



The Westaim Corporation Reports Q3 2022 Results

Note: All dollar amounts in this press release are expressed in U.S. dollars, except as otherwise noted. The financial results are reported under International Financial Reporting Standards, except as otherwise noted.

Toronto, Canada – November 10, 2022 – The Westaim Corporation (“Westaim” or the “Company”) (TSXV: WED) today announced its unaudited financial results for the quarter ended September 30, 2022. Westaim recorded a GAAP loss of \$16.7 million (\$0.12 diluted loss per share) for Q3 2022 compared to a GAAP profit of \$1.6 million (\$0.01 diluted earnings per share) for Q3 2021. For the nine months ended September 30, Westaim recorded a GAAP loss of \$14.8 million (\$0.10 diluted loss per share) for 2022 compared to GAAP profit of \$21.6 million (\$0.15 diluted earnings per share) for 2021.

Westaim’s adjusted loss¹ for Q3 2022 was \$13.5 million (\$0.10 adjusted loss per share - diluted¹) compared to adjusted profit of \$1.6 million (\$0.01 adjusted earnings per share - diluted) for Q3 2021. For the nine months ended September 30, the adjusted loss was \$11.6 million (\$0.08 adjusted loss per share - diluted) for 2022 compared to adjusted profit of \$22.3 million (\$0.16 adjusted earnings per share - diluted) for 2021.

At September 30, 2022, Westaim’s consolidated shareholders’ equity was \$330.4 million and the Company had 141,386,718 common shares (“Common Shares”) outstanding. Book value per fully diluted share¹ was \$2.33 (C\$3.22) at September 30, 2022, compared to \$2.43 (C\$3.07) at December 31, 2021.

¹ Adjusted profit (loss), adjusted earnings (loss) per share - diluted, and book value per fully diluted share are non-GAAP measures. Refer to the reconciliation of non-GAAP measures below.

Key Results for Q3 2022

Skyward Specialty *

- Gross written premiums grew 25.6% versus the prior year’s quarter, or 30.2% excluding exited business lines. All eight underwriting divisions contributed double-digit premium growth during the quarter.
- Net written premiums grew 31.1%, driven by the growth in gross written premiums with lower reinsurance costs.
- The combined ratio excluding LPT for Q3 2022 was 93.9%, with a loss ratio excluding LPT of 64.8% (62.0% excluding 2.8% of catastrophe losses) and an expense ratio of 29.1%. This compares to a combined ratio excluding LPT of 94.5% in Q3 2021, with a loss ratio excluding LPT of 69.0% (64.4% excluding 4.6% of catastrophe losses) and an expense ratio of 25.5%.
- Net investment income of \$6.0 million in Q3 2022 was lower than the \$8.1 million in Q3 2021 primarily due to volatile pricing of profitable investments in the opportunistic fixed income portfolio.
- Net loss in Q3 2022 of \$2.4 million includes an after tax charge on the LPT of \$7.3 million as compared to Q3 2021 net income of \$10.0 with \$nil LPT charges.
- Q3 2022 annualized return on equity (“ROE”)³ was -2.3%, annualized adjusted ROE⁴ was 10.4%, and annualized adjusted return on tangible equity (“ROTE”)⁵ was 13.4%.
- Skyward Specialty’s US GAAP stockholders’ equity at September 30, 2022 was \$399.8 million and \$426.1 million at December 31, 2021, and adjusted stockholders’ equity was \$406.7 million, a decline of 6.5% from \$435.2 million at December 31, 2021 primarily driven by unrealized losses from fixed income and equity securities.

Supplementary financial measures from Skyward Specialty’s financials statements

At 100% Share (millions of U.S. dollars)	Three months ended September 30			Nine months ended September 30		
	2022	2021 ¹	% Change	2022	2021 ¹	% Change
Gross written premium	\$270.2	\$215.1	25.6%	\$879.1	\$715.7	22.8%
Combined ratio excluding LPT	93.9%	94.5%	(0.6%)	92.6%	94.6%	(2.0%)
Net investment income	\$6.0	\$8.1	(25.9%)	\$31.7	\$20.6	53.9%
Net (loss) income	(\$2.4)	\$10.0	nm	\$19.0	\$37.0	(48.6%)
Adjusted operating income ²	\$10.6	\$11.0	(3.6%)	\$46.9	\$28.5	64.6%
Annualized ROE ³	(2.3%)	9.4%		6.1%	12.0%	
Annualized adjusted ROE ⁴	10.4%	10.3%		15.2%	9.2%	
Annualized adjusted ROTe ⁵	13.4%	13.2%		19.4%	11.8%	

nm: not meaningful

- ¹ Adjusted to conform to the presentation of the current period financial statements including restatement of net income of \$10.0 and \$37.0 compared to the previously reported net income of \$7.7 and \$34.7 for the three and nine months ended September 30, 2021, respectively.
- ² Adjusted operating income (loss) is defined as net income (loss) excluding the impact of certain items that may not be indicative of underlying business trends, operating results, or future outlook, such as realized gains (losses) on invested assets, unrealized gains (losses) on equity securities, goodwill impairment, other income (expenses), and net impact of certain reinsurance agreements, net of tax impact. Refer to the reconciliation of non-GAAP measures below.
- ³ Annualized ROE is net income (loss) expressed on an annualized basis as a percentage of average beginning and ending total stockholders' equity during the period.
- ⁴ 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.
- ⁵ Annualized adjusted ROTE is adjusted operating income (loss) expressed on an annualized basis as a percentage of average beginning and ending tangible stockholders' equity (refer to the reconciliation of non-GAAP measures below) during the period. Tangible stockholders' equity is GAAP stockholders' equity less goodwill and intangible assets at the end of the respective periods.

Westaim's share of Skyward Specialty's adjusted operating income was \$4.7 million in Q3 2022 which was reduced by (all amounts are Westaim's share after tax): charges against LPT of \$3.2 million, unrealized losses in Skyward Specialty's core fixed income portfolio of \$7.8 million due to increases in interest rates during the period, unrealized losses in Skyward Specialty's equity portfolio of \$2.2 million, and other items of \$0.1 million. As a result, Westaim recorded a decrease in its valuation of Skyward Specialty of \$8.6 million in Q3 2022 compared to an increase of \$3.0 million in Q3 2021.

The carrying value of Westaim's investment in Skyward Specialty at September 30, 2022 was \$178.4 million.

Arena FINCOs *

- Net loss from Arena FINCOs was \$2.6 million (-1.5% net return) for Q3 2022 compared to \$0.8 million (-0.4% net return) in Q3 2021. During Q3 2022, the Arena FINCOs were negatively impacted by mark to market valuations, due to volatile markets, of profitable investments.
- Arena FINCOs distributed available accumulated earnings as dividends to Westaim in Q3 2022 of \$2.9 million.

Arena Investors *

- Arena Investors' continued to report positive fee related earnings on the solid base of management and asset servicing fees from its fee-paying assets under management ("AUM") offset by a return of incentive fees from a pull back in fund performance.
- Committed AUM at September 30, 2022 was \$3.5 billion, increasing from \$2.8 billion at December 31, 2021 and from \$2.6 billion at September 30, 2021.
- Fee-paying AUM at September 30, 2022 was \$2.6 billion, increasing from \$2.4 billion at December 31, 2021 and from \$2.0 billion at September 30, 2021.
- Through to September 30, 2022, Arena Investors has deployed \$4.4 billion into 345+ privately negotiated transactions since its launch in 2015.

Supplementary financial measures from Arena Investors' financial statements:

At 100% Share (millions of U.S. dollars)	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 fee 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 fee 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

“Against a backdrop of volatility worldwide in the capital markets, Westaim’s businesses have shown resiliency and continued to report strong operating results. The current market turmoil was not unexpected and Skyward Specialty and Arena Investors had prepared their operations to be agile and act on opportunities when they arise. Skyward Specialty’s adjusted operating results continued to deliver exceptional results and its investments, which were overweight in cash and short-duration investments, are being deployed at higher yields.”

“Arena Investors has continued to be selective in its deployment of funds while seeing a sizeable increase in the opportunities to capture attractive returns for the underwritten risks. Accordingly, we congratulate Arena Investors for being recognized by HFM US Performance Awards 2022, their ninth industry award in the past four years.”

“Our businesses have continued to prosper due to market opportunities and a strong focus on people and improving operations through the past years,” said Cameron MacDonald, President and Chief Executive Officer of Westaim. “Further details of the underlying performance for each of Skyward Specialty, Arena FINCOs and Arena Investors are included for Westaim’s shareholders’ review in the Q3 2022 Investor Presentation posted on our website.”

This press release should be read in conjunction with Westaim’s unaudited consolidated financial statements (the “Financial Statements”) and management’s discussion and analysis for the three and nine months ended September 30, 2022 and 2021 (the “MD&A”) which were filed on SEDAR at www.sedar.com. These documents and the Company’s Q3 2022 Investor Presentation can be found on the Company’s website at www.westaim.com.

* Refer to the Supplementary Financial Measures sections of the MD&A: for Skyward Specialty in section 3.A.(ii), for Arena FINCOs in section 3.B.(ii), and for Arena Investors in section 3.C.(iii).

Non-GAAP Financial Measures

Westaim reports its interim consolidated financial statements using generally accepted accounting principles (“GAAP”) and accounting policies consistent with International Financial Reporting Standards (“IFRS”). Westaim uses both IFRS and non-generally accepted accounting principles (“non-GAAP”) measures to assess performance. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. Book value per share, adjusted (loss) profit and comprehensive (loss) income excluding unusual items, and adjusted (loss) earnings per share – diluted are non-GAAP measures. Readers are urged to review Section 15 *Non-GAAP Measures* in the “MD&A” (available on SEDAR at www.sedar.com) which is incorporated by reference into this news release and discloses historical figures for book value per share, adjusted (loss) profit and comprehensive (loss) income excluding unusual items, and adjusted (loss) earnings per share – diluted in respect of the three and nine months ended September 30, 2022 as well as additional disclosures regarding these measures. The Supplementary Financial Measures relating to Skyward Specialty, Arena Investors and Arena FINCOs contained in the MD&A is unaudited and has been derived from the financial statements of the related entities. Readers are cautioned that the Skyward Specialty financial information and certain Arena Investors and Arena FINCO financial information, including any non-GAAP measures contained therein, has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

About Westaim

Westaim 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 financial services industry and grow shareholder value over the long term. Westaim’s investments include significant interests in Skyward Specialty, Arena Investors and Arena FINCOs. Skyward Specialty, the HIIG Partnership, Arena FINCOs and Arena Investors are defined in the notes to Westaim’s audited consolidated financial statements for the year ended December 31, 2021 and 2020 and the MD&A. Westaim’s Common Shares are listed on the TSX Venture Exchange under the trading symbol WED.

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The Westaim Corporation

Financial Highlights

(millions of U.S. dollars except share and per share data)

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

	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	<u>330.4</u>	<u>347.7</u>
Total liabilities and shareholders' equity	<u>\$ 379.7</u>	<u>\$ 401.7</u>
Number of common shares outstanding ²	141,386,718	142,686,718
Book value per fully diluted share - in US\$ ¹	\$ 2.33	\$ 2.43
Book value per fully diluted share - in C\$ ³	\$ 3.22	\$ 3.07

¹ Non-GAAP measure. See the reconciliation of Westaim's non-GAAP measures below or Section 15, *Non-GAAP Measures* of the MD&A for a reconciliation to the most comparable IFRS figures.

² At September 30, 2022 and December 31, 2021, 10,428,337 stock options, 2,975,198 RSUs and 14,285,715 warrants were also outstanding. Details regarding these stock options, RSUs and warrants are disclosed in the Company's public filings including its annual financial statements which are available under the Company's profile on SEDAR at www.sedar.com.

³ Period end exchange rates of USD to CDN: 1.38135 at September 30, 2022 and 1.26410 at December 31, 2021.

Reconciliation of Westaim's non-GAAP measures

Book value per share	September 30, 2022	December 31, 2021
Book value:		
Shareholders' equity per IFRS	\$ 330.3	\$ 347.7
Adjustments:		
RSU liability ¹	5.6	5.9
Derivative warrant liability ²	0.1	0.2
	<u>\$ 336.0</u>	<u>\$ 353.8</u>
Number of Common Shares:		
Number of Common Shares outstanding	141,386,718	142,686,718
Adjustments for assumed exercise of:		
Outstanding RSUs ¹	2,975,198	2,975,198
Adjusted number of Common Shares ³	<u>144,361,916</u>	<u>145,661,916</u>
Book value per share - in US\$	\$ 2.33	\$ 2.43
Book value per share - in C\$ ⁴	\$ 3.22	\$ 3.07

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 and December 31, 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 and December 31, 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 and 1.26410 at December 31, 2021.

Adjusted (loss) profit and comprehensive (loss) income excluding unusual items

	Three months ended		Nine months ended	
	2022	September 30 2021	2022	September 30 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	<u>\$ (13.5)</u>	<u>\$ 1.6</u>	<u>\$ (11.6)</u>	<u>\$ 22.3</u>

Adjusted (loss) earnings per share – diluted, excluding unusual items

	Three months ended		Nine months ended	
	2022	September 30 2021	2022	September 30 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	<u>\$ (13.5)</u>	<u>\$ 1.6</u>	<u>\$ (11.9)</u>	<u>\$ 22.3</u>
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	<u>141,386,718</u>	<u>146,220,979</u>	<u>145,050,194</u>	<u>143,186,718</u>
Adjusted (loss) earnings per share – diluted, excluding unusual items	<u>\$ (0.10)</u>	<u>\$ 0.01</u>	<u>\$ (0.08)</u>	<u>\$ 0.16</u>

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

Reconciliation of non-US GAAP measures from Skyward Specialty's Supplementary Financial Measures**Skyward Specialty - Adjusted operating income (loss)**

At 100% Share (millions of U.S. dollars)	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Net (loss) income	\$ (2.4)	\$ 10.0	\$ 19.0	\$ 37.0
Less:				
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)
Adjusted operating income	\$ 10.6	\$ 11.0	\$ 46.9	\$ 28.5

Skyward Specialty - Tangible stockholders' equity

At 100% Share (millions of U.S. dollars)	September 30, 2022	December 31, 2021
Total stockholders' equity	\$ 399.8	\$ 426.1
Less:		
Goodwill and other intangible assets	90.2	91.3
Tangible stockholders' equity	\$ 309.6	\$ 334.8

The information provided herein does not constitute an offer or solicitation regarding any investment products offered by Arena Investors.

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