⁾
CI-1018	Other Assets	0.2	0.2	0.0	North America	1st Lien	9.26%	100.0%
Subtotal / Weighted average %		32.1	32.0	31.5			15.57%	64.1%
Structured Finance								
SF-2239	Other Assets	2.9	3.1	3.6	North America	1st Lien	n/a ⁽¹²⁾	7.1%
SF-7254	Other Assets	1.2	1.2	1.2	North America	1st Lien	20.00%	69.3%
SF-5396	Other Assets	0.2	0.2	0.2	North America	1st Lien	15.00%	85.0%
Subtotal / Weighted average %		4.3	4.5	5.0			19.18%	25.6%

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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 are as follows:

Details of Loan and Private Asset Positions (continued)							September 30, 2022	
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	4.0	4.0	4.0	North America	1st Lien	17.00%	98.7%
CA-5898	Consumer	2.3	2.3	2.8	North America	Asset Pool	n/a ⁽¹²⁾	60.0%
CA-5596	Consumer	2.0	2.0	2.1	North America	Asset Pool	n/a ⁽⁶⁾	n/a ⁽¹⁰⁾
CA-7491	Consumer	2.0	2.0	2.0	North America	Asset Pool	n/a ⁽¹²⁾	n/a ⁽¹⁰⁾
CA-7474	Consumer	1.2	1.2	1.4	North America	Asset Pool	n/a ⁽¹²⁾	n/a ⁽¹⁰⁾
CA-1788/1933/1934	Consumer	4.0	4.0	1.8	North America	1st Lien	n/a ⁽⁶⁾	n/a ⁽⁴⁾
CA-6444	Consumer	1.0	1.0	1.0	Latin America	Asset Pool	n/a ⁽¹²⁾	n/a ⁽¹⁰⁾
CA-7092	Consumer	0.8	0.8	0.8	North America	1st Lien	9.00%	61.1%
CA-6154	Consumer	0.7	0.9	0.8	Europe	1st Lien	15.00%	57.8%
CA-4718	Consumer	0.4	0.4	0.4	North America	Asset Pool	n/a ⁽¹²⁾	n/a ⁽¹⁰⁾
CA-6288	Consumer	0.1	0.1	0.2	North America	1st Lien	10.00%	62.8%
CA-1052F	Consumer	2.6	2.6	0.1	North America	1st Lien	15.66%	100.0%
CA-2729	Consumer	0.3	0.3	0.1	North America	1st Lien	n/a ⁽¹²⁾	100.0%
CA-6834	Consumer	0.1	0.1	0.1	North America	Asset Pool	n/a ⁽⁶⁾	n/a ⁽¹⁰⁾
CA-7573	Consumer	0.0	0.0	0.0	Asia Pacific	Asset Pool	n/a ⁽¹²⁾	n/a ⁽¹⁰⁾
CA-1052S	Consumer	1.5	1.5	0.0	North America	1st Lien	15.66%	100.0%
Subtotal / Weighted average %		23.0	23.2	17.6			15.30%	80.1%
Total / Weighted average %		\$ 152.7	\$ 158.9	\$ 153.6			14.64%	64.7%

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

² Some investments bear interest at a rate that may be determined by reference to 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, 2022. 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, 2022.

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, 2022.

⁹ Investment represents owned real estate. Metric is not available.

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 with no stated coupon rate.

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.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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 are as follows:

Details of Loan and Private Asset Positions							December 31, 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	\$ 12.0	\$ 13.6	\$ 12.2	Europe	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-3222	Oil & Gas	6.7	5.6	6.7	North America	Hard Asset	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-3198	Oil & Gas	4.5	4.5	6.6	North America	Hard Asset	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-3349	Business Services	7.2	5.0	4.9	Asia Pacific	2nd Lien	12.00%	100%+
CPC-5325	Oil & Gas	3.4	3.6	4.1	North America	1st Lien	12.00%	31.0%
CPC-3199EQ	Oil & Gas	2.6	2.6	2.7	North America	Hard Asset	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-3677	Business Services	1.1	1.1	2.1	North America	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-4108	Oil & Gas	1.6	1.6	2.0	North America	Hard Asset	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-6678	Retail	1.7	1.7	1.7	North America	1st Lien	12.00%	85.0%
CPC-4985	Oil & Gas	1.3	1.3	1.5	North America	1st Lien	10.00%	17.0%
CPC-7227	Other Assets	1.3	1.2	1.2	North America	Asset Pool	n/a ⁽⁷⁾	9.0%
CPC-6374	Business Services	0.5	0.6	1.0	Europe	Equity	n/a ⁽¹⁵⁾	n/a ⁽¹⁵⁾
CPC-5974	Other Assets	2.0	0.9	0.8	Asia Pacific	1st Lien	8.00%	67.0%
CPC-5143	Oil & Gas	0.8	0.8	0.8	North America	1st Lien	12.00%	21.0%
CPC-2397	Financial Services	0.9	0.9	0.8	North America	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-5830	Business Services	0.5	0.6	0.7	Europe	1st Lien	10.00%	5.0%
CPC-6859	Business Services	0.5	0.6	0.7	Asia Pacific	1st Lien	11.00%	26.0%
CPC-5027	Retail	0.6	0.6	0.7	North America	1st Lien	9.13%	83.0%
CPC-5913	Business Services	0.4	0.5	0.6	Europe	1st Lien	10.00%	5.0%
CPC-7044	Consumer Products	0.5	0.5	0.6	North America	1st Lien	n/a ⁽⁸⁾	n/a ⁽⁸⁾
CPC-2170	Oil & Gas	1.7	1.1	0.5	North America	1st Lien	3.50%	100%+
CPC-5914	Business Services	0.3	0.3	0.5	Europe	1st Lien	10.00%	5.0%
CPC-6510	Financial Services	0.2	0.2	0.3	Asia Pacific	1st Lien	8.00%	14.0%
CPC-6373	Business Services	0.2	0.2	0.2	Europe	1st Lien	10.00%	8.0%
CPC-1010	Oil & Gas	0.2	0.2	0.2	North America	1st Lien	14.00%	43.0%
CPC-5856	Business Services	0.1	0.1	0.2	Europe	1st Lien	11.00%	5.0%
CPC-7018	Business Services	0.2	0.2	0.2	Europe	1st Lien	9.50%	6.3%
CPC-7199	Retail	0.1	0.1	0.1	North America	1st Lien	14.00%	67.0%
CPC-7167	Business Services	0.6	0.6	0.1	North America	2nd Lien	1.00%	64.0%
CPC-6678EQ	Retail	0.1	0.1	0.1	North America	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-6532	Business Services	0.9	0.9	0.1	North America	2nd Lien	n/a ⁽¹⁶⁾	n/a ⁽¹⁶⁾
CPC-3349EQY	Business Services	0.8	0.8	0.0	Asia Pacific	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-3083	Business Services	4.6	4.6	0.0	North America	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CPC-5889	Consumer Products	0.0	0.0	0.0	North America	1st Lien	22.00%	27.0%
Subtotal / Weighted average %		60.1	57.2	54.9			10.98%	38.8%

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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 are as follows:

Details of Loan and Private Asset Positions (continued)							December 31, 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-1068S4	Residential	3.8	3.8	4.3	North America	1st Mortgage ⁽⁵⁾	11.00%	72.0%
REPC-2277	Land - Commercial	3.1	3.1	3.5	North America	1st Mortgage	15.00%	65.0%
REPC-2683	Development							
	Land - Multi-Family	4.0	4.0	3.3	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
	Development							
REPC-4220	Residential	2.5	2.5	2.3	North America	1st Mortgage	12.00%	83.0%
REPC-7488	Residential	0.1	1.7	1.7	Asia Pacific	1st Mortgage	13.00%	66.0%
REPC-5591	Land - Commercial	1.6	1.6	1.6	North America	1st Mortgage	13.50%	59.0%
	Development							
REPC-6162	Land - Multi-Family	1.5	1.5	1.5	North America	1st Mortgage	12.00%	46.0%
	Development							
REPC-5905	Land - Commercial	1.2	1.2	1.2	North America	1st Mortgage	15.13%	60.0%
	Development							
REPC-2592	Land - Commercial	2.0	2.0	1.1	North America	1st Mortgage	10.50%	100%+
	Development							
REPC-2497	Hospitality	1.0	1.0	1.0	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
REPC-2560	Hospitality	0.9	0.9	0.9	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
REPC-7319	Residential	0.7	0.8	0.9	Europe	1st Mortgage	13.00%	42.7%
REPC-6592	Hospitality	0.7	0.7	0.7	North America	1st Mortgage	8.00%	80.0%
REPC-7027	Hospitality	0.6	0.7	0.7	Europe	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
REPC-6384EQ	Commercial	0.5	0.5	0.5	North America	1st Mortgage	n/a ⁽⁹⁾	n/a ⁽⁹⁾
REPC-5476	Land - Single-Family	0.5	0.5	0.5	Asia Pacific	1st Mortgage	11.50%	78.0%
	Development							
REPC-4698	Land - Multi-Family	0.4	0.3	0.4	North America	1st Mortgage	11.50%	54.0%
	Development							
REPC-6854	Residential	0.3	0.4	0.4	Europe	1st Mortgage	14.00%	47.7%
REPC-6129TL	Hospitality	0.4	0.4	0.4	North America	1st Mortgage	10.50%	61.0%
REPC-6506TL1	Land - Single-Family	0.5	0.5	0.4	Asia Pacific	1st Mortgage	8.00%	79.0%
	Development							
REPC-6505	Land - Single-Family	0.4	0.3	0.3	Asia Pacific	1st Mortgage	11.50%	69.0%
	Development							
REPC-6242	Land - Single-Family	0.3	0.3	0.3	Asia Pacific	1st Mortgage	11.00%	80.0%
	Development							
REPC-6194	Land - Single-Family	0.2	0.2	0.2	Asia Pacific	1st Mortgage	9.00%	69.0%
	Development							
REPC-6048	Commercial	0.2	0.2	0.2	Europe	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
REPC-6334	Commercial	0.2	0.2	0.2	Europe	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
REPC-7193	Residential	0.1	0.1	0.1	North America	1st Mortgage	13.75%	50.0%
REPC-6996	Land - Single-Family	0.8	0.1	0.1	Asia Pacific	1st Mortgage	5.40%	70.0%
	Development							
REPC-6995	Land - Single-Family	0.1	0.1	0.1	Asia Pacific	1st Mortgage	12.00%	69.0%
	Development							
REPC-6054	Land - Single-Family	0.1	0.1	0.1	Asia Pacific	1st Mortgage	10.00%	74.0%
	Development							
REPC-6276	Land - Single-Family	0.1	0.1	0.1	Asia Pacific	1st Mortgage	8.00%	74.0%
	Development							
REPC-1047	Land - Commercial	0.1	0.1	0.1	North America	1st Mortgage	15.00%	53.0%
	Development							
REPC-5348	Commercial	1.3	0.0	0.0	Europe	1st Mortgage	15.00%	54.0%
REPC-1015	Land - Commercial	0.2	0.1	0.0	North America	Real Property	n/a ⁽⁹⁾	n/a ⁽⁹⁾
	Development							
Subtotal / Weighted average %		30.4	30.0	29.1			12.28%	70.0%

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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 are as follows:

Details of Loan and Private Asset Positions (continued)							December 31, 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	2.1	2.1	4.2	North America	Asset Pool	n/a ⁽⁷⁾	49.0%
CI-4898	Other Assets	4.0	4.0	4.1	North America	1st Lien	14.00%	43.0%
CI-2651	Other Assets	4.0	4.3	3.3	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-1800	Other Assets	2.7	2.7	2.7	North America	1st Lien	13.50%	0.0%
CI-3978	Other Assets	1.8	1.8	2.2	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-1999EQY	Other Assets	3.1	3.1	2.0	North America	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CI-2201	Lease/Equipment	0.9	0.9	2.0	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-6253	Other Assets	2.1	1.9	1.9	North America	1st Lien	7.88%	n/a ⁽⁴⁾
CI-2000	Other Assets	0.6	0.6	1.5	North America	Equity	n/a ⁽¹³⁾	n/a ⁽¹³⁾
CI-6752	Other Assets	1.4	1.4	1.4	North America	1st Lien	15.00%	61.0%
CI-7004	Other Assets	1.3	1.3	1.3	North America	1st Lien	15.00%	61.0%
CI-6750	Other Assets	1.1	1.2	1.2	North America	1st Lien	24.00%	61.0%
CI-6016	Other Assets	1.1	1.1	1.1	North America	1st Lien	15.00%	85.0%
CI-4282	Lease/Equipment	1.1	1.1	1.1	North America	1st Lien	12.00%	79.0%
CI-6006	Lease/Equipment	1.0	1.0	1.0	North America	1st Lien	14.30%	85.0%
CI-7164	Other Assets	0.8	0.8	0.8	North America	1st Lien	30.00%	61.0%
CI-6648TL	Other Assets	0.7	0.7	0.7	North America	1st Lien	16.20%	61.0%
CI-2064	Other Assets	0.3	0.3	0.6	North America	2nd Lien	15.00%	80.0%
CI-6565	Other Assets	0.6	0.6	0.6	North America	1st Lien	18.00%	61.0%
CI-5777	Lease/Equipment	0.6	0.6	0.6	North America	1st Lien	12.00%	90.0%
CI-2686	Other Assets	1.0	1.0	0.5	North America	Equity	n/a ⁽¹⁴⁾	n/a ⁽¹⁴⁾
CI-5177	Other Assets	0.5	0.5	0.5	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-7166	Other Assets	0.5	0.5	0.5	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-6785	Other Assets	0.4	0.4	0.4	North America	1st Lien	13.50%	85.0%
CI-1520	Other Assets	0.2	0.2	0.4	North America	1st Lien	n/a ⁽¹¹⁾	48.0%
CI-4967	Other Assets	0.4	0.4	0.4	North America	Hard Asset	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-7140	Other Assets	0.9	0.4	0.4	North America	1st Lien	n/a ⁽⁴⁾	n/a ⁽⁴⁾
CI-5554A	Other Assets	0.4	0.4	0.4	North America	1st Lien	10.00%	80.0%
CI-1035	Other Assets	0.4	0.4	0.3	North America	1st Lien	9.90%	100.0%
CI-5554B	Other Assets	0.3	0.3	0.3	North America	1st Lien	10.00%	80.0%
CI-5554	Other Assets	0.2	0.2	0.2	North America	1st Lien	10.00%	80.0%
CI-7406EQY	Other Assets	0.1	0.1	0.1	North America	1st Lien	18.00%	77.0%
CI-1999	Other Assets	0.0	0.0	0.0	North America	1st Lien	n/a ⁽¹⁶⁾	n/a ⁽¹⁶⁾
CI-5372	Other Assets	0.0	0.0	0.0	Latin America	1st Lien	18.00%	77.0%
CI-5113	Other Assets	0.0	0.0	0.0	North America	1st Lien	13.20%	68.0%
CI-1018	Other Assets	0.2	0.2	0.0	North America	1st Lien	9.26%	100%+
CI-2808	Other Assets	0.1	0.1	0.0	North America	Equity	n/a ⁽¹³⁾	n/a ⁽¹³⁾
Subtotal / Weighted average %		36.9	36.6	38.7			14.57%	55.4%
Structured Finance								
SF-2239	Other Assets	3.1	3.3	3.5	North America	First Lien	n/a ⁽¹²⁾	8.0%
SF-5396	Other Assets	0.2	0.2	0.2	North America	First Lien	15.00%	85.0%
Subtotal / Weighted average %		3.3	3.5	3.7			15.00%	12.4%

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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 are as follows:

Details of Loan and Private Asset Positions (continued)							December 31, 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	3.7	3.6	3.6	North America	1st Lien	15.00%	89.0%
CA-5898	Consumer	1.8	1.8	1.8	North America	Asset Pool	n/a	60.0%
CA-1788/1933/1934	Consumer	4.0	4.0	1.8	North America	1st Lien	n/a ⁽⁶⁾	n/a ⁽⁴⁾
CA-5596	Consumer	0.7	0.7	0.8	North America	Asset Pool	n/a ⁽⁶⁾	n/a ⁽¹⁰⁾
CA-4718	Consumer	0.4	0.4	0.7	North America	Asset Pool	n/a ⁽¹²⁾	n/a ⁽¹⁰⁾
CA-1052F	Consumer	2.6	2.6	0.7	North America	1st Lien	15.66%	100.0%
CA-6288	Consumer	0.2	0.2	0.2	North America	1st Lien	10.00%	0.0%
CA-7092	Consumer	0.2	0.2	0.2	North America	1st Lien	9.00%	75.0%
CA-6154	Consumer	0.1	0.2	0.2	Europe	1st Lien	15.00%	50.0%
CA-4727	Consumer	0.2	0.2	0.2	North America	1st Lien	29.00%	66.0%
CA-6834	Consumer	0.1	0.1	0.1	North America	Asset Pool	n/a ⁽⁶⁾	n/a ⁽¹⁰⁾
CA-2729	Consumer	0.4	0.4	0.1	North America	1st Lien	n/a ⁽¹²⁾	100.0%
CA-5060	Consumer	0.0	0.0	0.0	North America	Asset Pool	25.00%	64.0%
CA-2373	Consumer	0.3	0.3	0.0	North America	Asset Pool	n/a ⁽¹²⁾	n/a ⁽¹⁰⁾
CA-1052S	Consumer	1.4	1.4	0.0	North America	1st Lien	15.66%	100.0%
Subtotal / Weighted average %		16.1	16.1	10.4			15.09%	81.3%
Total / Weighted average %		\$ 146.8	\$ 143.4	\$ 136.8			13.14%	56.9%

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, 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 LTV represents the value of the outstanding loan as a percentage of the estimated fair value of the underlying collateral as of December 31, 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 December 31, 2021.

⁹ Investment represents owned real estate. Metric is not available.

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 with no stated coupon rate.

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.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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. 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, 2022	December 31, 2021	September 30, 2021
Book value:			
Shareholders' equity per IFRS	\$ 330.3	\$ 347.7	\$ 342.1
Adjustments:			
RSU liability ¹	5.6	5.9	6.5
Derivative warrant liability ²	0.1	0.2	0.6
	<u>\$ 336.0</u>	<u>\$ 353.8</u>	<u>\$ 349.2</u>
Number of Common Shares:			
Number of Common Shares outstanding	141,386,718	142,686,718	143,186,718
Adjustments for assumed exercise of:			
Outstanding RSUs ¹	2,975,198	2,975,198	3,034,261
Adjusted number of Common Shares ³	<u>144,361,916</u>	<u>145,661,916</u>	<u>146,220,979</u>
Book value per share - in US\$	\$ 2.33	\$ 2.43	\$ 2.39
Book value per share - in C\$ ⁴	\$ 3.22	\$ 3.07	\$ 3.02
Westaim TSXV closing share price - in C\$	\$ 2.61	\$ 2.50	\$ 2.70

¹ See Note 11, *Share-based Compensation* in the Notes to the Financial Statements. 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, *Derivative Warrant Liability* in the Notes to the Financial Statements. 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, 2022, December 31, 2021 and September 30, 2021.

³ See Note 11, *Share-based Compensation* in the Notes to the Financial Statements. No adjustments were made for options at September 30, 2022, December 31, 2021 and September 30, 2021 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: 1.38135 at September 30, 2022, 1.26410 at December 31, 2021 and 1.26585 at September 30, 2021.

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

Adjusted (loss) profit and comprehensive (loss) income excluding unusual items is computed as the GAAP (loss) profit and comprehensive (loss) income less the net impact of unusual items. Management has presented "adjusted (loss) profit and comprehensive (loss) 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 (loss) earnings per share – diluted, excluding unusual items is computed as the adjusted (loss) profit and comprehensive (loss) income excluding unusual items on a diluted basis divided by the weighted average number of Common Shares outstanding on a diluted basis.

The Westaim Corporation
Management's Discussion and Analysis
Three and nine months ended September 30, 2022
(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 (loss) profit and comprehensive (loss) income to the Company's adjusted (loss) profit and comprehensive (loss) income excluding unusual items:

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
The Company's GAAP (loss) profit and comprehensive (loss) income	\$ (16.7)	\$ 1.6	\$ (14.8)	\$ 21.6
Total of the Company's share of Skyward Specialty unusual items	(3.2)	-	(3.2)	(0.7)
The Company's adjusted (loss) profit and comprehensive (loss) income excluding unusual items	\$ (13.5)	\$ 1.6	\$ (11.6)	\$ 22.3

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

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Adjusted (loss) profit and comprehensive (loss) income excluding unusual items	\$ (13.5)	\$ 1.6	\$ (11.6)	\$ 22.3
Dilutive RSU recovery and related changes in foreign exchange ¹	-	-	(0.3)	-
Adjusted (loss) profit and comprehensive (loss) income excluding unusual items on a diluted basis	\$ (13.5)	\$ 1.6	\$ (11.9)	\$ 22.3
Weighted average number of Common Shares outstanding	141,386,718	143,186,718	142,074,996	143,186,718
Dilutive impact of RSUs ¹	-	3,034,261	2,975,198	-
Weighted average number of Common Shares outstanding on a diluted basis	141,386,718	146,220,979	145,050,194	143,186,718
Adjusted (loss) earnings per share – diluted, excluding unusual items	\$ (0.10)	\$ 0.01	\$ (0.08)	\$ 0.16

¹ The RSUs for the three ended September 30, 2022 and for the nine months ended September 30, 2021 are not dilutive.

16. CAUTIONARY NOTE REGARDING FORWARD-LOOKING 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; management's belief that its estimates for determining the valuation of the Company's assets and liabilities are appropriate; 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 FORWARD-LOOKING 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; fluctuations in the United States dollar to Canadian dollar exchange rate; the Company's cash flow; future sales of a substantial number of the Common Shares; the Company's ability to raise additional capital; regulatory requirements may delay or deter a change in control of the Company; the potential treatment of the Company as a passive foreign investment company for U.S. federal income tax purposes; market turmoil, risk of volatile markets and market disruption risk; exposure to epidemics; Company employee error or misconduct; the Company's cybersecurity; Skyward Specialty's ability to accurately assess underwriting risk; the effect of intense competition and/or industry consolidation on Skyward Specialty's business; Skyward Specialty's reliance on brokers and third parties to sell its products to clients; Skyward Specialty's ability to alleviate risk through reinsurance; Skyward Specialty's reserves may prove to be inadequate; Skyward Specialty's ability to maintain its financial strength and issuer credit ratings; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters on Skyward Specialty's business; the cyclical nature of the property and casualty insurance industry on Skyward Specialty's business; 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; the effect of retentions in various lines of business; 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 (including meeting liquidity requirements); Skyward Specialty's ability to manage growth effectively; Skyward Specialty's ability to obtain additional capital; Skyward Specialty's ability to receive dividends from its subsidiaries; Skyward Specialty employee error or misconduct; Skyward Specialty's reliance on information technology and telecommunications systems; dependence by Skyward Specialty on certain third party service providers and program administrators; Skyward Specialty's policies will be enforceable in the manner it intends; Skyward Specialty receiving reimbursement for claims by reinsurers on a timely basis; Skyward Specialty's ability to pay claims accurately and timely; Skyward Specialty's reliance on renewal of existing insurance contracts; the effect of environmental, social and governance matters on Skyward Specialty's business; the effect of any changes in accounting practices and future pronouncements on Skyward Specialty's business; the effect of additional legislation or market regulation enacted by the U.S. federal government on Skyward Specialty's business; Skyward Specialty's ability to utilize net operating loss carryforwards and certain other tax attributes; the effect of change of control requirements under Texas insurance laws and regulations on Skyward Specialty's ability to successfully pursue its acquisition strategy; the effect of Skyward Specialty's debt obligations and other financial obligations on its business; Skyward Specialty's reliance on its intellectual property rights; Skyward Specialty not infringing the intellectual property rights of others; the effect of changes in underwriting guidelines on Skyward Specialty's business; the condition of the global financial markets and economic and geopolitical conditions affecting Arena's business; the variable nature of Arena Investors' revenues, results of operations and cash flows; the effect of rapid changes and growth in AUM on Arena Investors; Arena Investors' ability to mitigate operational and due diligence risks; the subjective nature of the valuation of the Arena FINCOs' 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; Arena Investors' ability to mitigate private litigation risks; Arena Investors' ability to manage conflicts of interest; the effects of a decrease in revenues as a result of significant redemptions in AUM on Arena Investors' business; the investment performance of Arena Investors'; Arena Investors' investment in illiquid investments; Arena Investors' ability to retain qualified management staff; Arena Investors' ability to mitigate the risk of employee misconduct and employee error; the effect of the COVID-19 pandemic on Arena's business; effect of market conditions on the Arena FINCOs; Arena Investors' ability to implement effective risk management systems; the performance of the investments of the Arena FINCOs; the Arena FINCOs' investment in illiquid investments; Arena Investors' ability to manage risks related to its risk management procedures; Arena Investors' ability to compete against current and potential future competitors; Arena's ability to finance borrowers in a variety of industries; dependence by the Arena FINCOs on the creditworthiness of borrowers; the ability of the Arena FINCOs to mitigate the risk of default by and bankruptcy of a borrower; the ability of the Arena FINCOs to adequately obtain, perfect and secure loans; the ability of the Arena FINCOs to limit the need for enforcement or liquidation procedures; the ability of the Arena FINCOs to protect against fraud; the Arena FINCOs' ability to realize profits; 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; Arena Investors' cybersecurity and other risk factors set forth 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

Interim Consolidated Statements of Financial Position
(unaudited)

	September 30	December 31
(thousands of United States dollars)	2022	2021
ASSETS		
Cash	\$ 2,177	\$ 6,558
Income tax receivable (note 13)	64	64
Other assets (note 3)	389	766
Investments (note 4)	377,027	394,273
	\$ 379,657	\$ 401,661
LIABILITIES		
Accounts payable and accrued liabilities (note 5)	\$ 12,746	\$ 13,706
Income tax payable (note 13)	29	153
Preferred securities (note 6)	36,197	39,554
Derivative warrant liability (note 8)	100	156
Deferred tax liability (note 13)	297	415
	49,369	53,984
Commitments and contingent liabilities (note 9)		
SHAREHOLDERS' EQUITY		
Share capital (note 10)	378,563	381,127
Contributed surplus (note 2m)	17,735	17,735
Accumulated other comprehensive loss (note 2n)	(2,227)	(2,227)
Deficit	(63,783)	(48,958)
	330,288	347,677
	\$ 379,657	\$ 401,661

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

The Westaim Corporation

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

	Three Months Ended September 30		Nine Months Ended September 30	
(thousands of United States dollars except share and per share data)	2022	2021	2022	2021
Revenue				
Interest income (note 12)	\$ 352	\$ 341	\$ 1,029	\$ 1,065
Dividend income from investments in private entities (note 4 and 12)	2,850	-	7,850	-
Fee income (note 12)	238	238	713	713
	3,440	579	9,592	1,778
Net results of investments				
(Decrease) increase in unrealized value of investments in private entities, less dividends (note 4)	(14,157)	2,156	(17,907)	20,728
Share of (loss) income from investment in associates (note 4)	(4,185)	1,026	630	4,248
(Decrease) increase in unrealized value of other investments (note 4)	(151)	43	31	208
	(18,493)	3,225	(17,246)	25,184
Net expenses				
Salaries and benefits	1,096	1,149	3,617	3,543
General, administrative and other	191	182	688	626
Professional fees	213	258	1,254	785
Site restoration (recovery)	-	-	-	(2,596)
Share-based compensation expense (note 11)	701	220	687	1,026
Foreign exchange (gain) loss	(91)	177	(290)	911
Interest on preferred securities (note 6)	456	498	1,434	1,491
Derivative warrant loss (gain) (note 8)	15	(282)	(49)	(427)
	2,581	2,202	7,341	5,359
(Loss) profit before income tax	(17,634)	1,602	(14,995)	21,603
Income tax recovery (expense) (note 13)	875	(8)	170	(45)
(Loss) profit and comprehensive (loss) income	\$ (16,759)	\$ 1,594	\$ (14,825)	\$ 21,558
(Loss) earnings per share (note 14)				
Basic and diluted	\$ (0.12)	\$ 0.01	\$ (0.10)	\$ 0.15
Weighted average common shares outstanding - basic	141,386,718	143,186,718	142,074,996	143,186,718
Weighted average common shares outstanding - diluted	141,386,718	146,220,979	142,074,996	143,186,718

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

The Westaim CorporationConsolidated Statements of Changes in Equity
(unaudited)**Nine months ended September 30, 2022**

(thousands of United States dollars)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2022	\$ 381,127	\$ 17,735	\$ (2,227)	\$ (48,958)	\$ 347,677
Cancellation of common shares (note 10)	(2,564)	-	-	-	(2,564)
Loss and comprehensive loss	-	-	-	(14,825)	(14,825)
Balance at September 30, 2022	\$ 378,563	\$ 17,735	\$ (2,227)	\$ (63,783)	\$ 330,288

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

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

The Westaim Corporation
Consolidated Cash Flow Statements
(unaudited)

	Nine Months Ended September 30	
(thousands of United States dollars)	2022	2021
Operating activities		
(Loss) profit	\$ (14,825)	\$ 21,558
Decrease (increase) in unrealized value of investments in private entities, less dividends (note 4)	17,907	(20,728)
Share of income from investment in associates (note 4)	(630)	(4,248)
Increase in unrealized value of other investments (note 4)	(31)	(208)
Share-based compensation expense (note 11)	687	1,026
Site restoration (recovery)	-	(2,675)
Depreciation and amortization	106	110
Unrealized foreign exchange (gain) loss	(3,278)	840
Derivative warrant gain (note 8)	(49)	(427)
Change in income tax receivable, payable and deferred (note 13)	(242)	(306)
Net changes in other non-cash balances		
Change in other assets	262	961
Change in other accounts payable and accrued liabilities	(1,724)	113
Cash used in operating activities	(1,817)	(3,984)
Investing activities		
Purchase of capital assets	-	(10)
Repayment of loan made to associates (note 4)	-	4,000
Cash provided from investing activities	-	3,990
Financing activities		
Purchase and cancellation of Common Shares (note 10)	(2,564)	-
Cash used in financing activities	(2,564)	-
Net (decrease) increase in cash	(4,381)	6
Cash, beginning of period	6,558	8,741
Cash, end of period	\$ 2,177	\$ 8,747
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,476	\$ 1,486

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021

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

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 interim consolidated financial statements were authorized for issue by the Board of Directors of Westaim on November 10, 2022.

These interim 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 listed and posted for trading on the TSX Venture Exchange (the "TSXV") under the symbol "WED".

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

2 Summary of Significant Accounting Policies

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

(a) Basis of preparation

These interim consolidated financial statements are prepared in compliance with International Accounting Standard ("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 interim 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 interim 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 (loss) profit and comprehensive (loss) income.

(b) Functional and presentation currency

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

(c) Use of estimates

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

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

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

(f) Revenue recognition

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, 2022, the Company's cash consisted of cash on deposit in both C\$ and US\$.

(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 (loss) profit and comprehensive (loss) income for the period in which they arise. Transaction costs on the investments are expensed as incurred.

Investments in associates are initially recorded at cost and subsequently adjusted to recognize the Company's share of profit and other comprehensive income 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 interim 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 interim consolidated financial statements.

(k) Income taxes

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

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

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

2 Summary of Significant Accounting Policies (continued)

(l) Warrants

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

(m) Contributed surplus

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

(n) Accumulated other comprehensive loss

Accumulated other comprehensive loss consists of cumulative exchange differences from currency translation as a result of a change in presentation currency from C\$ to US\$ on August 31, 2015.

(o) Share-based compensation

The Company maintains share-based compensation plans, which are described in note 11. 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. When a change in value occurs, it is recognized in share-based compensation expense (recovery) and foreign exchange (gain) loss in the applicable financial period.

(p) Earnings per share

Basic earnings per share is calculated by dividing profit by the weighted average number of Common Shares outstanding during the reporting period. See note 14 for the calculation of the weighted average number of Common Shares outstanding.

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

3 Other Assets

Other assets consist of the following:

	September 30, 2022	December 31, 2021
Capital assets	\$ 23	\$ 34
Right of use asset	273	368
Accounts receivable and other	93	364
	<u>\$ 389</u>	<u>\$ 766</u>

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

3 Other Assets (continued)

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 (loss) profit and comprehensive (loss) income. Each lease payment reduces the lease liability and the accretion of the lease liability is recorded as interest expense included under general, administrative and other in the consolidated statements of (loss) profit and comprehensive (loss) income.

The right of use asset recorded for the Company's office premises was \$273 and \$368 at September 30, 2022 and December 31, 2021, respectively. The depreciation on the right of use asset was \$32 and \$95 in the three and nine months ended September 30, 2022, respectively and \$32 and \$95 in the three and nine months ended September 30, 2021, respectively.

The lease liability recorded for the Company's office premises was \$287 and \$413 at September 30, 2022 and December 31, 2021, respectively. The lease payments were \$33 and \$99 in the three and nine months ended September 30, 2022, respectively and the interest expense on the lease liability was \$1 and \$4 in the three and nine months ended September 30, 2022, 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 Company recorded an unrealized foreign exchange gain relating to the lease liability of \$22 and \$31 in the three and nine months ended September 30, 2022, respectively and \$11 and \$1 in the three and nine months ended September 30, 2021, respectively.

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, 2022	December 31, 2021
Investments in private entities	\$ 346,970	\$ 364,877
Investment in associates	26,804	26,174
Investment in ASOF LP	3,253	3,222
	\$ 377,027	\$ 394,273

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, 2022	Ownership interest at December 31, 2021
Investments in private entities:				
- Skyward Specialty	Delaware, U.S.	Texas, U.S.	43.8% owned by the Company ¹	44.0% owned by the Company ¹
- Arena FINCOs (as hereinafter defined)	Delaware, U.S.	New York, U.S.	100% owned by the Company	100% owned by the Company
Investment in associates:				
- Arena Investors (as hereinafter defined)	Delaware, U.S.	New York, U.S.	51% owned by the Company ²	51% beneficially owned by the Company ²

¹ At September 30, 2022, the Company owned Skyward Specialty's preferred shares which are convertible into Skyward Specialty common shares representing 21.9% of the fully diluted Skyward Specialty common shares (December 31, 2021 – 22.0%). The Company also owned 21.9% of the Skyward Specialty fully diluted common shares through the HIIG Partnership which is established and operates in Ontario, Canada (December 31, 2021 – 22.0%). Accordingly, the Company's total look-through ownership interest in Skyward Specialty is 43.8% (December 31, 2021 – 44.0%). Based on the Company's control of the HIIG Partnership, and its ownership of preferred shares, the Company held a 57.2% voting interest in Skyward Specialty at September 30, 2022 and 57.5% at December 31, 2021.

² Legal equity ownership is 51% (December 31, 2021 - 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". Effective April 1, 2022, BP LLC achieved the threshold to increase its equity ownership of Arena Investors from 0% to 49% and as a result, the Company's equity ownership decreased from 100% to 51%.

Skyward Specialty

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

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(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 and other investments for their own account and a company that primarily 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 interim 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 and other 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 interim 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 (loss) profit and comprehensive (loss) income.

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

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

September 30, 2022	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- Skyward Specialty	\$ 178,345	-	-	\$ 178,345
- Arena FINCOs	168,625	-	-	168,625
	<u>\$ 346,970</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 346,970</u>
December 31, 2021	Fair value	Level 1	Level 2	Level 3
Investments in private entities:				
- Skyward Specialty	\$ 192,011	-	-	\$ 192,011
- Arena FINCOs	172,866	-	-	172,866
	<u>\$ 364,877</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 364,877</u>

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

Three months ended September 30, 2022				
	Opening balance	(Decrease) increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 186,975	\$ (8,630)	\$ -	\$ 178,345
- Arena FINCOs	174,152	(2,677)	(2,850)	168,625
	<u>\$ 361,127</u>	<u>\$ (11,307)</u>	<u>\$ (2,850)</u>	<u>\$ 346,970</u>

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

4 Investments (continued)

Three months ended September 30, 2021				
	Opening balance	Increase (decrease) in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 189,333	\$ 2,886	\$ -	\$ 192,219
- Arena FINCOs	173,084	(730)	-	172,354
	<u>\$ 362,417</u>	<u>\$ 2,156</u>	<u>\$ -</u>	<u>\$ 364,573</u>
Nine months ended September 30, 2022				
	Opening balance	(Decrease) increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 192,011	\$ (13,666)	\$ -	\$ 178,345
- Arena FINCOs	172,866	3,609	(7,850)	168,625
	<u>\$ 364,877</u>	<u>\$ (10,057)</u>	<u>\$ (7,850)</u>	<u>\$ 346,970</u>
Nine months ended September 30, 2021				
	Opening balance	Increase in unrealized value before dividends	Dividends paid	Ending Balance
Investments in private entities:				
- Skyward Specialty	\$ 180,766	\$ 11,443	\$ -	\$ 192,219
- Arena FINCOs	163,069	9,285	-	172,354
	<u>\$ 343,845</u>	<u>\$ 20,868</u>	<u>\$ -</u>	<u>\$ 364,573</u>

There were no transfers among Levels 1, 2 and 3 during the three and nine months ended September 30, 2022 and 2021.

Investment in Skyward Specialty

At September 30, 2022, the Company's \$178,345 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 \$89,008, (ii) its share of the Skyward Specialty common shares held by the HIIG Partnership of \$88,965, and (iii) its share of the other net assets of the HIIG Partnership of \$372. At December 31, 2021, the Company's \$192,011 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 \$95,832, (ii) its share of the Skyward Specialty common shares held by the HIIG Partnership of \$95,785, and (iii) its share of the other net assets of the HIIG Partnership of \$394.

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. At December 31, 2021, the final conversion price was determined to be \$1.51 per share. At September 30, 2022, the Company's direct ownership of the Skyward Specialty preferred shares, which are convertible into Skyward Specialty common shares represented 21.9% (December 31, 2021 – 22.0%) of the fully diluted Skyward Specialty common shares outstanding.

At September 30, 2022, the Company owned approximately 62.0% (December 31, 2021 – 62.0%) of the HIIG Partnership and the HIIG Partnership held Skyward Specialty common shares representing approximately 35.3% (December 31, 2021 – 35.5%) 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 21.9% (December 31, 2021 – 22.0%).

The Company's direct ownership of the Skyward Specialty preferred shares, combined with its interest in the HIIG Partnership, resulted in a 43.8% look-through interest in Skyward Specialty at September 30, 2022 (December 31, 2021 – 44.0%).

The Company, through HIIG GP, has a management services agreement with Skyward Specialty, whereby 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 \$178,345 at September 30, 2022 and \$192,011 at December 31, 2021.

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, 2022. The fair value of the investment in Skyward Specialty at September 30, 2022 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, 2022. 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, 2022 and December 31, 2021, 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, 2022 (December 31, 2021 - 1.0x). The adjusted stockholders' equity of Skyward Specialty at September 30, 2022 reflects the Skyward Specialty stockholders' equity obtained from the unaudited financial statements of Skyward Specialty as at and for the nine months ended September 30, 2022 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.

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.

The Company recorded a decrease in the unrealized value on its investment in Skyward Specialty of \$8,630 and \$13,666 in the three and nine months ended September 30, 2022, respectively, and 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.

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, 2022 was higher by \$1,000, the fair value of the Company's investment in Skyward Specialty at September 30, 2022 would have increased by approximately \$438 (December 31, 2021 - \$440) and the change in the unrealized value of investments in private entities for the three and nine months ended September 30, 2022 would have increased by approximately \$438 (for the three and nine months ended September 30, 2021 - \$440). If Skyward Specialty stockholders' equity at September 30, 2022 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 \$168,625 at September 30, 2022 and \$172,866 at December 31, 2021.

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, 2022 in the amount of \$168,625 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, 2022. This same valuation technique was used to determine the fair value of the Company's investment in the Arena FINCOs of \$172,866 at December 31, 2021.

4 Investments (continued)

The significant unobservable inputs used in the valuation of the Arena FINCOs at September 30, 2022 were the aggregate equity of the Arena FINCOs at September 30, 2022 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, 2022, as described below (December 31, 2021 – 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, revolving credit facility 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.

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 Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

4 Investments (continued)

The Company recorded a decrease in the unrealized value of its investment in the Arena FINCOs of \$2,677 and an increase of \$3,609 before dividends paid of \$2,850 and \$7,850 in the three and nine months ended September 30, 2022, respectively, in the consolidated statements of (loss) profit and comprehensive (loss) income. The Company recorded a decrease in the unrealized value of its investment in the Arena FINCOs of \$730 and an increase of \$9,285 in the three and nine months ended September 30, 2021, respectively. There were no dividends paid in the three and nine months ended September 30, 2021.

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, 2022 was higher by \$1,000, the fair value of the Company's investment in the Arena FINCOs at September 30, 2022 would have increased by \$1,000 (December 31, 2021 - \$1,000) and the change in the unrealized value of the investments in private entities for the three and nine months ended September 30, 2022 would have increased by \$1,000 (for the three and nine months ended September 30, 2021 - \$1,000). If the equity of the Arena FINCOs at September 30, 2022 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. At April 1, 2022, under the Associate Agreements, BP LLC achieved the threshold to increase its equity ownership of Arena Investors from 0% to 49%. At September 30, 2022, the Company's equity ownership of Arena Investors and its profit sharing percentage is 51%. At December 31, 2021, the thresholds in accordance with the Associate Agreements had not been met, therefore the Company's equity ownership of Arena Investors was 100% and its profit sharing percentage was 51%.

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, 2022		December 31, 2021	
Financial information of associates:				
Assets	\$	91,393	\$	69,301
Liabilities		(86,146)		(65,290)
Net assets	\$	5,247	\$	4,011
Company's share	\$	2,804	\$	2,174
Arena Investors' Revolving Loan with the Company		24,000		24,000
Carrying amount of the Company's investment in associates	\$	26,804	\$	26,174
	Three months ended September 30		Nine months ended September 30	
	2022	2021 ¹	2022	2021
Financial information of associates:				
Revenue	\$	1,929	\$	14,083
Operating expenses ²		(10,134)		(12,072)
(Loss) profit and comprehensive (loss) income	\$	(8,205)	\$	2,011
Company's share of (loss) profit and comprehensive (loss) income of associates (51%)	\$	(4,185)	\$	1,026
			\$	630
			\$	4,248

¹ Adjusted to conform to the presentation of the current period

² Includes interest expense on the Arena Investors' Revolving Loan granted by the Company of \$339 and \$1,005 in the three and nine months ended September 30, 2022 respectively and \$339 and \$1,059 in the three and nine months ended September 30, 2021, respectively.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(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		Nine months ended September 30	
	2022	2021	2022	2021
Carrying amount of investment in associates:				
Opening balance	\$ 30,989	\$ 19,392	\$ 26,174	\$ 20,170
Company's share of (loss) profit and comprehensive (loss) income of associates (51%)	(4,185)	1,026	630	4,248
Decrease in Arena Investors' Revolving Loan with the Company	-	-	-	(4,000)
Ending balance	\$ 26,804	\$ 20,418	\$ 26,804	\$ 20,418

The Company has a revolving loan to the associates (the "Arena Investors' Revolving Loan") with a limit of \$35,000 at September 30, 2022 (December 31, 2021 - \$35,000) in order to continue funding growth initiatives and working capital needs of Arena Investors. The loan facility matures on March 31, 2023 and bears an interest rate of 5.60% per annum. Arena Investors had drawn down the loan facility by \$24,000 at September 30, 2022 (December 31, 2021 - \$24,000). 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 \$1,005 for the three and nine months ended September 30, 2022, respectively, and \$339 and \$1,059 for the three and nine months ended September 30, 2021, respectively, which was reported under "Interest income" in the consolidated statements of (loss) profit and comprehensive (loss) income.

The total of the Company's 51% share of (loss) profit and comprehensive (loss) income of the associates was (\$4,185) and \$630 in the three and nine months ended September 30, 2022, respectively, and \$1,026 and \$4,248 in the three and nine months ended September 30, 2021, respectively, which was reported under "Share of (loss) income from investment in associates" in the consolidated statements of (loss) profit and comprehensive (loss) income.

INVESTMENTS IN ASOF LP

The Company's investments in ASOF LP, a fund managed by Arena Investors, is classified at Level 3 of the fair value hierarchy and measured at FVTPL. At September 30, 2022 and December 31, 2021, the fair value of the Company's interest in ASOF LP was determined by Arena Investors to be \$3,253 and \$3,222, respectively. The Company reported a decrease in the unrealized value of its investment in ASOF LP of \$151 and an increase of \$31 in the three and nine months ended September 30, 2022, respectively, and \$43 and \$208 in the three and nine months ended September 30, 2021, respectively, which was reported under "(Decrease) increase in unrealized value of other investments" in the consolidated statements of (loss) profit and comprehensive (loss) income.

5 Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following:

	September 30, 2022	December 31, 2021
RSUs (note 11)	\$ 5,622	\$ 5,884
DSUs (note 11)	2,440	2,163
Lease liability (note 3)	287	413
Interest on Preferred Securities (note 6)	456	498
C\$ exchange forward contract payable (note 7)	1,220	443
Site restoration provision	-	726
Other accounts payable and accrued liabilities	2,721	3,579
Ending balance	\$ 12,746	\$ 13,706

At December 31, 2021, the Company reported a site restoration provision liability for the remaining indemnities that the Company had provided to certain third parties for environmental liabilities. In February 2022 and March 2022, the Company made net payments of \$726 to settle the environmental liability provision balance at December 31, 2021 and, as a result, at September 30, 2022, the site restoration provision liability was \$nil.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

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 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.

On June 2, 2017, the Company closed the subscription by Fairfax of C\$50 million of Preferred Securities (the "Fairfax Financing"). There were 5,000,000 Preferred Securities outstanding at September 30, 2022 and December 31, 2021.

The Preferred Securities are repayable on demand upon a change of control of Westaim and the liability is recorded at the principal amount in the consolidated statements of financial position. The Preferred Securities liability is translated into US\$ at rates of exchange at the end of each reporting period and any resulting foreign exchange gain or loss is included in the consolidated statements of (loss) profit and comprehensive (loss) income. The carrying amount of the Preferred Securities, which approximated fair value, was \$36,197 and \$39,554 at September 30, 2022 and December 31, 2021, respectively. The Company recorded an unrealized foreign exchange gain relating to the Preferred Securities of \$2,650 and \$3,357 in the three and nine months ended September 30, 2022, respectively, and 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.

Interest expense on the Preferred Securities amounted to \$456 and \$1,434 in the three and nine months ended September 30, 2022, respectively, and \$498 and \$1,491 in the three and nine months ended September 30, 2021, respectively. Accrued interest expense was \$456 and \$498 at September 30, 2022 and December 31, 2021, 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, 2022, the Company has a 188 day C\$ exchange forward contract to purchase C\$50 million maturing on March 28, 2023. During the three months ended September 30, 2022, the Company settled a C\$ exchange forward contract to purchase C\$50 million and incurred a realized foreign exchange loss of \$2,973. Additionally, during the year ended December 31, 2021, the Company settled three C\$ exchange forward contracts to purchase C\$40 million. 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, 2022	December 31, 2021
C\$ exchange forward contract payable, opening balance	\$ (443)	\$ (11)
Change in value of C\$ exchange forward contracts – (loss)	(3,750)	(426)
Net cash settlements paid (received) from C\$ exchange forward contracts	2,973	(6)
C\$ exchange forward contract payable, closing balance	\$ (1,220)	\$ (443)

A C\$ exchange forward contract payable was accrued in the amount of \$1,220 at September 30, 2022 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. At December 31, 2021, a C\$ exchange forward contract payable was accrued in the amount of \$443 and was recorded under accounts payable and accrued liabilities in the consolidated statements of financial position. The change in value of C\$ exchange forward contracts resulted in a net loss of \$3,043 and \$3,750 for the three and nine months ended September 30, 2022, respectively, and a net loss of \$1,190 and \$481 for the three and nine months ended September 30, 2021, respectively, and was reported under foreign exchange (gain) loss in the consolidated statements of (loss) profit and comprehensive (loss) income.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021

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

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 was originally exercisable on or prior to June 2, 2022, but the expiry date automatically extended to June 2, 2024 since the volume-weighted average trading price of the Common Shares for the 10 day period ending on June 2, 2022 was less than C\$5.60. The Company can 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 (loss) profit and comprehensive (loss) income. Subsequent changes in fair value of the vested Warrants are reported in the consolidated statements of (loss) profit and comprehensive (loss) income for the period in which they arise.

Changes to the derivative warrant liability are as follows:

	September 30, 2022	December 31, 2021
Opening balance	\$ 156	\$ 1,026
Change in fair value – (gain)	(49)	(884)
Unrealized foreign exchange – (gain) loss	(7)	14
Ending balance	\$ 100	\$ 156

The fair value liability of the vested Warrants at September 30, 2022 of \$100 (December 31, 2021 - \$156) was estimated using the Monte Carlo pricing model assuming no dividends are paid on the Common Shares, a risk-free interest rate of 3.71% (December 31, 2021 - 0.17%), an expiration date between October 1, 2022 and June 2, 2024 (December 31, 2021: January 1, 2022 and June 2, 2024), a volatility of the underlying Common Shares of 25.82% (December 31, 2021 – 26.50%), a closing price of the Common Shares of C\$2.61 (December 31, 2021 - C\$2.50) 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.

The Company recorded an unrealized loss resulting from a change in the fair value of the vested Warrants of \$15 in the three months ended September 30, 2022, an unrealized gain of \$49 in the nine months ended September 30, 2022, and an unrealized gain 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. The Company also recorded an unrealized foreign exchange gain with respect to the vested Warrants of \$6 and \$7 in the three and nine months ended September 30, 2022, respectively, and 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, under foreign exchange (gain) loss in the consolidated statements of (loss) profit and comprehensive (loss) income.

9 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, 2022, the Company had a total commitment of \$567 for future occupancy cost payments including payments due not later than one year of \$261 and payments due later than one year of \$306. At December 31, 2021, the Company had a total commitment of \$827 for future occupancy cost payments including payments due not later than one year of \$278 and payments due later than one year of \$549.

10 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, 2022, Westaim had 141,386,718 Common Shares issued and outstanding (December 31, 2021 – 142,686,718), with a stated capital of \$378,563 (December 31, 2021 - \$381,127). In the nine months ended September 30, 2022, Westaim cancelled 1,300,000 Common Shares it had acquired at a cost of \$2,564 through its normal course issuer bid (the "NCIB"). In the year ended December 31, 2021, Westaim cancelled 500,000 Common Shares that it had acquired at a cost of \$1,055 through the NCIB.

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, 2022 and December 31, 2021.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

11 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, subject to the terms of the Option Plan, 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 14,138,671 at September 30, 2022 (December 31, 2021 – 14,268,671). However, each of the Incentive Plan and the Option Plan provide that, subject to the terms of the plan, the number of Common Shares issuable under such plan, together with all other security-based compensation arrangements of Westaim, shall not exceed 10% of the aggregate number of Common Shares outstanding. As the DSUs are settled solely in cash, they are not included in this 10% limitation.

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, 2022		Nine months ended September 30, 2021	
		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	10,428,337	C\$ 3.10

September 30, 2022		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
Exercise prices						
C\$ 3.10		3,815,000	2.30	C\$ 3.10	3,815,000	C\$ 3.10
C\$ 3.00		3,860,397	1.51	C\$ 3.00	3,860,397	C\$ 3.00
C\$ 3.25		2,752,940	0.50	C\$ 3.25	2,752,940	C\$ 3.25
		10,428,337	1.53	C\$ 3.10	10,428,337	C\$ 3.10

December 31, 2021		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
Exercise prices						
C\$ 3.10		3,815,000	3.05	C\$ 3.10	3,815,000	C\$ 3.10
C\$ 3.00		3,860,397	2.25	C\$ 3.00	3,860,397	C\$ 3.00
C\$ 3.25		2,752,940	1.25	C\$ 3.25	2,752,940	C\$ 3.25
		10,428,337	2.28	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.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021
(Currency amounts in thousands of United States dollars except per share data, unless otherwise indicated)

11 Share-based Compensation (continued)

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, vested 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 three and nine months ended September 30, 2022 or the year ended December 31, 2021.

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 the three and nine months ended September 30, 2022 and 2021.

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	
	2022	2021
Opening balance	2,975,198	3,034,261
Exercised	-	-
Ending balance	2,975,198	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, 2022, all of these RSUs had vested, of which 325,000 RSUs had been exercised and 2,050,000 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, 2022, all of these RSUs had vested and none have been exercised.

There were 2,975,198 RSUs outstanding at September 30, 2022 and December 31, 2021. No RSUs were granted in the nine months ended September 30, 2022 or the year ended December 31, 2021. There were no RSUs exercised in the nine months ended September 30, 2022, and 59,063 RSUs were exercised in the year ended December 31, 2021.

Compensation expenses relating to RSUs, including the impact of the change in the market value of the Common Shares was an expense of \$409 and \$214 for the three and nine months ended September 30, 2022, respectively, and an expense of \$72 and \$506 for the three and nine months ended September 30, 2021, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the RSUs of \$381 and \$476 in the three and nine months ended September 30, 2022, respectively, and an unrealized foreign exchange gain with respect to the RSUs of \$128 and an unrealized foreign exchange loss of \$35 in the three and nine months ended September 30, 2021, respectively, under foreign exchange (gain) loss in the consolidated statements of (loss) profit and comprehensive (loss) income. At September 30, 2022, a liability of \$5,622 (December 31, 2021 - \$5,884) 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	
	2022	2021
Opening balance	1,093,603	855,228
Granted	197,785	175,251
Ending balance	1,291,388	1,030,479

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021

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

11 Share-based Compensation (continued)

In the nine months ended September 30, 2022, 197,785 DSUs were issued in lieu of director fees of \$373 and in the nine months ended September 30, 2021, 175,251 DSUs were issued in lieu of director fees of \$375. No DSUs were exercised in the nine months ended September 30, 2022 and 2021.

Compensation expenses relating to DSUs, including the impact of the change in the market value of the Common Shares was an expense of \$292 and \$473 in the three and nine months ended September 30, 2022, respectively, and an expense of \$148 and \$520 in the three and nine months ended September 30, 2021, respectively. The Company also recorded an unrealized foreign exchange gain with respect to the DSUs of \$157 and \$196 in the three and nine months ended September 30, 2022, respectively, and an unrealized foreign exchange gain with respect to the DSUs of \$40 and an unrealized foreign exchange loss of \$7 in the three and nine months ended September 30, 2021, respectively, under foreign exchange (gain) loss in the consolidated statements of (loss) profit and comprehensive (loss) income. At September 30, 2022, a liability of \$2,440 (December 31, 2021 - \$2,163) had been accrued with respect to outstanding DSUs in the consolidated statements of financial position.

12 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	
	2022	2021	2022	2021
Salaries and benefits ¹	\$ 926	\$ 1,006	\$ 3,110	\$ 3,086
Share-based compensation expense	700	218	687	1,015
Compensation expense	\$ 1,626	\$ 1,224	\$ 3,797	\$ 4,101

¹ Salaries and benefits include director fees paid in cash totaling \$27 and \$82 in the three and nine months ended September 30, 2022, respectively, and \$27 and \$82 in the three and nine months ended September 30, 2021, respectively.

The Company received dividends from the Arena FINCOs in the amount of \$2,850 and \$7,850 in the three and nine months ended September 30, 2022, respectively, and \$nil in the three and nine months ended September 30, 2021.

The Company earned and received interest on the Arena Investors Revolving Loan of \$339 and \$1,005 in the three and nine months ended September 30, 2022, respectively, and \$339 and \$1,059 in the three and nine months ended September 30, 2021, respectively. Interest on the Arena Investors Revolving Loan plus interest received from the Company's bank balance are included in interest income in the consolidated statements of (loss) profit and comprehensive (loss) income.

The Company earned advisory fees of \$125 from Skyward Specialty in each of the three months ended September 30, 2022 and 2021, and \$375 in each of the nine months ended September 30, 2022 and 2021. 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, 2022 and 2021, and \$150 and \$188 from the Arena FINCOs and Arena Investors, respectively, in each of the nine months ended September 30, 2022 and 2021. Advisory fees are included in fee income in the consolidated statements of (loss) profit and comprehensive (loss) income.

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021

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

13 Income Taxes

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

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
(Loss) profit before income tax	\$ (17,634)	\$ 1,602	\$ (14,995)	\$ 21,603
Statutory income tax rates	26.5%	26.5%	26.5%	26.5%
Income taxes at statutory income tax rates	(4,673)	425	(3,974)	5,725
Variations due to:				
Non-taxable portion of unrealized loss (gain) on investments in private entities	2,060	(861)	2,531	(1,772)
Tax losses allocated from the HIG Partnership	(4)	(7)	(8)	(16)
(Non-taxable) non-deductible items	(1,173)	(61)	(2,474)	(91)
Difference between statutory and foreign tax rates	71	128	14	50
Unrecognized tax losses	2,844	384	3,741	(3,851)
Income tax (recovery) expense	\$ (875)	\$ 8	\$ (170)	\$ 45

At September 30, 2022, a current income tax receivable of \$64 (December 31, 2021 - \$64) and current income tax payable of \$29 (December 31, 2021 - \$153), and a deferred tax liability for United States taxes of \$297 (December 31, 2021 - \$415) were recorded in the consolidated statements of financial position.

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

	September 30, 2022	December 31, 2021
Non-capital loss carry-forwards	\$ 55,420	\$ 56,911
Capital loss carry-forwards	5,367	5,511
Deductible temporary differences	13,836	4,553
Corporate minimum tax credits	350	350
Investment tax credits	1,668	2,175

The unrecognized non-capital losses and investment tax credits will expire at various times to the end of 2042, as follows:

Non-capital losses by year of expiry:		Investment tax credits by year of expiry:	
2027	\$ 2,866	2023	\$ 256
2028	4,852	2024	138
2029	7,137	2025	313
2030	81	2026	264
2031	199	2027	522
2032	16,539	2028	175
2033	3,021		\$ 1,668
2034	3,848		
2035	2,013		
2036	47		
2037	3,931		
2038	5,624		
2039	-		
2040	-		
2041	90		
2042	5,172		
	\$ 55,420		

The Westaim Corporation
Notes to Consolidated Financial Statements
For the three and nine months ended September 30, 2022 and 2021

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

14 (Loss) Earnings per Share

Westaim had 10,428,337 stock options, 2,975,198 RSUs and 14,285,715 Warrants outstanding at September 30, 2022. At September 30, 2021, Westaim had 10,428,337 stock options, 3,034,261 RSUs and 14,285,715 Warrants outstanding. The stock options and Warrants for the three and nine months ended September 30, 2022 and 2021, the RSUs for the three and nine months ended September 30, 2022 and the RSUs for the nine months ended September 30, 2021 were excluded in the calculation of diluted (loss) earnings per share as they were not dilutive. The RSUs for the three months ended September 30, 2021 were included in the calculation of diluted (loss) earnings per share as they were dilutive.

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

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Basic (loss) earnings per share:				
(Loss) profit and comprehensive (loss) income	\$ (16,759)	\$ 1,594	\$ (14,825)	\$ 21,558
Weighted average number of Common Shares outstanding	141,386,718	143,186,718	142,074,996	143,186,718
Basic (loss) earnings per share	\$ (0.12)	\$ 0.01	\$ (0.10)	\$ 0.15
Diluted (loss) earnings per share:				
(Loss) profit and comprehensive (loss) income	\$ (16,759)	\$ 1,594	\$ (14,825)	\$ 21,558
Dilutive RSU recovery and related foreign exchange ¹	-	(56)	-	-
(Loss) profit and comprehensive (loss) income on a diluted basis	\$ (16,759)	\$ 1,538	\$ (14,825)	\$ 21,558
Weighted average number of Common Shares outstanding	141,386,718	143,186,718	142,074,996	143,186,718
Dilutive impact of RSUs ¹	-	3,034,261	-	-
Weighted average number of Common Shares outstanding on a dilutive basis	141,386,718	146,220,979	142,074,996	143,186,718
Diluted (loss) earnings per share	\$ (0.12)	\$ 0.01	\$ (0.10)	\$ 0.15

¹ The RSUs for the three and nine months ended September 30, 2022 and for the nine months ended September 30, 2021 were not dilutive. Common Shares outstanding at September 30, 2022 was 141,386,718 (September 30, 2021: 143,186,718).

15 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.

16 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, 2022 consists of short-term financial assets and financial liabilities with maturities of less than one year, investments in private entities and associates, Preferred Securities, and derivative warrant liability. 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.

16 Financial Risk Management (continued)

Liquidity risk

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

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

At September 30, 2022, the Company's short-term financial liabilities amounted to \$4,426 (December 31, 2021 - \$4,673), 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. At September 30, 2022, the Company's C\$50 million (December 31, 2021 – C\$50 million) C\$ exchange forward contract is effective at reducing a significant portion of the risk associated with changes in the C\$ currency exchange. At September 30, 2022, it is estimated a 10% strengthening of the C\$ against the US\$ would have increased the foreign exchange loss by approximately \$724 and \$806 for the nine months ended September 30, 2022 and 2021, respectively. 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 interim 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.

17 Subsequent Events

Westaim's has approval from the TSX-V for a NCIB which provides that Westaim may, during the 12-month period commencing October 1, 2022 and ending September 30, 2023, purchase, on an opportunistic basis, up to 11,005,494 Shares, representing approximately 10% of the public float and not more than 2% of its issued and outstanding Shares during any 30-day period, which as of the date hereof represents 2,827,734 Shares. The Company believes that the recent market prices of the Shares do not properly reflect the underlying value of such Shares. As a result, depending upon future price movements and other factors, the Company believes that the purchase of the Shares would be a desirable use of corporate funds in the best interests of the Company and its shareholders. Furthermore, the purchases are expected to benefit all persons who continue to hold Shares by increasing their equity interest in the Company when such repurchased Shares are cancelled.



The Westaim Corporation
70 York Street, Suite 1700
Toronto, Ontario
M5J 1S9
www.westaim.com
info@westaim.com