

**THE WESTAIM CORPORATION**

**ANNUAL INFORMATION FORM**

**in respect of the year ended December 31, 2023**

**March 27, 2024**

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## INTERPRETATION

As used in this Annual Information Form (the “**AIF**”), unless the context indicates or requires otherwise, the term(s): (a) “**Company**” or “**Westaim**” refer to The Westaim Corporation (including, where applicable, its predecessor entities) and its subsidiaries; (b) “**Skyward Specialty**” refers to Skyward Specialty Insurance Group, Inc. and its subsidiaries; (c) “**Arena**” or “**AIGH**” refers to Arena Investors Group Holdings, LLC, which includes several subsidiaries (including, but not limited to Arena Investors, LP (“**AI**”), Arena Management Co., LLC (“**AMC**”), Arena Financial Services, LLC, Arena Investors UK Limited, Arena Investment Management (Singapore) Pte. Ltd., Arena Business Solutions, LLC, Quaestor Advisors, LLC and Quaestor Advisors India Private Limited) (which are collectively known as “**Arena Investors**”) as well as Arena Institutional Services (“**AIS**”), which is also a subsidiary of AIGH. “**Arena FINCOs**” refers collectively to Westaim Origination Holdings, Inc. (“**WOH**”) and Arena Finance Holdings Co., LLC, (“**AFHC**”) and each of their respective subsidiaries. Unless otherwise stated, the information contained in this AIF is as of March 27, 2024.

All dollar amounts herein are expressed in United States dollars unless otherwise indicated. Unless otherwise indicated, financial information in this AIF regarding the Company has been prepared in accordance with International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board. Skyward Specialty and Arena maintain their accounts in United States dollars. The annual consolidated financial statements of Skyward Specialty are prepared in accordance with United States generally accepted accounting principles (“**U.S. GAAP**”) and the annual financial statements of Arena are prepared in accordance with either IFRS or U.S. GAAP.

## FORWARD-LOOKING STATEMENTS

This AIF contains certain “forward-looking statements” and “forward-looking information” which reflect the current expectations of management regarding the Company’s future growth, results of operations, performance and business prospects and opportunities. 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 and Arena; expectations regarding the Company’s assets and liabilities; the Company’s ability to retain key employees; management’s belief that its estimates for determining the valuation of the Company’s assets and liabilities are appropriate; and the effect of changes to interpretations of tax legislation on income tax provisions in future periods. These statements are based on current expectations that are subject to risks, uncertainties and assumptions and Westaim can give no assurance that these expectations are correct.

The Company’s actual results or financial position could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company’s control, including, without limitation, the following factors: risks inherent in acquisitions generally; the Company’s cash flow; liquidity and financing risks; 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 (“**PFIC**”) for U.S. federal income tax purposes that may affect Westaim’s U.S. shareholders; market turmoil, risk of volatile markets and market disruption risk; exposure to epidemics and/or pandemics; Company employee error or misconduct; cybersecurity risks; 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; unexpected changes in the interpretation of Skyward Specialty’s coverage or claims; Skyward Specialty receiving reimbursement for claims by reinsurers on a timely basis; Skyward Specialty’s ability to pay claims accurately and timely; severe weather conditions, including the effects of climate change, catastrophes, pandemics as well as man-made events; plan administrators; Skyward Specialty’s reliance on renewal of existing insurance contracts; the effect of environmental, social and governance (“**ESG**”) matters on Skyward Specialty’s business; the effect of any changes in accounting practices and future pronouncements on Skyward Specialty’s business; adverse economic factors; the cyclical nature of the insurance industry on Skyward Specialty’s business; the performance of Skyward Specialty’s investment portfolio; Skyward Specialty meeting liquidity requirements; 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 receive dividends from its subsidiaries; 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 future capital requirements; the loss by Skyward Specialty of key personnel or an inability to attract and retain qualified personnel; Skyward Specialty's reliance on information technology and telecommunications systems; Skyward Specialty's ability to manage growth effectively; the effect of litigation on Skyward Specialty; Skyward Specialty's reliance on vendor relationships; Skyward Specialty's reliance on its intellectual property rights and Skyward Specialty not infringing the intellectual property rights of others; increased costs of Skyward Specialty being a public company; material weaknesses identified in Skyward Specialty's internal control over financial reporting; Skyward Specialty's reduced reporting and disclosure obligations as an emerging growth company; the volatility or decline in Skyward Specialty's stock price and operating results; substantial future sales of shares of Skyward Specialty's common stock (the "**Skyward Shares**") or the perception thereof; changes in Skyward Specialty's underwriting guidelines or strategy without stockholder approval; anti-takeover provisions in Skyward Specialty's organizational documents; the Court of Chancery of the State of Delaware has the exclusive forum for substantially all Skyward Specialty disputes; 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 assets under management ("**AUM**") on Arena; Arena's ability to mitigate operational and due diligence risks; the subjective nature of the valuation of the Arena FINCOs' investments; Arena's ability to mitigate litigation-related and other legal-related risks; Arena's ability to find appropriate investment opportunities; Arena's ability to successfully navigate and secure compliance with regulations applicable to it and its business; Arena's ability to mitigate private litigation risks; Arena's ability to manage conflicts of interest; the effects of a decrease in revenues as a result of significant redemptions in AUM on Arena Investor's business; the investment performance of Arena Investors; Arena Investors' investment in illiquid investments; Arena's ability to retain qualified management staff; Arena's ability to mitigate the risk of employee misconduct and employee error; the effect of epidemics, pandemics, outbreaks of disease and public health issues on Arena's business; effect of market conditions on the Arena FINCOs; Arena's ability to implement effective risk management systems; 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; the Arena FINCOs' investment in illiquid investments; loan concentration; 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 FINCOs' use of leverage; and other risk factors set forth herein or in the Company's annual report or other public filings.

Westaim 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. Although Westaim has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause unanticipated actions, events or results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The reader is cautioned not to place undue reliance on forward-looking statements.

## CORPORATE STRUCTURE

### Name and Incorporation

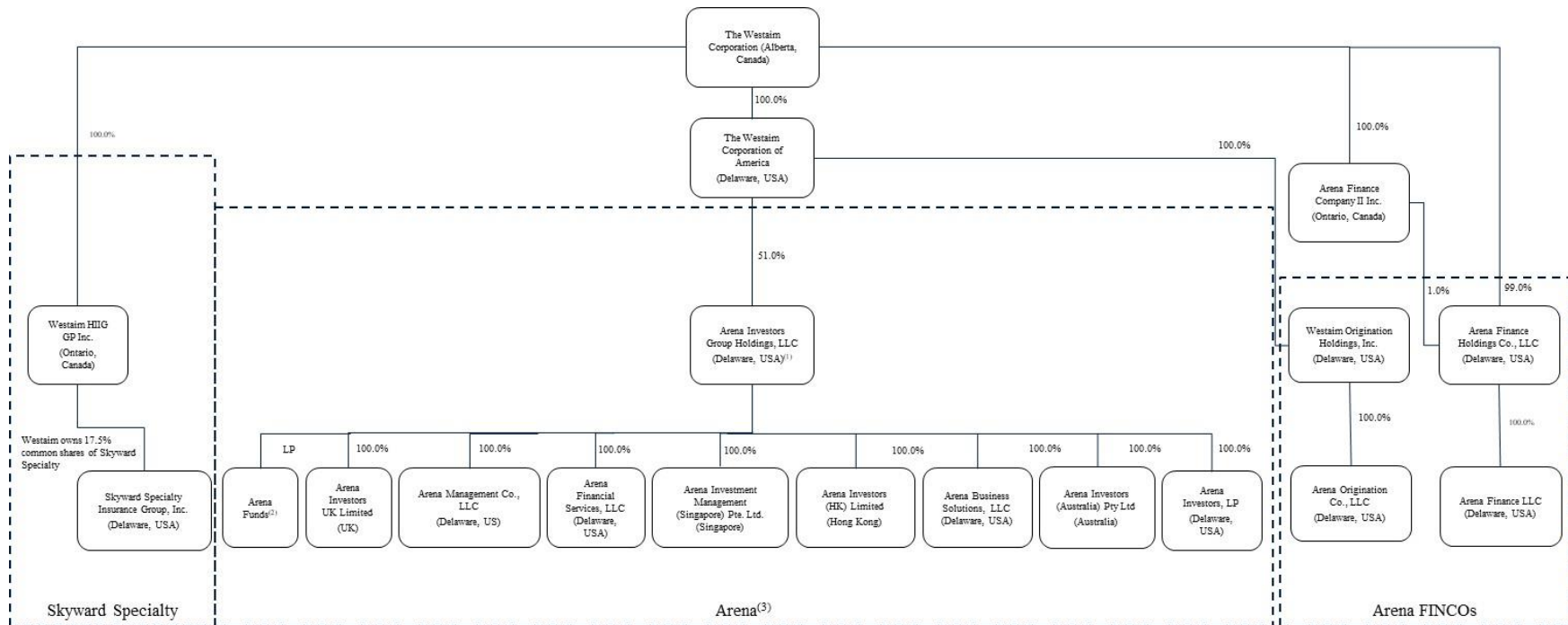
Westaim was incorporated under the *Business Corporations Act* (Alberta) (the "**ABCA**") by Articles of Incorporation dated May 7, 1996 (the "**Articles**"). The Articles were amended effective June 26, 1996 to remove the private company restrictions on the transfer of securities, to create preferred share classes designated as Class A preferred shares and Class B preferred shares and to increase the maximum number of directors to fifteen. Restated Articles of Incorporation were issued under the ABCA on April 17, 2000 and the Articles were further amended on May 24, 2000 to permit meetings of shareholders to be held in certain specified cities outside of Alberta, or in any other city in Canada or the United States and to allow the board of directors of the Company (the "**Board**") to appoint additional directors between annual meetings, subject to certain limitations. The Articles were amended again on February 8, 2010, February 26, 2010 and September 11, 2012 in connection with the creation of the Non-Voting Shares (as defined

herein) and the removal of the conversion restrictions attaching thereto. On October 1, 2013, the Articles were further amended to effect a 50:1 share consolidation of the Company's common shares (the "**Common Shares**").

Westaim's registered office is located at 1500, 850 – 2 Street SW, Calgary, Alberta T2P 0R8 and its head office is located at 70 York Street, Suite 1700, Toronto, Ontario M5J 1S9.

## Intercorporate Relationships

The following chart sets forth the current organizational structure of Westaim, including each of the material entities directly and indirectly owned and/or controlled by Westaim or in which it has a material interest.



Notes:

- (1) Subject to “earn-in” rights held by Bernard Partners, LLC (“BP LLC”). See “Current Investments”.
- (2) Arena Funds include Arena Special Opportunities Fund (Offshore) II GP, LP, Arena Special Opportunities Fund (Onshore) GP, LLC, Arena Special Opportunities Partners (Offshore) GP, LLC, Arena Special Opportunities Partners (Offshore) GP III, LLC, Arena Special Opportunities Partners III GP, LLC, Arena Special Opportunities Partners (Onshore) GP, LLC, Arena Special Opportunities Partners (Onshore) GP II, LLC, Arena Special Opportunities Partners (Offshore) GP II, LLC and Arena New Zealand Real Estate Credit Fund III GP LLC.
- (3) Arena, through AIGH and its subsidiaries, operates as two businesses, Arena Investors and AIS.

## BUSINESS OF THE COMPANY

### General Development of the Business

#### *Skyward Specialty*

##### Skyward Specialty Initial Public Offering

On January 18, 2023, Skyward Specialty closed its upsized initial public offering (the “**Skyward IPO**”) of 8,952,383 Skyward Shares, consisting of 4,750,000 Skyward Shares sold by Skyward Specialty and 4,202,383 Skyward Shares sold by selling stockholders, at the public offering price of \$15.00 per Skyward Share. The underwriters also exercised in full their option to purchase 1,342,857 additional Skyward Shares from the selling stockholders, at a price per share of \$15.00 per Skyward Share, less underwriting discounts and commissions. The Skyward Shares are listed on the Nasdaq Global Select Market (“**Nasdaq**”) under the ticker symbol “SKWD”. A registration statement relating to these securities was filed with the U.S. Securities and Exchange Commission (the “**SEC**”) and was declared effective on January 12, 2023.

In connection with the Skyward IPO, the Company was not a selling stockholder, although \$44 million of Skyward Specialty convertible preferred shares held by the Company were automatically converted into 7,285,359 Skyward Shares.

##### Skyward Specialty Follow-On Offerings

On June 12, 2023, Skyward Specialty closed its underwritten secondary public offering (the “**June Skyward Offering**”). Under the June Skyward Offering, the Company sold 3,850,000 Skyward Shares at a price to the public of \$23.00 per Skyward Share (the “**June Offering Price**”). The underwriters also exercised in full their option to purchase an additional 577,500 Skyward Shares from the selling stockholders at the June Offering Price, of which 137,500 of such Skyward Shares were sold by Westaim. The proceeds to the Company from the 3,987,500 Skyward Shares it sold, less underwriting commissions, were approximately \$87.4 million.

On November 20, 2023, Skyward Specialty closed another underwritten secondary public offering (the “**November Skyward Offering**”). Under the November Skyward Offering, Skyward Specialty issued 2,150,000 new Skyward Shares and the Company sold 2,850,000 Skyward Shares at a price to the public of \$30.50 per Skyward Share (the “**November Offering Price**”). The underwriters exercised in full their option to purchase an additional 750,000 Skyward Shares from the Company, as the sole selling stockholder under the November Skyward Offering, at the November Offering Price. The proceeds to the Company from the 3,600,000 Skyward Shares it sold, less underwriting commissions, were approximately \$104.9 million.

#### *Arena*

##### Revolving Loan

On December 21, 2017, the Company, through The Westaim Corporation of America (“**WCA**”), a wholly-owned Delaware subsidiary of Westaim, granted a \$20 million revolving loan facility (the “**Revolving Loan**”) to Arena. On March 6, 2019, the Company amended the Revolving Loan limit of \$20 million to \$25 million which was subsequently further amended on December 22, 2020 to: (a) increase the limit to \$35 million; (b) amend the interest rate to 5.60%; and (c) extend the term to March 31, 2023. On March 22, 2023, the Company extended the term of the Revolving Loan from March 31, 2023 to March 31, 2025 and increased the interest rate from 5.60% to 7.25% per annum effective April 1, 2023. The loan facility is secured by all the assets of Arena. At December 31, 2023, AIGH had drawn \$24 million under the loan facility and forms part of the Company’s investment in its associates (Arena).

## *Westaim*

### Normal Course Issuer Bids

On October 1, 2021, the Company commenced a normal course issuer bid (the “**2021 NCIB**”). The 2021 NCIB was for the period from October 1, 2021 to September 30, 2022, during which the Company purchased and cancelled 1,800,000 Common Shares at a weighted average purchase price of \$2.02 (C\$2.54) per Common Share, including commissions.

With the expiry of the 2021 NCIB, on September 27, 2022, the Company announced the commencement of another normal course issuer bid (the “**2022 NCIB**”). Pursuant to the 2022 NCIB, for a 12-month period from October 1, 2022 to September 30, 2023, the Company was permitted to purchase up to 11,005,494 Common Shares in total, representing approximately 10% of Westaim’s public float of Common Shares as at the close of business on September 26, 2022 (the date immediately prior to the announcement of the 2022 NCIB). The Company purchased and cancelled 6,135,078 Common Shares at a weighted average purchase price of \$2.6538 (C\$3.5690) per Common Share, including commissions under the 2022 NCIB.

As a result of the expiry of the 2022 NCIB, on September 15, 2023, the Company announced the commencement of another normal course issuer bid (the “**2023 NCIB**”). Pursuant to the 2023 NCIB, for a 12-month period from October 1, 2023 to September 30, 2024, the Company may purchase up to 11,400,000 Common Shares in total, representing approximately 10% of Westaim’s public float of Common Shares as at the close of business on September 14, 2023 (the date immediately prior to the announcement of the 2023 NCIB).

In accordance with the policies of the TSX Venture Exchange (the “**TSXV**”), the Company may not purchase more than 2% of its issued and outstanding Common Shares during any 30-day period, which as of the date of the announcement of the 2023 NCIB represented approximately 2,700,000 Common Shares. The price which the Company will pay for any such Common Shares under the NCIB will be the prevailing market price at the time of acquisition.

The actual number of Common Shares to be purchased pursuant to the 2023 NCIB and the timing of any such purchases will be determined by management of the Company, subject to applicable law and the rules of the TSXV. Between October 1, 2023 and the date of this AIF, under the 2023 NCIB, the Company purchased 6,336,800 Common Shares at a weighted average price of \$2.72 (C\$3.70), including commissions and a provision for Canadian public company 2% net share buyback tax which became effective on January 1, 2024.

### Dissolution of the HIIG Partnership and Redemption of HIIG Partnership Units

The Westaim HIIG Limited Partnership (the “**HIIG Partnership**”) was governed by the terms of a limited partnership agreement dated March 12, 2014 between Westaim, as the initial limited partner, and Westaim HIIG GP Inc. (“**HIIG GP**”), as amended and restated as of June 27, 2014 between Westaim and the HIIG GP (the “**LPA**”). Pursuant to the terms of the LPA, the HIIG Partnership would continue until July 31, 2019, subject to the discretion of the HIIG GP to extend the term of the partnership for up to two additional two year terms. On June 14, 2019, the HIIG GP delivered notice of an extension to the term of the HIIG Partnership until July 31, 2021. On June 29, 2021, the HIIG GP delivered a further notice to the limited partners of an extension to the term of the HIIG Partnership until July 31, 2023.

In anticipation of the dissolution of the HIIG Partnership and in connection with the Skyward IPO, on November 30, 2022, the HIIG Partnership redeemed all of the HIIG Partnership units held by non-Canadian limited partners and distributed to such limited partners their pro rata portion of the Skyward Shares held by the HIIG Partnership (plus certain pro rata net cash entitlements).

The HIIG Partnership was dissolved on July 31, 2023 pursuant to the terms of the LPA and in connection therewith, all of the remaining Skyward Shares held by the HIIG Partnership (plus certain net cash entitlements) were distributed to the remaining limited partners, including Westaim (such Skyward Shares were subsequently transferred from Westaim to the HIIG GP as described under “*Skyward Share Transfer*”).



## FX Contracts

The Company from time to time has entered into Canadian dollar currency forward contracts primarily to limit Canadian dollar currency gains or losses on the Company's underlying Canadian dollar currency liabilities.

On December 20, 2020, the Company entered into the first of three consecutive 90 day Canadian dollar currency forward contracts to buy C\$40 million (the second and third being entered into in March and June 2021, respectively) which were subsequently settled in March, June and September of 2021. On September 28, 2021, the Company entered into a 365 day Canadian dollar currency forward contract to buy C\$50 million which subsequently settled in September of 2022. The Company then entered into a 188 day Canadian dollar currency forward contract to buy C\$50 million which subsequently settled on March 28, 2023. Coinciding with this settlement, the Company entered into a new 92 day Canadian dollar currency forward contract to buy C\$50 million that matured on June 28, 2023. No Canadian dollar currency forward contracts were in force as of December 31, 2023 or as of the date of this AIF.

## Preferred Securities and Warrants

On June 2, 2017, the Company closed the sale to certain affiliates of Fairfax Financial Holdings Limited (collectively referred to as "**Fairfax**") of 5% interest rate subordinate preferred securities of Westaim (the "**Preferred Securities**") for aggregate subscription proceeds of C\$50 million. Pursuant to the terms of a certain transaction agreement dated as of June 12, 2023 between Westaim and Fairfax (the "**Fairfax Transaction Agreement**"), on July 17, 2023, the Company redeemed and delisted all of the 5,000,000 Preferred Securities and paid C\$50 million, plus all accrued and unpaid interest thereon. In connection with the redemption: (a) the Company and Fairfax terminated the governance agreement dated June 2, 2017 between the parties; (b) Fairfax surrendered and disposed of, without any further consideration, all of the 14,285,715 warrant to purchase Common Shares held by Fairfax, which were immediately cancelled by the Company; and (c) Westaim paid a \$100,000 work fee to Fairfax.

## Director Changes

On April 22, 2023, Stephen Cole resigned as a director of the Company. On September 21, 2023, Michael Siegel was appointed as a director of the Company.

## **Summary Description of the Business**

### *Overview*

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the financial services industry. Westaim 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 to grow shareholder value over the long term.

Westaim's senior management team and Board have extensive experience in sourcing, executing and financing businesses, and providing strategic advice to businesses in order to help them grow. Accordingly, Westaim expects to provide its portfolio companies with advisory services including, but not limited to, advice on capital allocation, financing strategy, performance measurement and merger and acquisition support. As part of its financing strategy, Westaim also intends to partner with like-minded providers of third-party capital to help supplement Westaim's own capital when completing acquisitions. Any fees generated from managing this capital are expected to provide cash flow to the Company to support its operations and augment the return for Westaim's shareholders.

### *Investment Policy*

On September 25, 2013, the Board approved a business acquisition and investment policy for the Company (the "**Investment Policy**"), which policy was amended in August 2014, April 2015 and March 2019. A summary of the Investment Policy and Westaim's approach to investment appears below.

## Investment Objective

Westaim's investment objective is to maximize the growth of its intrinsic business value on a per share basis over the long-term. Westaim intends to seek to accomplish this objective through:

- Utilizing value investing principles and the expertise and experience of management to opportunistically acquire all or part of high quality businesses that (a) it understands; (b) are expected to generate superior returns on invested capital; and (c) are expected to have long-term prospects for growth;
- Providing acquired businesses with strategic, financial and capital allocation related advice and support to help accelerate their growth;
- Acquiring debt and equity securities of both public and private companies on an opportunistic basis; and
- Maintaining a conservative balance sheet that is expected to allow Westaim to withstand adversity and capitalize on opportunities when they arise.

## Business Acquisition and Investment Strategy

To achieve its objectives, the following guidelines will be considered for Westaim's investment strategy:

- Westaim may invest in both public and non-public businesses and assets that have the potential for superior investment returns;
- As Westaim expects a significant majority of revenues and costs to be sourced and incurred in United States dollars, it changed its functional and presentation currency from Canadian dollars to United States dollars, prospectively from the date of change of August 31, 2015. To reduce the impact on Westaim's book value due to the movement of currency exchange rates between foreign currencies and Westaim's functional currency, from time to time, Westaim may enter into foreign exchange forward contracts;
- Availability and quality of operating management with whom to partner will be a critical consideration of the attractiveness of an investment opportunity;
- Westaim intends to invest opportunistically in debt, equity and derivative securities, with a preference for equity and equity-related securities;
- While the Company will consider the liquidity of a particular investment in its evaluation, this will not be an immediate requirement, and will be a secondary consideration to the quality of the business, and the attractiveness of the investment opportunity. While the Company believes that there may be significant potential returns in less liquid investments, where longer time horizons are required, the Company will generally seek to hold its investments for no more than 7 to 15 years;
- Over time, the Company intends to assemble a concentrated portfolio of businesses where its expertise and experience can be utilized to maximize returns on invested capital to the benefit of its shareholders; and
- Pending an investment, consistent with its long-term strategy, the Company expects to invest its surplus cash in interest bearing demand or deposit obligations or Government of Canada short-term debt obligations, other short-term debt obligations, or public equity securities as the Company may determine in accordance with limitations and guidelines established by the Board from time to time.

## Investment Process

Westaim's senior management team is responsible for identifying and investigating investment opportunities, including conducting business, tax and legal due diligence and preparing financial models. If a potential investment appears to be consistent with Westaim's investment objective, the opportunity will typically be brought to the Board either at a regularly scheduled or special Board meeting to gauge the Board's view of the merits of the investment. If

the Board's feedback is positive, management proceeds to negotiate the definitive terms of the transaction including any required financing. Once the terms are negotiated, the transaction is brought to the Board for final approval and, if approved, is completed and announced.

### Implementation

In reaching an investment decision regarding a particular investment, the Company expects to consider, amongst others, the following factors:

- Availability and quality of operating management, and the ability to align management's interest with Westaim's shareholders;
- The ability of management to use their expertise to help grow the business organically and through prudent acquisitions;
- The financial condition and financial performance of the investee company; and
- The size of the investment, its price and valuation, and the Company's ability to efficiently finance its purchase.

### Conflicts of Interest

Prior to making an investment, all members of senior management and the Board are obligated to disclose any interest in the potential investment. In the event that a conflict is determined to exist, the person having the conflicted interest is required to abstain from making further decisions concerning the investment.

### Monitoring and Reporting

The investment activities of Westaim will be monitored by senior management, and by the Board through regular reporting from the Company's management, no less than quarterly. Skyward Specialty and Arena FINCOs will be monitored, evaluated and communicated to management and the Board on a fair value basis. Arena will be monitored, evaluated and communicated to management and the Board on an equity accounting basis.

### Financing

Westaim expects to raise capital from time to time through the public offering of its securities, by private placement, or through the incurrence of debt obligations. The Company expects to maintain a conservative balance sheet in order to provide the flexibility to make opportunistic investments as they arise.

On September 29, 2020, the Arena FINCOs secured a private placement of \$45 million of 6.75% senior secured notes with a five year term to improve net returns by leveraging invested assets. The net proceeds received from these notes are being used by Arena Finance II, LLC ("**AFII**"), a subsidiary of Arena Finance, LLC ("**AF**"), in accordance with its investment objectives.

On July 2, 2021, AFII secured a revolving credit facility with third party lenders with an initial commitment amount of \$13 million and initial termination date of September 30, 2023. On December 30, 2021, the revolving credit facility agreement was amended such that an additional commitment amount of \$8.5 million was secured with another third party lender. Unpaid principal amounts under the revolving credit facility will bear interest at the three month London Interbank Offered Rate (“**LIBOR**”) plus 2.8%. The loan is secured by AFII’s equity interests in its subsidiaries, carries a parental guarantee from AF, and ranks senior to AFII’s senior secured notes payable. The net proceeds received under the revolving credit facility are intended to be used as working capital and liquidity support in lieu of maintaining cash reserves and therefore are expected to keep AFII’s equity and term debt capital fully invested in productive, yield-earning investments. On February 22, 2023, the revolving credit facility agreement was further amended to transition its interest rate benchmark from LIBOR to the Secured Overnight Financing Rate (“**SOFR**”). Under the terms of the amendment, unpaid principal amounts under the revolving credit facility will bear interest at the three month SOFR plus 3.06161%, effective as of January 31, 2023.

### Dividends

Westaim does not expect to declare dividends in the near future, as, other than as contemplated under the 2023 NCIB, it intends to reinvest cash flows and/or proceeds of investment sales in new opportunities in accordance with its strategy. See “*Dividends and Distributions*”.

### ***Investments***

Westaim currently has two significant investments, each of which is in the financial services industry. For a description of these investments, see “*Current Investments*”.

### ***Competition***

There is significant competition for investments sought by the Company from strategic and financial buyers including pension funds and private equity groups. Some of these entities have greater financial, technical, personnel and operational resources than Westaim. In addition, some of these competitors may also have access to lower costs of capital and to funding sources not available to the Company, thereby providing them with a competitive advantage.

### ***Employees***

As at January 1, 2024, Westaim had eight full-time employees. In addition, management has an extensive network of relationships, and from time-to-time retains the services of consultants who provide the Company with specific expertise in certain niche areas.

## **CURRENT INVESTMENTS**

### **Skyward Specialty**

#### ***Overview***

Skyward Specialty is a growing specialty insurance company delivering commercial property and casualty (“**P&C**”) products and solutions on a non-admitted (or excess and surplus) and admitted basis, predominantly in the United States. Skyward Specialty focuses its business on markets that are underserved, dislocated and/or for which standard insurance coverages are insufficient or inadequate to meet the needs of businesses, including its customers and prospective customers, operating in these markets. Skyward Specialty’s customers typically require highly specialized, customized underwriting solutions and claims capabilities. As such, Skyward Specialty develops and delivers tailored insurance products and services to address each of the niche markets it serves.

Skyward Specialty relies on dedicated underwriting leadership supported by high-quality technical staff with deep experience in their respective niches. Skyward Specialty believes this structure and expertise allow it to serve the needs of its customers effectively and be a value-add partner to its distributors, while earning attractive risk-adjusted returns. At December 31, 2023, Skyward Specialty’s assets were approximately \$2.95 billion and stockholders’ equity was approximately \$661 million and for the year ended December 31, 2023, Skyward Specialty had aggregate gross written premiums of approximately \$1.46 billion.

Skyward Specialty conducts its operations principally through four insurance companies. Houston Specialty Insurance Company (“**HSIC**”), which is its largest insurance subsidiary, underwrites multiple lines of insurance on a surplus lines basis in 50 states, the District of Columbia and certain selected foreign countries. Imperium Insurance Company (“**IIC**”), a subsidiary of HSIC, underwrites on an admitted basis in all 50 states and the District of Columbia. Great Midwest Insurance Company (“**GMIC**”), a subsidiary of IIC, underwrites multiple lines of insurance on an admitted basis in all 50 states and the District of Columbia. Oklahoma Specialty Insurance Company, a subsidiary of GMIC, is an approved surplus lines carrier in 49 states and the District of Columbia. In addition to its primary insurance companies, Skyward Specialty also owns Skyward Re, a wholly-owned captive reinsurance company domiciled in the Cayman Islands that was incorporated on January 7, 2020. Skyward Re was established to facilitate the LPT. Skyward Specialty also operate two non-insurance companies: Skyward Underwriters Agency, Inc., a licensed agent, managing general agent and reinsurance broker, and Skyward Service Company, which provides various administrative services to its subsidiaries.

Skyward Specialty is headquartered in Houston (Texas) with employees across the country and regional offices where appropriate.

### ***Strategy***

Skyward Specialty seeks to lead in its chosen market niches and establish sustainable competitive positions in these markets. The following key elements underpin its strategy and approach to its business:

1. Providing differentiated products, services and solutions that meet the unique needs of Skyward Specialty’s target markets;
2. Attracting and retaining exceptional underwriting and claims talent and incentivizing the company’s professionals in a manner that aligns with Skyward Specialty’s organization and corporate goals;
3. Amplifying the expertise of Skyward Specialty’s people with advanced technology and analytics that enable superior risk selection, pricing and claims management;
4. Empowering the underwriting and claims teams with considerable authority to make decisions and apply their expertise; and
5. Fostering a culture that promotes nimbleness and responsiveness to market opportunities and dislocation.

### ***Employees***

As at December 31, 2023, Skyward Specialty had approximately 515 employees.

### ***Competition***

The property & casualty insurance industry is highly competitive and there are many factors that drive this competition, including:

- premium rates;
- claims handling;
- financial strength ratings assigned by independent rating agencies (for example, A.M. Best Company, Inc. (“**A.M. Best**”));
- coverage;
- type of insurance;
- availability of reinsurance;
- policy terms;
- strength of client and distribution relationships; and
- reputation.

Skyward Specialty competes with a number of insurance companies which vary based on the line of business, volume of premium and geography. Some of Skyward Specialty’s notable competitors include: Markel Corporation; W.R. Berkley Corporation; American Financial Group Inc.; Tokio Marine Holdings, Inc.; CNA Financial Corporation; Hiscox, Ltd.; RLI Corp.; Intact Finance Corporation; Kinsale Capital Group, Inc.; and James River Group Holdings, Ltd.

Some of these competitors are larger and have greater financial, marketing, and other resources than Skyward Specialty does, in addition to being able to absorb large losses more easily. Other competitors have longer operating history and more market recognition than Skyward Specialty does in certain lines of business.

### ***Distribution***

Skyward Specialty tailors its choice of distribution partners to access the particular business it seeks to write. Accordingly, Skyward Specialty distributes its products, through retail agents, wholesale brokers, select program administrators, and captive managers. This approach allows Skyward Specialty to access the business it targets effectively and efficiently based on the needs and dynamics of a particular market niche. Agents and brokers act as intermediaries between property & casualty insurance companies and customers who wish to purchase property & casualty insurance. Insurance agents and brokers and wholesale producers represent the vast majority of the distribution of Skyward Specialty's business.

### ***Regulation***

The business of insurance is extensively regulated. In the United States, the insurance business is regulated primarily by individual states. Although the extent of the regulation varies, it relates to, among other things: (a) standards of solvency; (b) licensing of insurers and insurance agents; (c) approval of policy forms; (d) restrictions on the size of risks that may be insured under a single policy; (e) regulation of market conduct and claim practices; (f) premium rates; (g) reserves and provisions for unearned premium, losses and other obligations; (h) the nature of and limitations on investments; and (i) usage of certain methods of accounting for statutory reporting purposes. In all jurisdictions, the applicable laws and regulations are subject to amendment or interpretation by regulatory authorities.

## **Arena and the Arena FINCOs**

### ***Overview***

AIGH consists of two main business lines, namely (a) Arena Investors, the investment manager of AIGH including several affiliated entities, primarily making fundamentals-based, credit and asset-oriented investments on behalf of third-party investors; and (b) AIS, which leverages certain intellectual property to offer third-party services to other entities to assist in the management of their investments.

The Arena FINCOs include specialty finance companies (i) AF and its subsidiaries that primarily purchase similar fundamentals-based, credit and asset-oriented investments for their own account; and (ii) Arena Origination Co., LLC ("AOC"), which primarily facilitates the origination of similar fundamentals-based, credit and asset-oriented investments for its own account and/or possible future sale to specialty finance companies, clients of Arena Investors and/or other third parties. Arena is managed by Daniel B. Zwirn as Chief Executive Officer and Chief Investment Officer.

Arena is headquartered in Purchase (New York) with offices in New York City (New York), Jacksonville (Florida), London (United Kingdom), Dublin (Ireland), Bengaluru (India), Auckland (New Zealand) and Singapore. The Purchase, New York, Jacksonville, Dublin, Bengaluru, Auckland and Singapore offices are also used by Arena affiliates.

As at December 31, 2023, Arena had over 180 professionals working for the company. The number of employees includes consultants who dedicate a significant amount of time to Arena, but does not include senior advisors or joint venture partners.

Below is a description of each of the Arena businesses.

## *Arena*

### Arena Investors

Arena Investors operates as a global investment manager offering third-party clients, including the Arena FINCOs, access to fundamentals-based, credit and asset-oriented investments that aim to deliver above-market returns with low volatility. Arena Investors provides investment services primarily to institutional third-party clients consisting of, but not limited to, insurance companies, endowments, foundations, pensions, sovereign funds and other pooled investment vehicles or private investment funds.

Arena Investors generates revenues primarily from Management Fees, Incentive Fees and Asset Servicing Expenses (as such terms are defined herein).

- **“Management Fees”** are the fees generally calculated on Arena Investors’ various segregated client accounts and private pooled investment vehicles, as a percentage of either committed investing capital inclusive of profits earned, or total assets inclusive of financing, and the fees generally calculated on Arena FINCOs, as a percentage of committed investing capital inclusive of profits earned but excluding financing.
- **“Incentive Fees”** are the fees generally calculated as a percentage of net profits earned by clients of Arena Investors, including the Arena FINCOs, as of the end of each fiscal year or applicable withdrawal date related to client accounts subject to a “high water mark” and loss carryforward provisions for each measurement date.
- **“Asset Servicing Expenses”** are the expenses, or a portion of the expenses, generally incurred in connection with the monitoring and servicing of the illiquid portion of clients’ investment portfolio, including the Arena FINCOs.

For its core investment strategy, Arena Investors has established U.S. onshore funds Arena Special Opportunities Fund, LP, Arena Special Opportunities Partners I, LP, Arena Special Opportunities Partners (Feeder) I, LP, Arena Special Opportunities Partners II, LP, Arena Special Opportunities Partners (Feeder) II, LP, Arena Special Opportunities Partners III, LP, Arena Special Opportunities Partners (Feeder) III, LP, as well as offshore funds, Arena Special Opportunities Fund (Cayman), LP, Arena Special Opportunities Fund (Cayman 2), LLC, Arena Special Opportunities Partners (Cayman) I, LP and Arena Special Opportunities Partners (Cayman) II, LP, as commingled investment vehicles. Arena Investors also establishes separately managed accounts or single investor funds (“SMA”) for its clients. Arena Investors continues to be in discussions with potential clients for additional capital to invest in its various pools, in accordance with its business strategy, including additional commingled investment vehicles and SMAs.

AI, an AIGH entity, is a limited partnership established under the laws of Delaware. Arena Investors GP, LLC (“AIGP”), a limited liability company established under the laws of Delaware, is the general partner of AI. AIGH, a Delaware LLC, is the sole limited partner of AI and the sole member of AIGP. WCA and BP LLC are currently the only members of AIGH. BP LLC has been provided with certain rights to receive an equity ownership position in AIGH.

The membership interests in AIGH include both an equity percentage, which represents a right to participate in distributions of the capital of AIGH (“**Equity Percentage**”) and a profit percentage, which represents a right to participate in distributions of the profits of AIGH (“**Profit Percentage**”). As of December 31, 2021, 100% of the Equity Percentage in AIGH was held by Westaim (through its wholly-owned subsidiary, WCA) with 51% of the Profit Percentage held by WCA and 49% of the Profit Percentage held by BP LLC. 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, Westaim’s equity ownership decreased from 100% to 51%.

Under the limited liability company agreement of AIGH dated as of August 31, 2015 among WCA and BP LLC, as amended and restated as of May 23, 2016, as further amended and restated as of November 27, 2019 (the “**Second Amended and Restated AIGH LLCA**”), BP LLC was provided with the right to “earn-in” to up to a 75% equity

ownership position in AIGH based on meeting certain pre-established thresholds of Arena Investors' AUM and profitability measured by TTM EBITDA Margin (as defined in the Second Amended and Restated AIGH LLCA). The initial earn-in entitlement of 49% of the equity ownership was achieved when Arena Investors' AUM reached or exceeded \$1 billion and its TTM EBITDA Margin reached or exceeded 35% (the "**Initial Threshold**") – which was achieved effective on April 1, 2022. Additional increases in AUM and TTM EBITDA Margin will result in additional earn-ins until the maximum earn-in ownership level of 75% is reached by Arena Investors' AUM reaching or exceeding \$5 billion and its TTM EBITDA Margin reaching or exceeding 60%.

At the commencement of the operations of Arena Investors, notwithstanding that BP LLC did not have any equity ownership in AIGH, BP LLC was entitled to receive a 49% Profit Percentage (as defined in the Second Amended and Restated AIGH LLCA), representing a right to participate in the distribution of profits of AIGH until such time as the Initial Threshold is achieved. In connection with the provisions of the Revolving Loan, BP LLC provided a limited recourse guaranty of AIGH's obligations under the Revolving Loan. This guaranty is limited to BP LLC's interest as a member of AIGH under the Second Amended and Restated AIGH LLCA.

### AIS

AIS leverages its intellectual capital to provide non-investment advisory services primarily for third parties.

### ***Arena FINCOs***

The Arena FINCOs are comprised of AFHC and WOH and each of their respective subsidiaries. Investments held by the Arena FINCOs are derived from essentially the same pool of fundamentals-based, asset-oriented credit and other investment opportunities. Arena Investors' investment strategy, investment process, and risk management are outlined below under "*Current Investments – Arena and the Arena FINCOs – Strategy*". Arena has established a methodology to allocate investment opportunities between the respective entities in a manner consistent with each entity's investment mandate. See "*Current Investments – Arena and the Arena FINCOs – Strategy – Allocation Methodology*" for a summary overview of the allocation methodology.

- (a) *AF* – AF is a limited liability company formed under the laws of Delaware. AFHC, a wholly-owned Delaware subsidiary of Westaim, is currently the sole member of AF. AF acquires credit investments and other securities from AOC or other third parties at their fair market value. AF does not have a target range of investment; the size of the credit investments and other securities acquired from AOC or other third parties depends on, among other things, any diversification requirements which may be imposed by any lender as well as the investment policy of AFHC. In the absence of such requirements, AF will not be subject to concentration limitations but management of AF will instead use its best judgment as to what is prudent in the circumstances. AFHC and its subsidiaries each have a two-member board of directors consisting of Glenn G. MacNeil, CFO of Westaim and Joseph A. Schenk, an independent director.

Before acquiring any investment, AF reviews the nature of the investment, including the credit-worthiness of the borrower, the nature and extent of any collateral and the expected return on the investment. AF acquires investments based on its assessment of the fair market value of the investments at the time of purchase. If an investment is to be acquired from AOC, such acquisition is reviewed and approved by a person or committee that is independent of each of AOC and Westaim that has knowledge of fundamentals-based, asset-oriented credit investments. AF's primary revenue consists of interest income, dividend income and/or fees earned on the investments that it acquires. The operating results of AF also include any gain (loss) on its investments.

As described under "*Summary Description of Business – Investment Policy – Financing*":

- (i) on September 29, 2020, the Arena FINCOs secured a private placement of \$45 million of 6.75% senior secured notes to improve net returns by leveraging invested assets. The net proceeds received from these notes are being used by Arena Finance II, LLC, a subsidiary of AF, in accordance with their investment objectives; and



- (ii) on July 2, 2021, AFII secured a revolving credit facility to optimize the use of the private placement proceeds with third party lenders with an initial commitment amount of \$13 million and initial termination date of September 30, 2023. Unpaid principal amounts under the revolving credit facility will bear interest at LIBOR plus 2.8%. On December 30, 2021, the revolving credit facility agreement was amended such that an additional commitment amount of \$8.5 million was secured with another third-party lender. Unpaid principal amounts under the revolving credit facility bears interest at LIBOR plus 2.8%. On February 22, 2023, the revolving credit facility agreement was further amended to transition its interest rate benchmark from LIBOR to SOFR. Under the terms of the amendment, unpaid principal amounts under the revolving credit facility will bear interest at the three month SOFR plus 3.06161%, effective as of January 31, 2023.
- (b) *AOC* – AOC is a limited liability company formed under the laws of Delaware. WOH, a wholly-owned Delaware subsidiary of WCA, is currently the only member of AOC. AOC currently has a three-member board of directors consisting of J. Cameron MacDonald, Daniel B. Zwirn, Chief Executive Officer and Chief Investment Officer of Arena, and Lawrence Cutler, Chief Operating Officer of Arena.

AOC uses the funds that it receives from Westaim to locate credit and other security investment opportunities, investigate such opportunities including conducting due diligence on the potential borrower, structuring and documenting the investment and ultimately, funding the investment using its own funds. Once it has a portfolio of credit and other security investments, AOC may look to dispose of all or a portion of such portfolio in order to provide it with the funds necessary to make additional investments. All or a portion of the portfolio may be disposed of by AOC to third parties, including AF, certain investment funds or client accounts managed by Arena Investors, and/or other third parties. In addition, AOC may retain a portion of the investments for its own account, but this is not its primary investment strategy. Because AOC may offer and sell investments to AF and certain investment funds or client accounts managed by Arena Investors, procedures have been implemented to provide for the review of, and consent to, such transactions on behalf of AF and each related party. These procedures include the review and approval of the transaction by a person or committee that is independent of each of Arena and Westaim that has knowledge of fundamentals-based, credit and asset-oriented investments.

The size of the investments originated by AOC depends both on the funds available to AOC as well as any diversification requirements which may be imposed by any lender providing funding to AOC as well as the investment policy of AOC. In the absence of such diversification requirements, AOC will not be subject to concentration limitations, but management will instead use its judgment as to what is prudent in the circumstances.

Before acquiring any investment, AOC reviews the nature of the investment, including the credit-worthiness of the borrower, the nature and extent of any collateral and the expected return on the investment. AOC receives fees in connection with originating or structuring the terms of an investment and receives dividend income, interest or principal payments until it disposes of an investment or a loan is repaid. The operating results of AOC also include any gain (loss) on its investments.

### ***Strategy***

Arena makes and manages fundamentals-based, credit and asset-oriented investments. Fundamentals-based, credit and asset-oriented investments refers to loans or credit arrangements which are generally secured by assets. These assets include four general investment types (corporate, real estate, structured finance & assets and corporate securities) sourced from eight business units (US corporate private investments, US real estate private investments, structured finance & assets, natural resources, secondaries and liquidity solutions, European private investments and Asia-Pacific private investments and corporate securities). Fundamentals-based, credit and 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 and covenant compliance of borrowers.

Management believes that Arena's core competitive advantage is its operating model, which allows it to originate unique credit-based and other investment opportunities in scale and on a cost-efficient basis, through the use of on-

balance sheet employee teams, and established relationships with other channels of special situations investment origination. Arena's model allows it to originate, create, and structure returns that are not able to be purchased "off-the-shelf" in the credit and other markets. When looking for new opportunities, Arena seeks situations from which capital is retreating or otherwise unavailable for non-market-based reasons, providing liquidity in those situations where there is scarcity of capital for reasons unrelated to value.

By utilizing both employee teams and third-party relationships to create a pipeline of opportunities, Arena expects to be able to choose the best opportunities in accordance with its investment guidelines.

Arena has pursued and is expected to continue to pursue a complementary group of investment opportunities, all focused on situations where capital is scarce and opportunities are available in the market at a given point in time, in order to maximize the return in relation to the risk. Arena provides liquidity to companies and owners of assets who require it in a timely manner and who Arena believes are underserved by conventional sources of capital.

Arena's strategy is comprised of multiple investment strategies, including, but not limited to the following types of investments:

- *Corporate Private Investments.* 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 Investments.* Real property, secured or unsecured mezzanine financings, DIP loans, "A-tranche" loans (senior secured loans) and "B-tranche" loans (junior secured loans) for real estate properties requiring near-term liquidity, structured letters of credit, real estate loans secured by office buildings, retail centers, hotels, land, single family homes, multi-family apartments, condominium towers, hospitality providers, health care service providers, and corporate campuses, leases and lease residuals.
- *Structured Finance & 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. Thinly traded or less liquid 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. 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.* 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), 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.

The weighting of each of these strategies is based on management's assessment of the opportunity available in the area, in order to maximize the return in relation to the risk, and the investment guidelines of each fund, managed account or other capital pool available.

### *Allocation Methodology*

In making allocation decisions with respect to limited investment opportunities that could reasonably be expected to fit the investment objectives of the pooled funds and other clients, or of another member of Arena, consideration is given to the following factors deemed relevant: the investment objectives and contractual restrictions of each party; any inclusion rights to investment opportunities that may have been granted to particular parties; the expected size of the investment in light of clients' investment objectives and policies (including diversification policies and the duration of each investment); the amount of available capital; the size of the investment opportunity; regulatory and tax considerations; the degree of risk arising from an investment; the expected investment return; relative liquidity; likelihood of current income or such other factors as deemed to be appropriate. Arena has put in place a defined and documented allocation methodology consistent with the foregoing.

### ***Investment Process***

#### *Infrastructure and Processes*

Arena's investment process seeks to take into consideration the material pitfalls and possible hidden costs of an investment. Arena gains comfort with potential investments through a bottom-up, thorough understanding of the fundamentals of a business and/or situation rather than through portfolio-level, top-down allocations. Arena's investment process is summarized below:

- *Evaluation and Initial Approval.* Investments are sourced by Arena personnel or through third-party relationships and proposed to the Chief Investment Officer through an introductory investment memorandum. The Chief Investment Officer reviews potential investment opportunities with all of Arena's senior investment professionals on a regular basis, typically once per week. Once a potential investment has been identified, it is reviewed for possible risks such as operational, administrative, reputational, tax and other risks. A detailed investment memorandum is prepared and scrutinized by Arena's senior investment professionals and the Chief Investment Officer for final conditional approval of the investment.
- *Risk and Funding Management.* The asset management team is responsible for monitoring and surveilling the portfolio of investments, and interfacing with the front and back-office employees. The asset management team determines the capability of the firm to monitor, service and review the investment going forward and assigns an asset manager(s) to monitor the investment independent of the applicable investment professional/team that originated the investment. Ongoing monitoring of an asset for risk management purposes and regulatory analysis is performed by Arena Investors. See "*Current Investments – Arena and the Arena FINCOs – Risk Management*". The asset management team is not directly compensated on the outcome of the investments. Allocation across Arena Investors' pooled funds and managed accounts, including the Arena FINCOs, are monitored to ensure compliance with Arena's documented allocation methodology, and compliance with each respective pool's stated investment mandate. See "*Current Investments – Arena and the Arena FINCOs – Strategy – Allocation Methodology*".
- *Final Funding.* Legal documentation related to the investment is reviewed by the Arena's senior investment professionals and legal counsel for consistency across investments and tax analysis is also performed. Final sign-off for an investment is required from the Chief Investment Officer, any investment committee of the

respective Arena entity, and senior Arena personnel responsible for operations, asset management, treasury, tax, legal and compliance before the investment is funded.

Because of the nature and timing of certain investment opportunities, not all steps of the above summarized process may be followed for each and every investment.

### *Valuation and Pricing*

Arena has established a policy for the valuation of the investments owned by Arena Investors' funds and clients, including the Arena FINCOs. Arena prices or values all investments in accordance with such policy in a manner that it believes to be fair and reasonable. Senior Arena personnel oversee and implement Arena's valuation policy for all investments and securities and engages qualified outside third party service providers as appropriate to assist with its pricing and valuation activities, including generally obtaining a third-party valuation for every investment above \$1 million in total size on at least a quarterly basis.

All investments managed by Arena Investors are priced or valued on a monthly basis using principles consistent with U.S. GAAP. Arena Investors provides the monthly net asset value to its investors and clients determined through its valuation and pricing processes.

Arena utilizes such valuation techniques as it considers appropriate given the facts and circumstances of a particular investment. In some cases, a single valuation technique is considered to be appropriate. In other cases, multiple valuation techniques are utilized. If multiple valuation techniques are used, Arena evaluates and weighs the results, as determined appropriate, considering the reasonableness of the range indicated by those results, and doing so in consultation with the relevant third-party valuation agent for that investment.

### ***Risk Management***

Arena has established a risk management process. Arena manages risk through diversification of investments, policies with respect to the use of leverage, position size limits, security construction and hedging. This multi-strategy approach is designed to allow Arena to shift capital to those types of investments that, in its opinion, offer the most attractive risk/reward characteristics. Arena seeks to diversify by industry, geography, asset class, strategy and sub-strategy.

Arena seeks to mitigate risk by generally (a) investing at senior-secured levels in the capital structure of an investee company or asset or otherwise investing within a "margin of safety"; (b) investing in companies, properties or assets at debt to value or cash flow ratios it believes are attractive; (c) pricing perceived risk and lack of liquidity into investments; (d) including covenants in transactions that may ultimately create yield enhancement opportunities through amendments and other document changes; and/or (e) embedding robust surveillance and operational controls in Arena's proprietary information technology systems. It further attempts to minimize overall portfolio risk both through employing a broad level of diversification and individual position and related-position limits, and, in certain cases, employing portfolio-level hedges to risks it deems otherwise undiversifiable.

### ***Competition***

The investment management industry is highly competitive with various pools of capital pursuing finite investment opportunities. However, management of Arena believes that the competitive environment for Arena is as open as it has been in the United States since the savings and loan crisis of the early 1990s. The majority of market participants prior to the 2008 financial crisis have largely been regulated out of existence, severely hampered by legacy burdens, or retreated to pursue other investment opportunities. These include the proprietary special situation groups of the investment banking firms. Further, large-scale alternative asset management platforms typically focus on larger-scale, more competed investment opportunities, while business development companies (BDCs) and small business investment companies (SBICs), as regulated investment companies (RICs), have relatively limited investment mandates.

## RISK FACTORS

Westaim is subject to a number of risks, including the risks described below. The risks and uncertainties described below are those believed to be material, but they may not be the only ones faced by Westaim. If any of these risks, or any other risks and uncertainties that have not yet been identified by Westaim or that Westaim currently considers not to be material, actually occur or become material risks, the business, prospects, financial condition, results of operations and cash flows of Westaim could be materially and adversely affected.

### Risks Relating to Westaim

#### *Risks inherent in acquisitions generally*

The Company intends to actively pursue the acquisition of companies or businesses in Canada, the United States and/or internationally and may seek to acquire securities or other interests in other companies consistent with its investment strategies. Such acquisitions involve inherent risks including but not limited to (a) unanticipated costs; (b) potential loss of key employees of the company or the business acquired; (c) unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the acquisition; and (d) decline in the value of the acquired business or assets. Any one or more of these factors could cause the Company to not realize the anticipated benefits of the acquisition in question. In addition, the Company may be required to use available cash, incur debt, issue securities, or a combination of these in order to complete an acquisition. This could affect the Company's future flexibility and ability to raise capital, operate or develop its business and could dilute its existing shareholders' holdings as well as decrease the trading price of its Common Shares. There is no assurance that when evaluating a possible acquisition, the Company will correctly identify and manage the risks and costs inherent in the business or asset to be acquired.

#### *Cash flow might be negative*

The Company has made and intends to make investments in private entities which do not typically have an active market. Private investment transactions can be highly structured and the Company expects to take measures, where possible and appropriate, to create defined liquidity events. However, such liquidity events are rarely expected in the first three to five years of making an investment and may not be realized as expected or at all. While the Company may seek to obtain regular cash flow from these investments through management fees, capital appreciation and/or investment income, in the near term these revenues may not be sufficient to offset the Company's operating expenses. Accordingly, the Company may experience negative cash flow at the holding company level until such time as its revenues exceed its operating expenses, which negative cash flow could be funded from the Company's cash resources and other sources of capital which are available to the Company.

#### *Liquidity and financing risks*

Westaim's ability to continue its acquisition efforts will be largely reliant on its continued attractiveness to equity investors and third-party capital partners. Westaim may incur operating losses as it continues to expend funds to seek out, investigate and complete future acquisitions. There is no guarantee that companies that Westaim acquires or invests in will become or continue to be profitable as general economic conditions, regulatory requirements and other factors affect their operations and future performance. Many of these factors are beyond Westaim's control. Additionally, should Westaim require additional capital to continue its activities, failure to raise such capital could restrict Westaim's activities or result in the Company going out of business. From time to time, Westaim may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase Westaim's debt levels above industry standards. Westaim cannot assure investors that it will be able to generate sufficient cash flow to pay the interest on any debt or that future working capital, borrowings or equity financing will be available to pay or refinance such debt.

#### *Regulatory rules and required approvals might delay or deter a change of control of Westaim*

Many state insurance regulatory laws contain provisions that require advance approval by state agencies of any change of control of an insurance company that is domiciled or, in some cases, has substantial business in that state. "Control" is generally presumed to exist through the ownership of 10% or more of the voting securities of a domestic insurance

company or of any company that controls a domestic insurance company. Westaim is deemed to be a control person of Skyward Specialty. Any purchaser of Common Shares representing 10% or more of the voting power of all outstanding Common Shares on a fully-diluted basis will be presumed to have acquired control of Skyward Specialty's domestic insurance subsidiaries unless, following application by that purchaser, the relevant state insurance regulators determine otherwise. Any transaction that would constitute a change in control of any of Skyward Specialty's individual insurance subsidiaries would generally require prior approval by the insurance departments of the states in which the insurance subsidiary is domiciled.

The by-laws of the Company contain restrictions on the ownership, transfer and voting of the Common Shares of the Company which may have an effect on the marketability and liquidity of such securities.

#### *PFIC status*

The Company does not believe it was a PFIC for U.S. income tax purposes for its 2023 fiscal year. The tests for determining PFIC status are based upon the composition of the income and assets of Westaim and its subsidiaries and affiliates from time to time, and it is difficult to make accurate predictions of future income and assets. Accordingly, there can be no assurance that Westaim will not become a PFIC in the 2024 fiscal year or in the future, as a result of changes in the composition of its income and assets, its investment in Arena, or otherwise. A non-U.S. corporation generally will be considered a PFIC for any taxable year if either: (i) at least 75% of its gross income is passive income, measured on an annual basis; or (ii) at least 50% of the value of its assets is attributable to assets that produce or are held for the production of passive income (which generally includes cash), measured on a quarterly basis. It is difficult to make accurate predictions of future income and assets, which are relevant to the determination of PFIC status. If Westaim were to be treated as a PFIC for any taxation year, such characterization could result in adverse U.S. income tax consequences to certain Westaim investors in the United States.

#### *Market turmoil*

Global financial conditions continue to be subject to volatility arising from international geopolitical developments and global economic phenomenon, as well as general financial market turbulence. The unprecedented events in global financial markets have had a profound impact on the global economy. Many industries, including the financial services industry, are impacted by these market conditions. A continued or worsened slowdown in the financial markets or other economic conditions, including, but not limited to, consumer spending, employment rates, business conditions, the state of the financial markets, interest rates and tax rates may adversely affect the Company's growth and profitability. These instances of market turmoil could adversely impact Westaim's operations (including the operations of Skyward Specialty and Arena) and the trading price of the Common Shares, in addition to the trading price of the Skyward Shares.

#### *Risk of volatile markets and market disruption risk*

The performance of the Company and the price of the Common Shares may be influenced by, among other things, interest rates, changing supply and demand relationships, trade, fiscal, monetary and exchange control programs and policies of governments and national and international political and economic events and policies. In addition, unexpected and unpredictable events such as war and occupation, a widespread health crisis or global pandemic, terrorism and related geopolitical risks may lead to increased short-term market volatility and may have adverse long-term effects on world economies and markets generally. Such impacts could also cause substantial market volatility, exchange trading suspensions and closures, affect Westaim's performance and significantly reduce the value of an investment in the Common Shares. The Company (including Skyward Specialty and Arena) is therefore exposed to some, and at times, a substantial, degree of market risk. Westaim cannot predict the timing of future events which will likely trigger changes in the trading price of the Common Shares.

#### *Westaim may be exposed to epidemics and/or pandemics*

Westaim faces risks related to health epidemics and other outbreaks of communicable diseases, which could significantly disrupt its operations and may materially and adversely affect its business and financial conditions. Westaim's business (including the businesses of Skyward Specialty and Arena) could be adversely impacted by epidemics and/or pandemics, just like businesses were impacted by the COVID-19 pandemic. The near and long-term

implications and consequences of epidemics and/or pandemics raise several unique challenges that may affect Westaim's business strategy. Unprecedented disruptions to daily life, businesses, supply chains, and to economic growth created challenges to our business ecosystem elevating risks to meeting objectives.

This uncertainty and the cross-accumulation of risks require that Westaim maintain its resilience and flexibility in order to manage the impacts of a pandemic. The global pandemic is elevating disruption themes, amplifying existing financial, nonfinancial, and strategic risks, introducing new uncertainties, and highlighting interdependencies and accentuating risk correlations. Adverse changes and developments affecting the global economy, including significant global economic disruption, previous and potential future stock market decline and increased financial market volatility, individually and in the aggregate, have had and may continue to effect our overall investment portfolio. Global equity markets have experienced material and rapid declines and although price recovery across many sectors has followed, markets continue to experience significant volatility. Government and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and efficacy of these government and central bank interventions is unknown at this time.

Westaim and its businesses, employees, brokers and distribution partners, as well as the workforce of vendors, services providers and counterparties with which Westaim does business, may also be adversely affected by epidemics and/or pandemics. Certain pre-existing operational risks may be exacerbated, notably with respect to potential phishing or other cybersecurity-related attacks, privacy risk incidents, fraud, increased reliance on technology, operational resilience and risks related to the operations and resiliency of Westaim's vendors, third-party suppliers and counterparties.

#### *Westaim is subject to the risk of employee error or misconduct*

Employee errors or misconduct could result in regulatory sanctions or reputational harm, which could materially adversely affect the business, financial condition and/or profitability of Westaim. Misconduct by employees could include binding Westaim to transactions that exceed authorized limits or present unacceptable risks, or concealing from Westaim unauthorized or unsuccessful activities, which, in either case, may result in unknown and unmanaged risks or losses. Employee misconduct could also involve the improper use of confidential information, which could result in regulatory enforcement proceedings, sanctions and serious reputational harm. Westaim is also susceptible to loss as a result of employee error. While management will proactively take measures to deter employee misconduct or prevent employee error, the precautions management takes to prevent and detect this activity may not be effective in all cases, which could materially adversely affect the business, financial condition and/or profitability of Westaim which could adversely affect the business, financial condition and/or profitability of Westaim.

#### *Cybersecurity risks*

Westaim's computer systems may be subject to cybersecurity risks or other breaches of information technology security, noting the increasing frequency and severity of these kinds of incidents. Despite the implementation of security measures, the infrastructure supporting Westaim's computer systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. Such breach of Westaim's cybersecurity could have a material adverse effect on Westaim's results of operations or financial condition.

### **Risks Relating to Skyward Specialty**

#### *Underwriting risk*

Skyward Specialty's underwriting success is dependent on its ability to accurately assess the risks associated with the business it writes and retains. Skyward Specialty relies on the experience of its underwriting staff in assessing those risks. If Skyward Specialty misunderstands the nature or extent of the risks, it may fail to establish appropriate premium rates which could adversely affect its financial results. In addition, Skyward Specialty's employees, including members of management and underwriters, make decisions and choices in the ordinary course of business that involve exposing it to risk.

## *Competition*

Skyward Specialty faces competition from other specialty insurance companies, standard insurance companies and underwriting agencies. In particular, competition in the insurance industry is based on many factors, including price of coverage, the general reputation and perceived financial strength of the company, relationships with distribution partners, terms and conditions of products offered, ratings assigned by independent rating agencies, speed of claims payment and reputation, and the experience and reputation of the members of its underwriting team in the particular lines of insurance and reinsurance Skyward Specialty seeks to underwrite. In recent years, the insurance industry has undergone increasing consolidation, which may further increase competition. In addition, some of Skyward Specialty's competitors are larger and have greater financial, marketing, and other resources than it does, in addition to being able to absorb large losses more easily. Other competitors have longer operating history and more market recognition than Skyward Specialty does in certain lines of business.

A number of new, proposed or potential industry or legislative developments could further increase competition in Skyward Specialty's industry. For example, there has been an increase in capital-raising by companies with whom it competes, which could result in new entrants to the markets and an excess of capital in the industry. Additionally, the possibility of federal regulatory reform of the insurance industry could increase competition from standard carriers.

Skyward Specialty may not be able to continue to compete successfully in the insurance markets. Increased competition in these markets could result in a change in the supply and demand for insurance, affect Skyward Specialty's ability to price its products at risk-adequate rates and retain existing business, or underwrite new business on favorable terms. If this increased competition so limits Skyward Specialty's ability to transact business, its operating results could be adversely affected.

## *Reliance on distribution channels*

Substantially all of Skyward Specialty's products are ultimately distributed through independent retail agents and brokers who have the principal relationships with policyholders. Retail agents and brokers generally own the "renewal rights," and thus Skyward Specialty's business model is dependent on its relationships with, and the success of, the retail agents and brokers with whom it do business. Further, Skyward Specialty is also dependent on the relationships its wholesalers and program administrators maintain with the agents and brokers from whom they source their business.

Skyward Specialty's relationship with its retail agents, brokers, wholesalers and program administrators may be discontinued at any time. Even if the relationships continue, they may not be on terms that are profitable for Skyward Specialty. For example, as insurance distribution firms continue to consolidate, their ability to influence commission rates may increase as may the concentration of business Skyward Specialty has with a particular broker. Further, certain premiums from policyholders, where the business is produced by brokers, are collected directly by the brokers and remitted to Skyward Specialty. In certain jurisdictions, when the insured pays its policy premium to its broker for payment on behalf of Skyward Specialty's insurance subsidiary, the premium might be considered to have been paid under applicable insurance laws and regulations. Accordingly, the insured would no longer be liable to Skyward Specialty for those amounts, whether or not Skyward Specialty has actually received the premium from that broker. Consequently, Skyward Specialty assumes a degree of credit risk associated with the brokers with which it works. Although the failure by any of Skyward Specialty's brokers to remit premiums to it has not been material to date, there may be instances where its brokers collect premiums but do not remit them to Skyward Specialty and Skyward Specialty may be required under applicable law to provide the coverage set forth in the policy despite the related premiums not being paid to it. Similarly, if Skyward Specialty is limited in its ability to cancel policies for non-payment, its underwriting profits may decline and its financial condition and results of operations could be materially and adversely affected.

Skyward Specialty reviews the financial condition of potential new brokers before it agrees to transact business with them and periodically reviews the agencies, brokers, wholesalers and program administrators with whom it does business to identify those that do not meet its profitability standards or are not aligned with its business objectives. Following these periodic reviews, Skyward Specialty may restrict such distributors' access to certain types of products or terminate its relationship with them, subject to applicable contractual and regulatory requirements that limit its



ability to terminate agents or requires Skyward Specialty to renew policies. Even through the utilization of these measures, Skyward Specialty may not achieve the desired results.

Because Skyward Specialty relies on these distributors as its sales channel, any deterioration in the relationships with its distributors or failure to provide competitive compensation could lead its distributors to place more premium with other carriers and less premium with Skyward Specialty. In addition, Skyward Specialty could be adversely affected if the distributors with whom it does business exceed their granted authority, fail to transfer collected premium to Skyward Specialty or breach the obligations that they owe to Skyward Specialty. Although Skyward Specialty routinely monitors its distribution relationships, such actions could expose it to liability.

Also, if insurance distribution firm consolidation continues at its current pace or increases in the future, Skyward Specialty's sales channels could be materially affected in a number of ways, including loss of market access or market share in certain geographic areas. Specifically, Skyward Specialty could be negatively affected due to loss of talent as the people most knowledgeable about its products and with whom it has developed strong working relationships exit the business following an acquisition, or, increases in Skyward Specialty's commission costs as larger distributors acquire more negotiating leverage over their fees. Any such disruption that materially affects Skyward Specialty's sales channel could have a negative impact on its results of operations and financial condition.

As the speed of digitization accelerates, Skyward Specialty is subject to risks associated with both its distributors and their ability to keep pace. In an increasingly digital world, distributors who cannot provide a digital or technology-driven experience risk losing customers who demand such an experience, and such customers may choose to utilize more technology-driven distributors.

#### *Third-party reinsurance*

Skyward Specialty strategically purchases reinsurance from third parties which enhances its business by protecting capital from severity events (either large single event losses or catastrophes) and reducing volatility in its earnings. Reinsurance involves transferring, or ceding, a portion of Skyward Specialty's risk exposure on policies that it writes to another insurer, the reinsurer, in exchange for a cost. If Skyward Specialty is unable to renew its expiring contracts, enter into new reinsurance arrangements on acceptable terms or expand its coverage, its loss exposure could increase, which would increase its potential losses related to loss events. If Skyward Specialty is unwilling to bear an increase in loss exposure, it may need to reduce the level of its underwriting commitments, both of which could materially adversely affect its business, financial condition and results of operations.

There are situations in which reinsurers may exclude certain coverages from, or alter terms in, the reinsurance contracts Skyward Specialty enters into with them. As a result, Skyward Specialty, like other insurance companies, could write insurance policies which to some extent do not have the benefit of reinsurance protection. These gaps in reinsurance protection expose Skyward Specialty to greater risk and greater potential losses.

#### *Loss and loss expense reserves*

Skyward Specialty's success depends on its ability to accurately assess the risks related to the businesses and people that it insures. Skyward Specialty establishes loss and loss adjustment expense reserves for the best estimate of the ultimate payment of all claims that have been incurred, or could be incurred in the future, and the related costs of adjusting those claims, as of the date of its financial statements. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what Skyward Specialty expects the ultimate settlement and administration of claims will cost it, and its ultimate liability may be greater or less than its estimate.

As part of the reserving process, Skyward Specialty reviews historical data and considers the impact of such factors as:

- claims inflation, which is the sustained increase in cost of raw materials, labor, medical services and other components of claims cost;
- claims development patterns by line of business, as well as frequency and severity trends;

- pricing for its products;
- legislative activity;
- social and economic patterns; and
- litigation, judicial and regulatory trends.

These variables are affected by both internal and external events that could increase Skyward Specialty's exposure to losses, and it continually monitors its loss reserves using new information on reported claims and a variety of statistical techniques and modeling simulations. This process assumes that past experience, adjusted for the effects of current developments, anticipated trends and market conditions, is an appropriate basis for predicting future events. There is, however, no precise method for evaluating the impact of any specific factor on the adequacy of loss reserves, and actual results may deviate, perhaps substantially, from Skyward Specialty's reserve estimates. For instance, the following uncertainties may have an impact on the adequacy of Skyward Specialty's reserves:

- When a claim is received, it may take considerable time to appreciate fully the extent of the covered loss suffered by the insured and, consequently, estimates of loss associated with specific claims can increase over time. Consequently, estimates of loss associated with specified claims can change as new information emerges, which could cause the reserves for the claim to become inadequate.
- New theories of liability are enforced retroactively from time to time by courts. The failure of any of the loss limitations or exclusions Skyward Specialty employs, or changes in other claims or coverage issues, could have a material adverse effect on Skyward Specialty's financial condition or results of operations.
- Volatility in the financial markets, economic events and other external factors may result in an increase in the number of claims and/or severity of the claims reported. In addition, elevated inflationary conditions would, among other things, cause loss costs to increase. See also "*Adverse economic factors.*"
- Increased cost due to "social inflation," including continued increase of medical costs, more costly technology in vehicles, supply chain disruptions, more involvement of attorneys in claims matters, third-party financing of litigation, lawsuit abuse and other factors, all of which could increase the frequency and severity of claims and affect the adequacy of our loss reserves.
- If claims were to become more frequent, even if Skyward Specialty had no liability for those claims, the cost of evaluating such potential claims could escalate beyond the amount of the reserves it has established. As Skyward Specialty enters new lines of business, or as a result of new theories of claims, it may encounter an increase in claims frequency and greater claims handling costs than it had anticipated.

If any of Skyward Specialty's reserves should prove to be inadequate, it will be required to increase its reserves resulting in a reduction in its net income and stockholders' equity in the period in which the deficiency is identified. Future loss experience substantially in excess of established reserves could also have a material adverse effect on Skyward Specialty's future earnings and liquidity and its financial rating.

#### *Decline in financial strength rating*

Participants in the insurance industry use ratings from independent ratings agencies, such as A.M. Best, as an important means of assessing the financial strength and quality of insurers. In setting its ratings, A.M. Best performs quantitative and qualitative analysis of a company's balance sheet strength, operating performance and business profile. A.M. Best financial strength ratings range from "A++" (Superior) to "F" for insurance companies that have been publicly placed in liquidation. As of the date of this AIF, A.M. Best has assigned a financial strength rating of "A-" (Excellent) with positive outlook to Skyward Specialty. A.M. Best assigns ratings that are intended to provide an independent opinion of an insurance company's ability to meet its obligations to policyholders and are not an evaluation directed to investors and are not a recommendation to buy, sell or hold Skyward Shares or any other securities Skyward Specialty may issue. A.M. Best's analysis includes comparisons to peers and industry standards as well as assessments of operating plans, philosophy and management. A.M. Best periodically reviews Skyward Specialty's financial strength

rating and may revise its downward at their discretion based primarily on its analyses of Skyward Specialty's balance sheet strength, operating performance and business profile. There are specific building blocks A.M. Best reviews, including capital adequacy, operating performance, operating profile and Enterprise Risk Management, as well as other factors that could affect their analyses such as:

- if Skyward Specialty changes its business practices from its organizational business plan in a manner that no longer supports A.M. Best's rating;
- if unfavorable financial, regulatory or market trends affect Skyward Specialty, including excess market capacity;
- if Skyward Specialty's losses exceed its loss reserves;
- if Skyward Specialty has unresolved issues with government regulators;
- if Skyward Specialty is unable to retain its senior management or other key personnel;
- if Skyward Specialty's investment portfolio incurs significant losses or its liquidity is limited; or
- if A.M. Best alters its capital adequacy assessment methodology in a manner that would adversely affect Skyward Specialty's rating.

These and other factors could result in a downgrade of Skyward Specialty's financial strength rating. A downgrade or withdrawal of Skyward Specialty's rating could result in any of the following consequences, among others:

- causing its current and future distribution partners and insureds to choose other, more highly-rated competitors;
- increasing the cost or reducing the availability of reinsurance to it; or
- severely limiting or preventing it from writing new and renewal insurance contracts.

In addition, in view of the earnings and capital pressures experienced by many financial institutions, including insurance companies, it is possible that rating organizations will heighten the level of scrutiny that they apply to such institutions, will increase the frequency and scope of their credit reviews, will request additional information from the companies that they rate or will increase the capital and other requirements employed in the rating organizations' models for maintenance of certain ratings levels. Skyward Specialty can offer no assurance that its rating will remain at its current level. It is possible that such reviews of Skyward Specialty may result in adverse ratings consequences, which could have a material adverse effect on its financial condition and results of operations.

#### *Unexpected changes in the interpretation of Skyward Specialty's coverage or provisions*

There can be no assurances that loss limitations or exclusions in Skyward Specialty's policies are enforceable in the manner it intends. As industry practices and legal, judicial, social, and other conditions change, unexpected and unintended issues related to claims and coverage may emerge. For example, many of Skyward Specialty's policies limit the period during which a policyholder may bring a claim, which may be shorter than the statutory period under which such claims can be brought against its policyholders. While these limitations and exclusions help Skyward Specialty assess and mitigate its loss exposure, it is possible that a court or regulatory authority could nullify or void a limitation or exclusion or legislation could be enacted modifying or barring the use of such limitations or exclusions. These types of governmental actions could result in higher than anticipated losses and loss adjustment expenses, which could have a material adverse effect on Skyward Specialty's financial condition or results of operations. In addition, court decisions, such as the 1995 Montrose decision in California could read policy exclusions narrowly so as to expand coverage, thereby requiring insurers to create and write new exclusions.

These issues may adversely affect Skyward Specialty's business by either broadening coverage beyond its underwriting intent or by increasing the frequency or severity of claims. In some instances, these changes may not become apparent until sometime after Skyward Specialty has issued insurance contracts that are affected by the changes. As a result, the full extent of liability under Skyward Specialty's insurance contracts may not be known for many years after a contract is issued.

*Reinsurers may not reimburse Skyward Specialty for claims on a timely basis, or at all*

The reinsurance contracts that Skyward Specialty enters into to help manage its risks require it to pay premiums to the reinsurance carriers who will in turn reimburse it for a portion of covered policy claims. In many cases, a reinsurer will be called upon to reimburse Skyward Specialty for policy claims many years after it has paid insurance premiums to the insurer. Although reinsurance makes the reinsurer liable to Skyward Specialty to the extent the risk is transferred or ceded to the reinsurer, it does not relieve it (the ceding insurer) of its primary liability to its policyholders. Skyward Specialty's current reinsurance program is designed to limit its financial risk. However, Skyward Specialty's reinsurers may not pay claims Skyward Specialty incurs on a timely basis, or they may not pay some or all of these claims. For example, reinsurers may default in their financial obligations to Skyward Specialty as the result of insolvency, lack of liquidity, operational failure, political and/or regulatory prohibitions, fraud, asserted defenses based on agreement wordings or the principle of utmost good faith, asserted deficiencies in the documentation of agreements or other reasons. Any disputes with reinsurers regarding coverage under reinsurance contracts could be time consuming, costly, and uncertain of success. These risks could cause Skyward Specialty to incur increased net losses, and, therefore, adversely affect its financial condition. As of December 31, 2023, Skyward Specialty had \$596.3 million of aggregate reinsurance recoverables.

*Failure to accurately and timely pay claims*

Skyward Specialty must accurately and timely evaluate and pay claims that are made under its policies. Many factors affect Skyward Specialty's ability to pay claims accurately and timely, including the training and experience of its claims representatives, including its third party claims administrators ("TPAs"), the effectiveness of its management, and its ability to develop or select and implement appropriate procedures and systems to support its claims functions and other factors. Skyward Specialty's failure to pay claims accurately and timely could lead to regulatory and administrative actions or material litigation, undermine its reputation in the marketplace and materially and adversely affect its business, financial condition, results of operations, and prospects.

In addition, if Skyward Specialty does not manage its TPAs effectively, or if its TPAs are unable to effectively handle its volume of claims, its ability to handle an increasing workload could be adversely affected. In addition to potentially requiring that growth be slowed in the affected markets, Skyward Specialty's business could suffer from decreased quality of claims work which, in turn, could adversely affect its operating margins.

*Severe weather conditions, including the effects of climate change, catastrophes, pandemics as well as man-made events*

Skyward Specialty's business is exposed to the risk of severe weather conditions, earthquakes and man-made catastrophes. Catastrophes can be caused by various events, including natural events such as severe winter weather, severe convective storms/tornadoes, windstorms, earthquakes, hailstorms, severe thunderstorms and fires, or man-made events such as explosions, war, terrorist attacks and riots. Over the past several years, changing weather patterns and climatic conditions, such as global warming, have added to the unpredictability and frequency of natural disasters in certain parts of the world, including the markets in which Skyward Specialty operates. Climate change may increase the frequency and severity of extreme weather events. This effect has led to conditions in the ocean and atmosphere, including warmer-than-average sea-surface temperatures and low wind shear that increase hurricane activity. The occurrence of a natural disaster or other catastrophe loss could materially adversely affect Skyward Specialty's business, financial condition, and results of operations. Additionally, any increased frequency and severity of such weather events, including hurricanes, could have a material adverse effect on Skyward Specialty's ability to predict, quantify, reinsure and manage catastrophe risk and may materially increase its losses resulting from such catastrophe events.

The extent of losses from catastrophes is a function of both the frequency and severity of the insured events and the total amount of insured exposure in the areas affected. The incidence and severity of catastrophes and severe weather conditions are inherently unpredictable. Skyward Specialty manages its exposure to losses by analyzing the probability and severity of the occurrence of loss events and the impact of such events on its overall underwriting and investment portfolio. In addition, Skyward Specialty's inability to obtain reinsurance coverage at reasonable rates and in amounts adequate to mitigate the risks associated with severe weather conditions and other catastrophes could have a material adverse effect on its business and results of operations.

Skyward Specialty's business is also exposed to the risk of pandemics, outbreaks, public health crises, and geopolitical and social events, and their related effects. While policy terms and conditions in the lines of business written by Skyward Specialty would be expected to preclude coverage for virus-related claims, like the COVID-19 pandemic, court decisions and governmental actions may challenge the validity of any exclusions or its interpretation of how such terms and conditions operate.

#### *Program administrators*

Skyward Specialty markets and distributes certain of its insurance products through program administrators that have limited quoting and binding authority, and they in turn, sell Skyward Specialty's insurance products to insureds through retail agents and brokers. These program administrators can bind certain risks without Skyward Specialty's initial approval. If any of these program administrators fail to comply with Skyward Specialty's underwriting guidelines and the terms of their appointments, Skyward Specialty could be bound on a particular risk or number of risks that were not anticipated when it developed the insurance products or estimated losses and loss adjustment expenses. Such actions could adversely affect Skyward Specialty's results of operations.

#### *Renewals of existing contracts*

Most of Skyward Specialty's contracts are written for a one-year term. In Skyward Specialty's financial forecasting process, it makes assumptions about the rates of renewal of its prior year's contracts. The insurance and reinsurance industries have historically been cyclical businesses with intense competition, often based on price. If actual renewals do not meet expectations or if Skyward Specialty chooses not to write renewals because of pricing conditions, its written premium in future years and its future operations would be materially adversely affected.

#### *Increased public attention to ESG matters*

Recently, more attention is being directed towards publicly traded companies regarding ESG matters. A failure, or perceived failure, to respond to investor or customer expectations related to ESG concerns could cause harm to Skyward Specialty's business and reputation. For example, Skyward Specialty's insureds include a wide variety of industries, including potentially controversial industries. Damage to Skyward Specialty's reputation as a result of its provision of policies to certain insureds could result in decreased demand for its insurance products and could have a material adverse effect on its business, operational results and financial results, as well as require additional resources to rebuild its reputation, competitive position and brand strength.

#### *Changes in accounting practices and future pronouncements*

Developments in accounting practices may require Skyward Specialty to incur considerable additional expenses to comply, particularly if it is required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted but may affect the calculation of net income, shareholder's equity and other relevant financial statement line items.

Skyward Specialty's insurance subsidiaries are required to comply with statutory accounting principles, or SAP. SAP and various components of SAP are subject to constant review by the National Association of Insurance Commissioners ("NAIC") and its task forces and committees, as well as state insurance departments, in an effort to address emerging issues and otherwise improve financial reporting. Various proposals are pending before committees and task forces of the NAIC, some of which, if enacted and adopted on a state level, could have negative effects on insurance industry participants. The NAIC continuously examines existing laws and regulations. Skyward Specialty

cannot predict whether or in what form such reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect it.

#### *Adverse economic factors*

Factors, such as business revenue, economic conditions, the volatility and strength of the capital markets, and inflation can affect the business and economic environment. These same factors affect Skyward Specialty's ability to generate revenue and profits. In an economic downturn that is characterized by higher unemployment, declining spending, and reduced corporate revenue, the demand for insurance products is generally adversely affected, which directly affects Skyward Specialty's premium levels and profitability. Negative economic factors may also affect Skyward Specialty's ability to receive the appropriate rate for the risk it insures with its policyholders and may adversely affect the number of policies it can write, and its opportunities to underwrite profitable business. In an economic downturn, Skyward Specialty's customers may have less need for insurance coverage, cancel existing insurance policies, modify their coverage or not renew the policies they hold with Skyward Specialty. Existing policyholders may exaggerate or even falsify claims to obtain higher claims payments. In addition, if certain segments of the economy, such as the construction or energy production and servicing segments (which would affect several of Skyward Specialty's underwriting divisions at one time) were to significantly collapse, it could adversely affect Skyward Specialty's results. These outcomes would reduce Skyward Specialty's underwriting profit to the extent these factors are not reflected in the rates it charges.

#### *Insurance business is historically cyclical in nature*

Historically, insurance carriers have experienced significant fluctuations in operating results due to competition, frequency and severity of catastrophic events, levels of capacity, adverse litigation trends, regulatory constraints, general economic conditions, and other factors. The supply of insurance is related to prevailing prices, the level of insured losses and the level of capital available to the industry that, in turn, may fluctuate in response to changes in rates of return on investments being earned in the insurance industry. As a result, the insurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity (soft market cycle) as well as periods when shortages of capacity increased premium levels (hard market cycle). Demand for insurance depends on numerous factors, including the frequency and severity of catastrophic events, levels of capacity, the introduction of new capital providers and general economic conditions. All of these factors fluctuate and may contribute to price declines generally in the insurance industry.

Although an individual insurance company's financial performance depends on its own specific business characteristics, the profitability of most P&C insurance companies tends to follow this cyclical market pattern with higher gross written premium growth and improved profitability during hard market cycles. Further, this cyclical market pattern can be more pronounced in the excess and surplus ("E&S") market than in the standard insurance market. When the standard insurance market hardens, the E&S market typically hardens, and growth in the E&S market can be significantly more rapid than growth in the standard insurance market. Similarly, when conditions begin to soften, many customers that were previously driven into the E&S market may return to the admitted market, exacerbating the effects of rate decreases on Skyward Specialty's financial results. At present, Skyward Specialty believes it is experiencing a relatively hard market cycle, however, it cannot predict the timing or duration of changes in the market cycle because the cyclicity is due in large part to the actions of its competitors and general economic factors. As a result, Skyward Specialty's operating results are subject to fluctuation and have historically varied from quarter to quarter. Skyward Specialty expects its quarterly results will continue to fluctuate in the future due to a number of factors, including the general economic conditions in the markets where it operates, the frequency of occurrence or severity of catastrophe or other insured events, fluctuating interest rates, claims exceeding its loss reserves, competition in its industry, deviations from expected premium retention rates of its existing policies and contracts, adverse investment performance, and the cost of reinsurance coverage.

#### *Performance of Skyward Specialty's investment portfolio*

Skyward Specialty's results of operations depend, in part, on the performance of its investment portfolio. Skyward Specialty seeks to hold a diversified portfolio of investments that is managed by professional investment advisory management firms in accordance with its investment policy and routinely reviewed by its Investment Committee. However, Skyward Specialty's investments are subject to general economic conditions and market risks as well as

risks inherent to specific securities. Skyward Specialty's primary market risk exposures are to changes in interest rates and equity prices.

A significant amount of Skyward Specialty's investment portfolio is invested in fixed maturity securities, or separately managed accounts and limited partnerships invested primarily in fixed maturity securities. Interest rates rose materially during 2022 and 2023. Should the recent rate increases decline, including as a result of steps taken by the federal government to slow inflation, such as the passage of the Inflation Reduction Act of 2022, a low interest rate environment would place pressure on Skyward Specialty's net investment income, particularly as it relates to these securities and short-term investments, which, in turn, may adversely affect its operating results. Recent and future increases in interest rates could cause the values of Skyward Specialty's fixed income securities portfolios to decline, with the magnitude of the decline depending on the duration of securities included in its portfolio and the amount by which interest rates increase. Some fixed income securities have call or prepayment options, which create possible reinvestment risk in declining rate environments. Other fixed income securities, such as mortgage-backed and other asset-backed securities, carry prepayment risk or, in a rising interest rate environment, may not prepay as quickly as expected.

All of Skyward Specialty's fixed maturity securities, including those held in separately managed accounts and limited partnerships, are subject to credit risk. Credit risk is the risk that certain investments may default or become impaired due to deterioration in the financial condition of one or more issuers of the securities Skyward Specialty holds, or due to deterioration in the financial condition of an insurer that guarantees an issuer's payments on such investments. Downgrades in the credit ratings of fixed maturity securities (where rated) could also have a significant negative effect on the market valuation of such securities.

Skyward Specialty also invests in marketable preferred and common equity securities and exchange traded funds. These securities are carried on the balance sheet at fair market value and are subject to potential losses and declines in market value.

The above market and credit risks could reduce Skyward Specialty's net investment income and result in realized investment losses. Skyward Specialty's investment portfolio is subject to increased valuation uncertainties when investment markets are illiquid, as is the case with its fixed maturity securities held to maturity, separately managed accounts, and limited partnership investments. The valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e., the carrying amount) of the securities Skyward Specialty holds in its portfolio does not reflect prices at which actual transactions would occur.

Risks for all types of securities are managed through the application of Skyward Specialty's investment policy, which establishes investment parameters that include but are not limited to, maximum percentages of investment in certain types of securities and minimum levels of credit quality, which Skyward Specialty believes are within applicable guidelines established by the NAIC, the Texas Department of Insurance, and the Oklahoma Department of Insurance. In addition, Skyward Specialty's Investment Committee periodically reviews its Enterprise Based Asset Allocation models to assist in overall risk management.

Although Skyward Specialty seeks to preserve its capital, it cannot be certain that its investment objectives will be achieved, and results may vary substantially over time. In addition, although Skyward Specialty seeks to employ investment strategies that are not correlated with its insurance and reinsurance exposures, losses in its investment portfolio may occur at the same time as underwriting losses and, therefore, exacerbate the adverse effect of the losses on Skyward Specialty.

#### *Meeting liquidity requirements*

Skyward Specialty invests the premiums it receives from its insureds until they are needed to pay policyholder claims. Consequently, Skyward Specialty seeks to manage the duration of its investment portfolio based on the duration of its losses and loss adjustment expense reserves to provide sufficient liquidity and avoid having to liquidate investments to fund claims. Risks such as inadequate losses and loss adjustment expense reserves or unfavorable trends in litigation could potentially result in the need to sell investments to fund these liabilities. Skyward Specialty may not be able to sell its investments at favorable prices or at all. Sales could result in significant realized losses depending on the conditions of the general market, interest rates and credit issues with individual securities.

### *Extensive regulation*

Skyward Specialty's primary insurance subsidiaries, HSIC, IIC, and GMIC, are subject to extensive regulation in Texas, their state of domicile, and to a lesser degree, the other states in which they operate. Most insurance regulations are designed to protect the interests of insurance policyholders, as opposed to the interests of investors or stockholders. These regulations generally are administered by a department of insurance in each state and relate to, among other things, capital and surplus requirements, investment and underwriting limitations, affiliate transactions, dividend limitations, changes in control, solvency and a variety of other financial and non-financial aspects of Skyward Specialty's business. Significant changes in these laws and regulations could further limit Skyward Specialty's discretion or make it more expensive to conduct its business. State insurance regulators also conduct periodic examinations of the affairs of insurance and reinsurance companies and require the filing of annual and other reports relating to financial condition, holding company issues and other matters. These regulatory requirements may impose timing and expense constraints that could adversely affect Skyward Specialty's ability to achieve some or all of its business objectives.

Skyward Specialty's insurance subsidiaries are part of an "insurance holding company system" within the meaning of applicable Texas statutes and regulations. As a result of such status, certain transactions between Skyward Specialty's insurance subsidiaries and one or more of their affiliates may not be effected unless the insurer has provided notice of that transaction to the Texas Department of Insurance. These prior notification requirements may result in business delays and additional business expenses. If Skyward Specialty's insurance subsidiaries fail to file a required notification or fail to comply with other applicable insurance regulations in Texas, it may be subject to significant fines and penalties and its working relationship with the Texas Department of Insurance may be impaired.

In addition, state insurance regulators have broad discretion to deny or revoke licenses for various reasons, including the violation of regulations. In some instances, where there is uncertainty as to applicability, Skyward Specialty follows practices based on its interpretations of regulations or practices that it believes generally to be followed by the industry. These practices may turn out to be different from the interpretations of regulatory authorities. If Skyward Specialty does not have the requisite licenses and approvals or does not comply with applicable regulatory requirements, state insurance regulators could preclude or temporarily suspend Skyward Specialty from carrying on some or all of its activities in their state or could otherwise penalize it. This could adversely affect Skyward Specialty's ability to operate its business. Further, changes in the level of regulation of the insurance industry or changes in laws or regulations themselves or interpretations by regulatory authorities could interfere with Skyward Specialty's operations and require it to bear additional costs of compliance, which could adversely affect its ability to operate its business.

Skyward Specialty's insurance subsidiaries are subject to risk-based capital requirements, based upon the "risk based capital model" adopted by the NAIC, and other minimum capital and surplus restrictions imposed under Texas law. These requirements establish the minimum amount of risk-based capital necessary for a company to support its overall business operations. It identifies property and casualty insurers that may be inadequately capitalized by looking at certain inherent risks of each insurer's assets and liabilities and its mix of net written premium. Insurers falling below a calculated threshold may be subject to varying degrees of regulatory action, including supervision, rehabilitation or liquidation. Failure to maintain Skyward Specialty's risk-based capital at the required levels could adversely affect the ability of its insurance subsidiary to maintain regulatory authority to conduct Skyward Specialty's business and its A.M. Best Rating.

### *Additional government or market regulation*

Skyward Specialty's business could be adversely affected by changes in state laws, including those relating to asset and reserve valuation requirements, surplus requirements, limitations on investments and dividends, enterprise risk and risk-based capital requirements, and, at the federal level, by laws and regulations that may affect certain aspects of the insurance industry, including proposals for preemptive federal regulation. The U.S. federal government generally has not directly regulated the insurance industry except for certain areas of the market, such as insurance for flood, nuclear and terrorism risks. However, the federal government has undertaken initiatives or considered legislation in several areas that may affect the insurance industry, including tort reform, corporate governance and the taxation of reinsurance companies.



Additionally, Skyward Specialty currently derives revenues from customers in the cannabis industry. As such, any risks related to the cannabis industry, including but not limited to cannabis being deemed a controlled substance under United States federal laws, may adversely impact its clients, and potential clients, which may in turn, impact its services. The legality of cannabis could be reversed in one or more states, which might force businesses, including Skyward Specialty's customers, to cease operations in one or more states entirely. A change in the legal status of, or the enforcement of federal laws related to, the cannabis industry could negatively impact Skyward Specialty and lead to a decrease in its revenue through the loss of current and potential customers.

#### *Ability to obtain cash dividends or other permitted payments from insurance subsidiaries*

The continued operation and growth of Skyward Specialty's business will require substantial capital. Skyward Specialty does not intend to declare and pay cash dividends on Skyward Shares in the foreseeable future. Because Skyward Specialty is a holding company with no business operations of its own, its ability to pay dividends to stockholders and meet its debt payment obligations largely depends on dividends and other distributions from its primary insurance subsidiaries, HSIC, IIC and GMIC. State insurance laws, including the laws of Texas restrict the ability of HSIC, IIC and GMIC to determine how Skyward Specialty declares stockholder dividends. State insurance regulators require insurance companies to maintain specified levels of statutory capital and surplus. Dividend payments are further limited to that part of available policyholder surplus that is derived from net profits on Skyward Specialty's business. State insurance regulators have broad powers to prevent the reduction of statutory surplus to inadequate levels, and there is no assurance that dividends up to the maximum amounts calculated under any applicable formula would be permitted. Moreover, state insurance regulators that have jurisdiction over the payment of dividends by Skyward Specialty's insurance subsidiaries may in the future adopt statutory provisions more restrictive than those currently in effect.

Any determination to pay dividends in the future will be at the discretion of Skyward Specialty's board of directors and will depend upon results of operations, financial condition, contractual restrictions pursuant to its debt agreements, its indebtedness, restrictions imposed by applicable law and other factors its board of directors deems relevant. Consequently, investors may need to sell all or part of their holdings of Skyward Specialty's common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking immediate cash dividends should not purchase Skyward Specialty's common stock.

#### *Change of control*

Under applicable Texas insurance laws and regulations, no person may acquire control of a domestic insurer until written approval is obtained from the state insurance commissioner on the proposed acquisition. Such approval would be contingent upon the state insurance commissioner's consideration of a number of factors including, among others, the financial strength of the proposed acquiror, the acquiror's plans for the future operations of the domestic insurer and any anti-competitive results that may arise from the consummation of the acquisition of control. Texas insurance laws and regulations pertaining to changes of control apply to both the direct and indirect acquisition of ten percent or more of the voting stock of a Texas-domiciled insurer. Accordingly, the acquisition of ten percent or more of Skyward Specialty's common stock would be considered an indirect change of control of Skyward Specialty and would trigger the applicable change of control filing requirements under Texas insurance laws and regulations, absent a disclaimer of control filing and its acceptance by the Texas Insurance Department. These requirements may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Skyward Specialty, including through transactions that some or all of the stockholders of Skyward Specialty might consider to be desirable.

#### *Additional capital*

Skyward Specialty's future capital requirements depend on many factors, including its ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover losses. To the extent that cash flows generated by Skyward Specialty's operations are insufficient to fund future operating requirements and cover claim losses, or that Skyward Specialty's cash position is adversely impacted by a decline in the fair value of its investment portfolio, losses from catastrophe events or otherwise, Skyward Specialty may need to raise additional funds through financings or curtail its growth. Many factors will affect the amount and timing of Skyward Specialty's capital needs, including its growth rate and profitability, its claims experience, and the availability of reinsurance,

market disruptions, and other unforeseeable developments. If Skyward Specialty needs to raise additional capital, equity or debt financing may not be available at all or may be available only on terms that are not favorable to it. In the case of equity financings, dilution to Skyward Specialty's stockholders could result. In the case of debt financings, Skyward Specialty may be subject to covenants that restrict its ability to freely operate its business. In any case, such securities may have rights, preferences and privileges that are senior to those of the shares of common stock offered hereby. If Skyward Specialty cannot obtain adequate capital on favorable terms or at all, it may not have sufficient funds to implement its operating plans and its business, financial condition or results of operations could be materially adversely affected.

*Loss of one or more key personnel or by an inability to attract and retain qualified personnel*

Skyward Specialty depends on its ability to attract and retain experienced and seasoned personnel who are knowledgeable about its business. The pool of talent from which Skyward Specialty actively recruits is limited and may fluctuate based on market dynamics specific to its industry and independent of overall economic conditions. As such, higher demand for employees having the desired skills and expertise could lead to increased compensation expectations for existing and prospective personnel, making it difficult for Skyward Specialty to retain and recruit key personnel and maintain labor costs at desired levels. Should any of Skyward Specialty's key personnel terminate their employment with Skyward Specialty, or if Skyward Specialty is unable to retain and attract talented personnel, it may be unable to maintain its current competitive position in the specialized markets in which it operates, which could adversely affect its results of operations.

*Security breaches, loss of data, cyberattacks, and other information technology failures*

Skyward Specialty's business is highly dependent upon its information technology and telecommunications systems, including its underwriting systems. Skyward Specialty relies on these systems to interact with brokers and insureds, to underwrite business, to prepare policies and process premiums, to perform actuarial and other modeling functions, to process claims and make claims payments, and to prepare internal and external financial statements. Some of these systems may include or rely on third-party systems not located on Skyward Specialty's premises or under its control. Events such as natural catastrophes, terrorist attacks, industrial accidents, computer viruses and other cyber attacks may cause Skyward Specialty's systems to fail or be inaccessible for extended periods of time. While Skyward Specialty has implemented business contingency plans and other reasonable plans to protect its systems, whether housed internally or through third-party cloud services, sustained or repeated system failures or service denials could severely limit its ability to write and process new and renewal business, provide customer service, pay claims in a timely manner or otherwise operate in the ordinary course of business.

Computer viruses, hackers, employee misconduct, and other external hazards could expose Skyward Specialty's systems to security breaches, cyber-attacks or other disruptions. While Skyward Specialty has implemented security measures designed to protect against breaches of security and other interference with Skyward Specialty's systems and networks, its systems and networks may be subject to breaches or interference and Skyward Specialty and its third-party service providers will likely continue to experience cybersecurity incidents of varying degrees. Any such event may result in operational disruptions as well as unauthorized access to, the disclosure of, or loss of Skyward Specialty's proprietary information or its customers' data and information, which in turn may result in legal claims, regulatory scrutiny and liability, reputational damage, the incurrence of costs to eliminate or mitigate further exposure, the loss of customers or affiliated advisors, or other damage to its business. In addition, the trend toward general public notification of such incidents could exacerbate the harm to Skyward Specialty's business, financial condition and results of operations. Even if Skyward Specialty successfully protects its technology infrastructure and the confidentiality of sensitive data, it could suffer harm to its business and reputation if attempted security breaches are publicized. Skyward Specialty cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in its systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks and systems used in connection with its business.

Third parties to whom Skyward Specialty outsources certain of its functions are also subject to these risks. While Skyward Specialty reviews and assess its third-party providers' cybersecurity controls, as appropriate, and makes changes to its business processes to manage these risks, Skyward Specialty cannot ensure that its attempts to keep such information confidential will always be successful. Moreover, Skyward Specialty's increased use of third-party

services (e.g. cloud technology and software as a service) can make it more difficult to identify and respond to cyberattacks in any of the above situations due to the dynamic nature of these technologies. These risks could increase as vendors adopt and use more cloud-based software services rather than software services which can be run within Skyward Specialty's data centers.

#### *Managing growth effectively*

Skyward Specialty intends to grow its business in the future, which could require additional capital, systems development and skilled personnel. However, Skyward Specialty must be able to meet its capital needs, expand its systems and its internal controls effectively, allocate its human resources optimally, identify, hire, train and develop qualified employees and effectively incorporate the components of any business it may acquire in its effort to achieve growth. The failure to manage Skyward Specialty's growth effectively could have a material adverse effect on its business, financial condition and results of operations.

#### *Litigation*

As is typical in Skyward Specialty's industry, Skyward Specialty continually faces risks associated with litigation of various types, including disputes relating to insurance claims under its policies as well as other general commercial and corporate litigation. Although Skyward Specialty is not currently involved in any out-of-the-ordinary litigation with its customers, other members of the insurance industry are the target of class action lawsuits and other types of litigation, some of which involve claims for substantial or indeterminate amounts, and the outcomes of which are unpredictable. This litigation is based on a variety of issues, including insurance and claim settlement practices. Skyward Specialty cannot predict with any certainty whether it will be involved in such litigation in the future or what impact such litigation would have on its business.

#### *Loss of key vendor relationships or failure of a vendor to protect Skyward Specialty's data, confidential and proprietary information*

Skyward Specialty relies on services and products provided by many vendors in the United States and abroad. These include, for example, vendors of computer hardware and software, and vendors and/or outsourcing of services such as claim adjustment services, human resource benefits management services and investment management services. In the event that any vendor suffers a bankruptcy or otherwise becomes unable to continue to provide products or services, or fails to protect Skyward Specialty's confidential, proprietary, and other information, Skyward Specialty may suffer operational impairments and financial losses. In addition, while Skyward Specialty generally monitors vendor risk, including the security and stability of its critical vendors, it may fail to properly assess and understand the risks and costs involved in the third-party relationships, and its financial condition and results of operations could be materially and adversely affected.

Skyward Specialty anticipates that it will continue to rely on third-party software in the future. Although Skyward Specialty believes that there are commercially reasonable alternatives to the third-party software it currently licenses, this may not always be the case, or it may be difficult or costly to replace. In addition, integration of new third-party software may require significant work and require substantial investment of Skyward Specialty's time and resources. Skyward Specialty's use of additional or alternative third-party software would require it to enter into license agreements with third parties, which may not be available on commercially reasonable terms or at all. Many of the risks associated with the use of third-party software cannot be eliminated, and these risks could negatively affect Skyward Specialty's business.

#### *Intellectual proprietary rights*

Skyward Specialty's success and ability to compete depends in part on its intellectual property, which includes its rights in its brand and its proprietary technology used in certain of its product lines. Skyward Specialty primarily rely on copyright and trade secret laws, and confidentiality agreements with Skyward Specialty's employees, customers, service providers, partners and others to protect its intellectual property rights. However, the steps Skyward Specialty takes to protect its intellectual property may be inadequate. Skyward Specialty's efforts to enforce its intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability and

scope of Skyward Specialty's intellectual property rights. Skyward Specialty's failure to secure, protect and enforce its intellectual property rights could adversely affect Skyward Specialty's brand and adversely impact its business.

Skyward Specialty's success depends also in part on Skyward Specialty not infringing on the intellectual property rights of others. Skyward Specialty's competitors, as well as a number of other entities and individuals, may own or claim to own intellectual property relating to Skyward Specialty's industry or the Company. In the future, third parties may claim that Skyward Specialty is infringing on their intellectual property rights, and Skyward Specialty may be found to be infringing on such rights. Any claims or litigation could cause Skyward Specialty to incur significant expenses and, if successfully asserted against it, could require that Skyward Specialty pay substantial damages or ongoing royalty payments, prevent it from offering its services, or require that it complies with other unfavorable terms. Even if Skyward Specialty were to prevail in such a dispute, any litigation could be costly and time-consuming and divert the attention of Skyward Specialty's management and key personnel from its business operations.

*Increased public company costs and accounting and other management systems and resources may not be adequately prepared*

As a public company, and particularly after Skyward Specialty is no longer an emerging growth company, Skyward Specialty has incurred and will continue to incur significant legal, accounting and other expenses. In addition, the federal securities laws, including the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, and rules and regulations subsequently implemented by the U.S. Securities and Exchange Commission (the "SEC") and Nasdaq have imposed various requirements on public companies, including requirements to file annual, quarterly and event-driven reports with respect to their business and financial condition, and to establish and maintain effective disclosure and financial controls and corporate governance practices. These rules and regulations will increase Skyward Specialty's legal and financial compliance costs, make certain activities more time-consuming and costly, and require Skyward Specialty's management and other personnel to devote a substantial amount of time to compliance initiatives. Despite Skyward Specialty's best efforts, Skyward Specialty may not be able to produce reliable financial statements or file such financial statements as part of a periodic report in a timely manner with the SEC or comply with Nasdaq listing requirements. Skyward Specialty also expects that these rules and regulations may make it more difficult and more expensive for it to obtain director and officer liability insurance.

Pursuant to Section 404 of the Sarbanes-Oxley Act, Skyward Specialty will be required to furnish a report by its management on its internal control over financial reporting, including an attestation report on internal control over financial reporting issued by its independent registered public accounting firm, beginning January 18, 2024. However, while Skyward Specialty remains an emerging growth company, it will not be required to include an attestation report on internal control over financial reporting issued by its independent registered public accounting firm. To achieve compliance with Section 404 of the Sarbanes-Oxley Act, Skyward Specialty will be engaged in a process to document and evaluate its internal control over financial reporting, which is both costly and challenging. Skyward Specialty will need to continue to dedicate internal resources, engage outside consultants, adopt a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Despite Skyward Specialty's efforts, there is a risk that neither it nor its independent registered public accounting firm will be able to conclude within the prescribed timeframe that its internal control over financial reporting is effective as required by Section 404 of the Sarbanes-Oxley Act. This could result in an adverse reaction in the financial markets due to a loss of confidence in Skyward Specialty's reliability of its financial statements. Skyward Specialty could also become subject to investigations by the SEC or other regulatory authorities, which could require additional financial and management resources.

As a public company, Skyward Specialty is also required to maintain disclosure controls and procedures. Disclosure controls and procedures means its controls and other procedures that are designed to ensure that information required to be disclosed by Skyward Specialty in the reports that it files or submits under the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Skyward Specialty does not expect that its disclosure controls and procedures or its internal control over financial reporting will prevent or detect all errors and all fraud. Skyward Specialty believes a control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Due to the inherent limitations in all control

systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and any design may not succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Accordingly, because of the inherent limitations in Skyward Specialty's control system, misstatements due to error or fraud may occur and not be detected.

#### *Material weaknesses in internal controls over financial reporting*

As a public company with SEC reporting obligations, Skyward Specialty is required to document and test its internal control procedures to satisfy the requirements of Section 404(a) of the Sarbanes-Oxley Act, which requires annual assessments by its management of the effectiveness of the company's internal control over financial reporting. Skyward Specialty is an emerging growth company, and thus it is exempt from the auditor attestation requirement of Section 404(b) of Sarbanes-Oxley until such time as it no longer qualifies as an emerging growth company. See also "*Reduced reporting and disclosure requirements applicable to emerging growth companies*" for further discussion of these exemptions.

#### *Reduced reporting and disclosure requirements applicable to emerging growth companies*

Skyward Specialty is an "emerging growth company," and, for as long as it continues to be an emerging growth company, it currently intends to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies", including, but not limited to, not being required to have its independent registered public accounting firm audit Skyward Specialty's internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in Skyward Specialty's registration statements, periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Skyward Specialty will cease to be an emerging growth company upon the earliest of: (i) the last day of the fiscal year in which it has total annual gross revenues of \$1.235 billion or more; (ii) the last day of Skyward Specialty's fiscal year following the fifth anniversary of the date of its initial public offering; (iii) the date on which Skyward Specialty has issued more than \$1 billion in nonconvertible debt during the previous three years; and (iv) the date on which Skyward Specialty is deemed to be a large accelerated filer under the rules of the SEC.

Skyward Specialty cannot predict whether investors will find Skyward Shares less attractive if it chooses to rely on these exemptions while it is an emerging growth company. If some investors find the Skyward Shares less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for the Skyward Shares and the price of the Skyward Shares may be more volatile.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. Skyward Specialty has elected to avail itself of this extended transition period and, as a result, Skyward Specialty will not be required to adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

#### *Volatility or decline in operating results and stock price*

As a public company, the market price of the Skyward Shares has been and is likely to continue to be highly volatile and may fluctuate substantially due to many factors, many of which are beyond Skyward Specialty's control. In addition, securities markets worldwide have experienced, and are likely to continue to experience, significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could subject the market price of the Skyward Shares to wide price fluctuations regardless of Skyward Specialty's operating performance. An investment in Skyward Shares is considered to be risky, and investments in Skyward Shares should only be made if one can withstand a significant loss and wide fluctuation in the market value of the investment. The market price of the Skyward Shares could be subject to significant fluctuations in response to the factors described in this "Risk Factors" section and other factors, many of which are beyond the control of Skyward Specialty. Among the factors that could affect the price of the Skyward Shares are:

- market conditions in the broader stock market;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- introduction of new products or services by Skyward Specialty or its competitors;
- issuance of new or changed securities analysts' reports or recommendations;
- results of operations that vary from expectations of securities analysts and investors;
- short sales, hedging and other derivative transactions in Skyward Shares;
- guidance, if any, that Skyward Specialty provides to the public, any changes in this guidance or Skyward Specialty's failure to meet this guidance;
- strategic actions by Skyward Specialty or its competitors;
- announcement by Skyward Specialty, its competitors or its acquisition targets;
- sales, or anticipated sales, of large blocks of Skyward Shares, including by Skyward Specialty's directors, executive officers and principal stockholders;
- additions or departures in Skyward Specialty's board of directors, senior management or other key personnel;
- regulatory, legal or political developments;
- public response to press releases or other public announcements by Skyward Specialty or third parties, including Skyward Specialty's filings with the SEC;
- litigation and governmental investigations;
- changing economic conditions, including social inflation;
- changes in accounting principles;
- any indebtedness Skyward Specialty may incur or securities Skyward Specialty may issue in the future;
- default under agreements governing Skyward Specialty's indebtedness;
- exposure to capital and credit market risks that adversely affect Skyward Specialty's investment portfolio or Skyward Specialty's capital resources;
- changes in Skyward Specialty's credit ratings; and
- other events or factors, including those from natural disasters, war, acts of terrorism or responses to these events.

The securities markets have from time to time experienced extreme price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of particular companies. As a result of these factors, investors in Skyward Shares may not be able to resell their shares at or above their purchase price. These broad market fluctuations, as well as general market, economic and political conditions, such as recessions, loss of investor confidence or interest rate changes, may negatively affect the market price of the Skyward Shares.

In addition, the stock markets, including Nasdaq, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. If any of the foregoing occurs, it could cause Skyward Specialty's stock price to fall and may expose Skyward Specialty to securities class action litigation that, even if unsuccessful, could be costly to defend, divert management's attention and resources or harm Skyward Specialty's business.

*Substantial future sales of Skyward Shares or the perception thereof*

Sales of a substantial number of Skyward Shares in the public market, or the perception that these sales might occur, could depress the market price of the Skyward Shares and could impair Skyward Specialty's ability to raise capital through the sale of additional equity securities. Skyward Specialty is unable to predict the effect that such sales may have on the prevailing market price of the Skyward Shares.

*Changes in underwriting guidelines or strategy without stockholder approval*

Skyward Specialty's management has the authority to change its underwriting guidelines or its strategy without notice to its stockholders and without stockholder approval. As a result, Skyward Specialty may make fundamental changes to its operations without stockholder approval, which could result in Skyward Specialty pursuing a strategy or implementing underwriting guidelines that may be materially different from the strategy or underwriting guidelines currently in place.

*Anti-takeover provisions in Skyward Specialty's organizational documents*

Provisions of Skyward Specialty's certificate of incorporation and bylaws could make it more difficult for a third party to acquire control of Skyward Specialty even if such a change in control would increase the value of the Skyward Shares and prevent attempts by Skyward Specialty's stockholders to replace or remove its current board of directors or management. Therefore these provisions could adversely affect the price of the Skyward Shares. Among other things, Skyward Specialty's charter document:

- permit the Skyward Specialty board of directors to establish the number of directors and fill any vacancies and newly created directorships;
- provide that our Board of Directors will be classified into three classes with staggered, three-year terms and that directors may only be removed for cause;
- require super-majority voting to amend provisions in Skyward Specialty's certificate of incorporation and bylaws;
- include blank-check preferred stock, the preference rights and other terms of which may be set by Skyward Specialty's board of directors and could delay or prevent a transaction or a change in control that might involve a premium price for Skyward Shares or otherwise benefit Skyward Specialty's stockholders;
- eliminate the ability of Skyward Specialty's stockholders to call special meetings of stockholders;
- specify that special meetings of Skyward Specialty's stockholders can be called only by Skyward Specialty's board of directors, the chairman of such board, or Skyward Specialty's chief executive officer;
- prohibit stockholder consent action by other than unanimous written consent;
- provide that vacancies on Skyward Specialty's board of directors may be filled only by a majority of directors then in office, even though less than a quorum;
- prohibit cumulative voting in the election of directors; and

- establish advance notice requirements for nominations for election to Skyward Specialty’s board of directors or for proposing matters that can be acted upon by stockholders at Skyward Specialty’s annual stockholder meetings.

In addition, as a Delaware corporation, Skyward Specialty is subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of Skyward Specialty’s outstanding voting stock, from merging or combining with the company for a period of time.

*Court of Chancery of the State of Delaware has the exclusive forum for substantially all disputes*

Skyward Specialty’s certificate of incorporation and bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for the following civil actions:

- any derivative action or proceeding brought on Skyward Specialty’s behalf;
- any action asserting a claim of breach of a fiduciary duty by any of Skyward Specialty’s directors, officers, employees or agents or its stockholders;
- any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law (“DGCL”) or Skyward Specialty’s certificate of incorporation or bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware;
- any action to interpret, apply, enforce or determine the validity of Skyward Specialty’s certificate of incorporation or its bylaws; or
- any action asserting a claim governed by the internal affairs doctrine.

Skyward Specialty’s certificate of incorporation and bylaws further provide that, unless Skyward Specialty consents in writing to the selection of an alternative forum, the federal district courts of the United States shall, to the fullest extent permitted by law, be the sole and exclusive forum for the resolutions of any complaint asserting a cause of action arising under the U.S. Securities Act. Furthermore, this application to U.S. Securities Act claims and Section 22 of the U.S. Securities Act create concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the U.S. Securities Act or the rules and regulations thereunder. Accordingly, there is uncertainty as to whether a court would enforce such provision, and Skyward Specialty’s stockholders will not be deemed to have waived Skyward Specialty’s compliance with the federal securities laws and the rules and regulations thereunder. However, this exclusive forum provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. This choice of forum provision, if enforced, may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with Skyward Specialty or its directors, officers or other employees, which may discourage such lawsuits against Skyward Specialty and its directors, officers and other employees, although Skyward Specialty’s stockholders will not be deemed to have waived the company’s compliance with federal securities laws and the rules and regulations thereunder. Alternatively, if a court were to find the choice of forum provision contained in Skyward Specialty’s certificate of incorporation and bylaws to be inapplicable or unenforceable in an action, Skyward Specialty may incur additional costs associated with resolving such action in other jurisdictions, which could have a material adverse effect on Skyward Specialty’s business, financial condition or results of operations.

## **Risks Relating to Arena**

*Difficult global market, economic and geopolitical conditions*

The success and growth of Arena’s business is highly dependent upon conditions in the global financial markets and economic and geopolitical conditions throughout the world that are outside of Arena’s control and difficult to predict. Factors such as equity prices, equity market volatility, asset or market correlations, interest rates, counterparty risks, availability of credit, inflation rates, economic uncertainty, changes in laws or regulation (including laws relating to the financial markets generally or the taxation or regulation of the hedge fund industry), trade barriers and tariffs, disease, commodity prices, currency exchange rates and controls, and national and international political



circumstances (including governmental instability or dysfunction, wars, terrorist acts or security operations) can have a material impact on the value of Arena's funds' portfolio investments or Arena's general ability to conduct business. Difficult market, economic and geopolitical conditions can negatively impact those valuations and Arena's ability to conduct business, which in turn would reduce or even eliminate Arena's revenues and profitability, thereby having a material adverse effect on Arena's business, financial condition or results of operations. As a global alternative asset manager, Arena seeks to generate consistent, positive, absolute returns across all market cycles for the investors in Arena's funds. Arena's ability to do this has been, and in the future may be, materially impacted by conditions in the global credit or equity financial markets and economic and geopolitical conditions worldwide.

Unpredictable or unstable market, economic or geopolitical conditions have resulted and may in the future result in reduced opportunities to find suitable risk-adjusted investments to deploy capital and make it more difficult to exit and realize value from existing investments, which could materially adversely affect Arena's ability to raise new funds and increase AUM and, therefore, may have a material adverse effect on Arena's business, financial condition or results of operations. In addition, during such periods, financing and other capital markets activity may be greatly reduced, making it harder and more competitive for asset managers to find suitable investment opportunities and to obtain funding for such opportunities. If Arena fails to react appropriately to difficult market, economic and geopolitical conditions, Arena's funds could incur material losses.

*The highly variable nature of Arena Investors' revenues, results of operations and cash flows.*

Arena Investors' revenues are influenced by the combination of the amount of AUM and the investment performance of Arena Investors' funds and managed accounts. Asset flows, whether inflows or outflows, can be highly variable. Furthermore, Arena Investors' investment performance, which affects the amount of AUM and the amount of incentive income investors may earn in a given year, can be volatile due to, among other things, general market and economic conditions. Accordingly, Arena Investors' revenues, results of operations and cash flows are all highly variable. Arena Investors may also experience fluctuations in results due to a number of other factors, including changes in management fees resulting from changes in the management fee rates Arena Investors charges investors or due to changes in the values of investments, as well as capital inflows or outflows. Changes in Arena Investors' operating expenses, unexpected business developments and initiatives and general economic and market conditions may also cause fluctuations.

The amount of incentive income that may be generated is uncertain until it is actually crystallized. As a result, Arena Investors' interim results may not be indicative of historical performance or any results that may be expected for a full year.

In addition, Arena Investors' funds and managed accounts generally have "high-water marks". This means that if an investor experiences losses in a given year, Arena Investors will not be able to earn incentive income with respect to such investor's investment unless and until their investment performance surpasses the previous high-water mark. A failure to earn incentive income as a result of any high-water marks that do arise may adversely impact Arena Investors' business, financial condition or results of operations.

*Arena has experienced and may again experience periods of rapid growth, and could experience significant declines in AUM*

Rapid changes in AUM may impose substantial demands on Arena's legal, compliance, accounting, risk management, administrative and operational infrastructures. The complexity of these demands, and the time and expense required to address them, is a function not simply of the size of the increase or decrease, but also of the composition of such growth, for example, an expansion in Arena's product offerings or entering into new lines of business places additional demands on Arena's infrastructure. Furthermore, Arena's future growth will depend on, among other things, Arena's ability to maintain and develop highly reliable operating platforms, management systems and financial reporting and compliance infrastructures that are also sufficiently flexible to promptly and appropriately address Arena's business needs, applicable legal and regulatory requirements and relevant market and other operating conditions, all of which can change rapidly.

Addressing the matters described above may require Arena to incur significant additional expenses and to commit additional senior management and operational resources, even if Arena is experiencing declines in AUM.

There can be no assurance that Arena will be able to manage operations effectively without incurring substantial additional expense or that Arena will be able to grow its business and AUM, and any failure to do so could materially adversely affect Arena's ability to generate revenues and control expenses.

*Arena is subject to operational risks*

Operational risks may disrupt Arena's businesses, result in losses or limit growth. Although Arena takes protective measures and endeavours to modify them as circumstances warrant, the security of Arena's computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. Arena retains confidential information regarding its business dealings in its computer systems. Arena may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. Despite the implementation of security measures, the infrastructure supporting Arena's computer systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. In addition, Arena could be subject to liability if hackers were able to penetrate its network security or otherwise misappropriate confidential information.

Additionally, breaches of security may occur through intentional or unintentional acts by those having authorized or unauthorized access to confidential or other information of Arena or its clients or counterparties. The compromise of confidential information could result in remediation costs, legal liability, regulatory action and reputational harm, which could have a material adverse effect on Arena's results of operations or financial condition.

In addition, Arena operates in an industry that is highly dependent on its information systems and technology. There can be no assurance that Arena's information systems and technology will continue to be able to accommodate its operations, or that the cost of maintaining such systems will not increase from its current level. Such a failure to accommodate Arena's operations, or a material increase in costs related to such information systems, could have a material adverse effect on Arena, which could adversely affect the business, financial condition and/or profitability of Westaim.

*Due diligence risks*

Before making investments, Arena conducts due diligence pursuant to which it may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and tax/other advisers may be involved in the due diligence process in varying degrees depending on the type of investment. The due diligence investigation that Arena carries out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity, including, among other things, the existence of fraud or other illegal or improper behaviour. Moreover, such an investigation will not necessarily result in the investment being successful.

*The valuation of the Arena FINCOs' investments will be subject to significant subjectivity*

Valuation methodologies for certain of the Arena FINCOs' investments may be subject to significant subjectivity, and the value of assets or investments established pursuant to such methodologies may never be realized, which could result in significant losses for the Arena FINCOs. There may be no readily-ascertainable market prices for the types of illiquid investments that Arena may acquire. The fair value of such investments is determined periodically by Arena FINCOs based on its valuation methodologies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies.

*Change(s) in the investment management industry may impact Arena Investors*

Change(s) in the investment management industry could result in a decline in Arena Investors' revenues. Arena Investors' ability to generate revenues in the investment management industry is significantly influenced by the growth of AUM generally experienced by the investment management industry and by Arena Investors' relative performance within the investment management industry. The historical growth of the investment management industry may not

continue and adverse economic conditions and other factors, including a protracted or precipitous decline in the U.S., international or global financial markets or a change in the acceptance of fees typically charged by industry participants, could affect the popularity of Arena Investors' services or result in clients withdrawing from the markets or decreasing their level and/or rate of investment. A decline in the growth of the investment management industry or other changes to the industry that discourage investors could affect Arena Investors' ability to attract clients or could lead to redemptions of securities of its investment products for reasons that may be unrelated to their performance but would nonetheless result in a lower AUM and a corresponding decline in revenues. Accordingly, the foregoing could adversely affect the business, financial condition and/or profitability of Arena Investors.

*Arena is subject to litigation-related and other legal-related risks*

Arena may become involved in lawsuits or investigations that could result in significant liabilities and reputational harm, which could materially adversely affect its results of operations, financial condition and liquidity. Arena could be sued by many different parties, including, but not limited to, its clients or fund investors, creditors of its funds, shareholders of the companies in which it has invested, its employees and regulators. In addition, Arena may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such transactions may expose Arena to increased risk from countersuits.

The cost of settling any such claims could adversely affect Arena's results of operations. Lawsuits or investigations in which Arena may become involved could be very expensive and highly damaging to its reputation, even if the underlying claims are without merit. Moreover, Arena could incur legal, settlement and other costs in an amount that exceeds the insurance coverage maintained by Arena or by its funds. The costs arising out of litigation or investigations could have a material adverse effect on Arena's results of operations, financial condition and liquidity.

*Arena may be subject to private litigation that could result in significant legal and other liabilities and reputational harm*

Arena faces significant risks that may subject it to private litigation and legal liability. In general, Arena will be exposed to litigation risk in connection with any allegations of misconduct, negligence, dishonesty or bad faith arising from its management of any fund or managed account. Arena may also be subject to litigation arising from investor dissatisfaction with performance, including certain losses due to the failure of a particular investment strategy or improper trading activity, if Arena violates restrictions in relevant organizational documents or from allegations that it improperly exercised control or influence over companies in which Arena has investments. In addition, Arena is exposed to risks of litigation relating to claims that it has not properly addressed conflicts of interest. Any litigation arising in such circumstances is likely to be protracted, expensive and surrounded by circumstances that could be materially damaging to Arena's reputation and Arena's business. Moreover, in such cases, Arena would be obligated to bear legal, settlement and other costs, which may be in excess of any available insurance coverage. In addition, although Arena is indemnified by the funds and managed accounts, Arena's rights to indemnification may be challenged. If Arena is required to incur all or a portion of the costs arising out of any litigation or investigation as a result of inadequate insurance proceeds, if any, or fail to obtain indemnification from the funds or managed accounts, Arena's business, financial condition or results of operations could be materially adversely affected. In the event any fund-related litigation scenarios described above materialize, it is possible Arena is made a party to any such litigation. While Arena maintains insurance, there can be no assurance that the insurance will prove to be adequate. If Arena is required to incur all or a portion of the costs arising out of litigation, Arena's business, financial condition or results of operations could be materially adversely affected. Furthermore, any such litigation could be protracted, expensive and highly damaging to Arena reputation, which could result in a significant decline in Arena Investor's AUM and revenues, even if the underlying claims are without merit. In addition, Arena may participate in transactions that involve litigation (including the enforcement of property rights) from time to time, and such transactions may expose Arena to reputational risk and increased risk from countersuits.

*Arena may experience a lack of suitable investment opportunities*

A lack of appropriate investment opportunities could adversely affect targeted performance of Arena's investment products. An important component of investment performance is the availability of appropriate investment opportunities for new client assets. If Arena Investors is not able to find sufficient investments for new client assets in a timely manner, investment performance could be materially adversely affected. Alternatively, if there are

insufficient investment opportunities for new client assets, management may elect to limit Arena's growth and reduce the rate of intake of new client assets. As AUM increases, Arena Investors may not be able to exploit the investment opportunities that have previously been available to it or find sufficient investment opportunities for producing the returns targeted. If Arena Investors' investment managers are not able to identify sufficient appropriate investment opportunities for new client assets, Arena Investors' investment performance and management's decision to continue to grow may be materially adversely affected.

*Arena is subject to significant regulatory oversight*

The business of Arena is subject to risks relating to regulatory compliance of investment managers, investment advisors, investment dealers and the securities business generally. The ability of Arena to carry on its business is dependent upon compliance with and registration under securities legislation in the jurisdictions in which it carries on business. The securities business of Arena is subject to extensive regulation under securities laws in the U.S., Canada, the United Kingdom, Singapore and elsewhere. Compliance with many of the regulations applicable to Arena involves a number of risks, particularly in areas where applicable regulations may be subject to interpretation. In the event of non-compliance with an applicable regulation, securities regulators may institute administrative or judicial proceedings that may result in censure, fine, civil penalties, issuance of cease-and-desist orders, deregistration or suspension of the non-compliant investment dealer or investment adviser, suspension or disqualification of the investment dealer's officers or employees, or other adverse consequences. The imposition of any such penalties or orders on Arena regardless of duration or any subsequent appellate results could have a material adverse effect on Arena's business, and consequentially could adversely affect the operating results and financial condition of Westaim.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often affect directly the method of operation and profitability of securities firms. It is not possible to predict with any certainty what effect any such changes might have on Arena's business. Furthermore, its business may be materially affected not only by regulations applicable to Arena Investors as a financial market intermediary, but also by regulations of general application. For example, returns on investments in a given time period could be affected by, among other things, existing and proposed tax legislation, competition policy and other governmental regulations and policies, including the interest rate policies of the Federal Reserve, the Bank of Canada or other global central banks and changes in interpretation or enforcement of existing laws and rules that affect the business and financial communities or industry-specific legislation or regulations.

*Arena may fail to deal appropriately with conflicts of interest*

As Arena expands the scope of its business, it increasingly confronts potential conflicts of interest relating to Arena's funds' and managed account investment activities. Certain of Arena's funds and managed accounts have overlapping investment objectives and potential conflicts may arise with respect to its decisions regarding how to allocate investment opportunities among or even within those vehicles. In addition, investors may perceive conflicts of interest regarding investment decisions for vehicles in which Arena's employees, who have and may continue to make significant personal investments, are personally invested.

It is possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction or litigation or regulatory enforcement actions. Appropriately dealing with conflicts of interest is complex and difficult and Arena's reputation could be damaged if Arena fails, or appears to fail, to deal appropriately with one or more potential or actual conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest would have a material adverse effect on Arena's reputation, which would materially adversely affect Arena's business, financial condition or results of operations in a number of ways, including an inability to raise additional funds and a reluctance of counterparties to do business with Arena.

*Arena Investors may experience poor investment performance*

Poor investment performance could negatively impact Arena Investors. Poor investment performance by the funds and managed accounts managed by Arena Investors could lead to a loss of clients, lower AUM and a decline in revenues. Arena Investors' revenues are, in part, dependent upon the Management Fees and Incentive Fees earned by Arena Investors with respect to such funds and managed accounts, which are based, in part, on the value of the AUM of Arena Investors. Poor investment performance (relative to Arena Investors' competitors or otherwise) could impair

revenues and growth as existing clients might withdraw funds in favour of better performing products and the ability of Arena Investors to attract funds from existing and new clients would be reduced. All of the foregoing could result in lower AUM and could impact Arena Investors' ability to earn fees. In addition, the ability to earn Incentive Fees is directly related to investment performance and therefore, poor investment performance may cause Arena Investors to earn lower Incentive Fees. There can be no assurance that Arena Investors will be able to achieve or maintain any particular level of AUM, which may have a material adverse effect on its ability to attract and retain clients, the Management Fees and potential Incentive Fees earned, and overall profitability, which accordingly could adversely affect the business, financial condition and/or profitability of Westaim. Poor performance of the investments made by AOC or acquired by AF could result in losses and/or a write down of the carrying value of such investments which could adversely affect the financial condition and/or profitability of Westaim.

*Arena Investors may face a decrease in revenues as a result of significant redemptions in Arena Investors' funds*

Subject to any specific redemption provisions applicable to a fund or managed account, investors in Arena Investors' multi-strategy and opportunistic credit funds (excluding any vehicles with pre-defined harvest periods) may generally redeem their investments on an annual basis (subject to certain other provisions as applicable). In a declining market, during periods when the alternative asset management industry generally experiences outflows, or in response to specific events that occur at Arena Investors, Arena Investors could experience increased redemptions and as a consequence, a reduction in AUM. Furthermore, investors in Arena Investors' funds may also invest in funds managed by other alternative asset managers that have restricted or suspended redemptions or may in the future do so. Such investors may redeem capital from Arena Investors' funds, even if Arena Investors' performance is superior to such other alternative asset managers' performance if they are restricted or prevented from redeeming capital from those other managers. Arena Investors may experience elevated redemption levels if economic and market conditions remain uncertain or worsen. The decrease in revenues that would result from significant redemptions in Arena Investors' funds or managed accounts could have a material adverse effect on Arena Investors' business, financial condition or results of operations.

*Arena Investors may face challenges relating to its illiquid investments*

The investment strategies contemplated for clients of Arena Investors involve investments with limited or no liquidity which could make it challenging to raise investment capital from third-party investors, making Arena Investors a less profitable investment for Westaim. Illiquid investments might not be able to be disposed of at favourable prices or at all, which could lead to investment losses and lower fees, and accordingly, could adversely affect the business, financial condition and/or profitability of Westaim.

*Arena is exposed to risks relating to its risk management procedures*

A failure in management's ability to manage risks in Arena's investment products could materially adversely affect the business, financial condition and/or profitability of Arena, which accordingly could adversely affect the business, financial condition and/or profitability of Westaim. Some of the methods of managing risk are based upon the use of observed historical market behaviour. As a result, these methods may not predict future risk exposures, which may be significantly greater than the historical measures indicated. Other risk management methods may depend upon evaluation of information regarding markets, clients or other matters that is publicly available or otherwise accessible. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective.

*Arena is dependent on key management and staff*

Failure by Arena to retain and attract qualified staff could lead to a loss of key employees and clients and could lead to a decline in Arena's revenues and consequentially the financial condition and/or profitability of Westaim. Arena's business is dependent on the highly skilled and often highly specialized individuals engaged by Arena. These employees have critical industry experience and relationships that is relied upon to implement the business plan of Arena. However, there can also be no assurance that their historical success can be replicated. The contribution of these individuals to the investment management, client service, sales, marketing and operational teams is important to attracting and retaining clients. While resources will be devoted to recruiting, training and compensating these

individuals, the growth in total AUM in the investment management industry, the number of new firms entering the industry and the reliance on performance results to sell financial products have increased the demand for high quality professionals in all aspects of asset management.

*Arena is subject to the risk of employee misconduct*

There is a risk that Arena's employees, joint venture partners, consultants or agents could engage in misconduct that materially adversely affects its business. Arena is subject to a number of obligations and standards arising from the asset management business and Arena Investors' authority over the assets it manages, as well as Westaim's status as a public company. The violation of these obligations and standards by any of Arena's employees, joint venture partners, consultants or agents could materially adversely affect Arena's investors and Arena. In addition to these numerous and complex obligations, Arena business requires proper dealing with confidential matters of great significance to companies in which Arena may invest or otherwise do business with. If employees, joint venture partners, consultants or agents were improperly to use or disclose confidential information, Arena could be subject to litigation, regulatory investigations or sanctions and suffer serious harm to its reputation, financial position and current and future business relationships. Furthermore, there have been a number of recent highly publicized cases involving fraud or other misconduct by employees (including in the workplace via inappropriate or unlawful behavior or actions directed to other employees) in the financial services industry generally and there can be no assurance that Arena will not suffer from similar employee misconduct. It is not always possible to detect or deter employee misconduct, and the precautions Arena takes to detect and prevent this activity have not been and may not be effective in all cases. If one of Arena's employees, joint venture partners, consultants or agents were to engage in misconduct or were to be accused of such misconduct, even if such allegations were unsubstantiated, Arena's reputation and business, financial condition or results of operations could be materially adversely affected.

*Arena Investors' business is subject to competitive pressures*

The investment management industry is highly competitive. Competitive pressures could reduce Arena Investors' revenues. Some of Arena Investors' current competitors have, and potential future competitors could have, substantially greater technical, financial, marketing, distribution and other resources. There can be no assurance that Arena Investors will be able to achieve or maintain any particular level of AUM or revenues in this competitive environment. Competition could have a material adverse effect on Arena Investors' profitability and there can be no assurance that Arena Investors will be able to compete effectively in this environment. In addition, the ability to grow Management Fees and Incentive Fees is dependent on the ability to provide clients with products and services that are competitive. Investors have become more price and value conscious for a variety of reasons, including the current state of the capital markets, increased regulatory focus, investment performance and the availability of lower cost investment products. There can be no assurance that Arena Investors will be able to retain a given fee structure or, with such fee structure, retain clients in the future. A significant reduction in the Management Fees or Incentive Fees would have a material adverse effect on the revenues of Arena Investors, which could adversely affect the business, financial condition and/or profitability of Westaim.

*Arena is subject to certain conflicts of interest*

Arena is subject to certain conflicts of interest in the management of assets on behalf of Arena Investors' clients and in respect to transactions involving the Arena FINCOs. These conflicts arise primarily from the involvement of AOC and other affiliates regarding: (a) the acquisition by an Arena investment vehicle and/or an Arena Investors' managed account client of loans originated by AOC; (b) an acquisition by AF of loans originated by AOC or another Arena investment vehicle; (c) cross-trades among such entities or between an Arena investment vehicle and an Arena Investors' managed account client; (d) co-investments between one Arena investment vehicle and another; and (e) the provision of services to an Arena investment vehicle for compensation. Further, entities comprising Arena may engage in a broad spectrum of activities, including direct (or principal) investment activities for their own accounts and Arena Investors' investment advisory activities that, with respect to any particular client, are independent from, and may from time-to-time conflict with, overlap with or compete with, the investment activities of that client and/or of other clients.

In addition to the foregoing, bonuses or incentive compensation that may be paid to employees of Arena are determined by the board of directors of AIGH (the "**AIGH Board**"). At such time that BP LLC's right to participate

in distributions of the capital of AIGH exceeds 50%, BP LLC will be entitled to appoint five members of the eight member AIGH Board. Accordingly, at such time, BP LLC's nominees (which are expected to include the senior management team of Arena) will be able to determine the quantum of bonuses or incentive compensation that may be paid to employees of Arena. In such circumstances, although the Second Amended and Restated AIGH LLCA provides that such bonuses or incentive compensation must be reasonable in the circumstances and consistent with industry practice (unless approved by the AIGH Board by unanimous consent), it is expected that the senior management team of Arena will retain wide latitude in determining such compensation.

*Arena is subject to the risk of employee error*

Employee errors could result in regulatory sanctions or reputational harm, which could materially adversely affect the business, financial condition and/or profitability of Arena. Error by employees could result in unknown and unmanaged risks or losses. Arena is also susceptible to loss as a result of employee error. While management will proactively take measures to prevent employee error, the precautions management takes to prevent this activity may not be effective in all cases, which could materially adversely affect the business, financial condition and/or profitability of Arena which could adversely affect the business, financial condition and/or profitability of Westaim.

*Loan concentration may increase investment risks*

Arena invests in a variety of industries. However, if industry segments in which Arena has a concentration of investments experience adverse economic or business conditions, loan delinquencies, default rates or write-downs in those segments may increase and could materially adversely affect Arena, and accordingly, adversely affect the financial condition and/or profitability of Westaim.

*The risk of epidemics, pandemics, outbreaks of disease and public health issues*

Arena's business activities and its operations and investments could be materially adversely affected by outbreaks of disease, epidemics and public health issues in Asia, Europe, North America, the Middle East and/or globally, such as COVID-19 (and other novel coronaviruses), Ebola, H1N1 flu, H7N9 flu, H5N1 flu, Severe Acute Respiratory Syndrome, or SARS, or other epidemics, pandemics, outbreaks of disease or public health issues. Although the long-term effects of coronavirus, or COVID-19 (and the actions and measures taken by governments around the world to halt the spread of such virus), cannot currently be predicted, previous occurrences of other epidemics, pandemics and outbreaks of disease, such as H5N1, H1N1 and the Spanish flu, had material adverse effects on the economies, equity markets and operations of those countries and jurisdictions in which they were most prevalent. A recurrence of an outbreak of any kind of epidemic, communicable disease, virus or major public health issue could cause a slowdown in the levels of economic activity generally (or push the world or local economies into recession), which would be reasonably likely to adversely affect the business, financial condition and operations of AI and the Arena funds and managed accounts. Should these or other major public health issues, including pandemics, arise or spread farther (or continue to worsen), AI and the Arena funds and managed accounts could be adversely affected by more stringent travel restrictions (such as mandatory quarantines and social distancing), additional limitations on AI's (or the Arena funds' and managed accounts') operations and business activities and governmental actions limiting the movement of people and goods between regions and other activities or operations.

**Risks Relating to the Arena FINCOs**

*Difficult market conditions can adversely affect the Arena FINCOs*

Significant disruptions and volatility in the global financial markets and economies could impair the investment performance of the Arena FINCOs. Although the Arena FINCOs seek to generate consistent, positive, absolute returns across all market cycles, they may be materially affected by conditions in the global financial markets and economic conditions. The global market and economic climate may become increasingly uncertain due to numerous factors beyond Arena FINCOs' control, including but not limited to, concerns related to unpredictable global market and economic factors, uncertainty in U.S. federal fiscal, tax, trade or regulatory policy and the fiscal, tax, trade or regulatory policy of foreign governments, rising interest rates, inflation or deflation, the availability of credit, performance of financial markets, terrorism or political uncertainty.

*If Arena's risk management processes and systems are ineffective, the Arena FINCOs may be exposed to material unanticipated losses*

Arena continues to refine and implement its risk management techniques, strategies and assessment methods. These methods, even if properly implemented, may not allow Arena Investors to fully mitigate the risk exposure of the Arena FINCOs in all economic or market environments, or against all types of risk, including risks that Arena Investors might fail to identify or anticipate. Because Arena's risk management processes cannot anticipate for every investment the economic and financial outcome or timing and other specifics of the outcome, Arena FINCOs will, in the course of its activities, incur losses.

*The Arena FINCOs depend on the creditworthiness of borrowers*

The specialty finance operations of the Arena FINCOs depend on the creditworthiness of borrowers and their ability to fulfill their obligations. Although AOC originates opportunities only with borrowers which it believes to be creditworthy, there can be no assurance that borrowers will not default and that the Arena FINCOs will not sustain a loss on their loans as a result. The Arena FINCOs also rely on representations made by borrowers in their loan documentation. However, there can be no assurance that such representations are accurate or that the Arena FINCOs will have any recourse against the borrower in the event a representation proves to be untrue.

*The Arena FINCOs are subject to the risk of default by and/or bankruptcy of a borrower*

A borrower's failure to satisfy its borrowing obligations, including any covenants imposed, could lead to defaults and the termination of the borrower's loans and enforcement against its assets. In order to protect and recover its investments, the Arena FINCOs may be required to bear significant expenses (including legal, accounting, valuation and transaction expenses) to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting borrower. In certain circumstances, a borrower's default under one loan could also trigger cross-defaults under other agreements and jeopardize that borrower's ability to meet its obligations under a loan agreement it may have with the Arena FINCOs. Should a borrower become insolvent, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale of all of a borrower's collateral will be sufficient to satisfy the loan obligations secured by the collateral, or that sufficient assets will remain after priority creditors have been repaid.

*Collateral securing loans may be inadequate*

While loans are generally secured by a lien on specified collateral of the borrower (particularly inventory, receivables and tangible fixed assets), there can be no assurance that such security will be properly obtained or perfected, or that the value of the collateral securing any particular loan will protect the Arena FINCOs from suffering a partial or complete loss if the loan becomes non-performing and the Arena FINCOs move to enforce against the collateral. In such event, loan losses could be suffered which could materially adversely affect the business, financial condition and/or profitability of the Arena FINCOs and accordingly, adversely affect the financial condition and/or profitability of Westaim.

*The Arena FINCOs may be required to undertake enforcement and/or liquidation procedures*

From time to time, the Arena FINCOs may be required to take enforcement proceedings with respect to non-performing loans and/or to liquidate collateral. Enforcement and liquidation proceedings can be time-consuming and, if a sufficient number of loans require enforcement, the attention of the management of the Arena FINCOs may be diverted from day-to-day operations or from pursuing other investment opportunities and significant expenses may be incurred for which there may be no recovery.

*Fraud by a borrower may cause losses*

While the Arena FINCOs make every effort to verify the accuracy of information provided to it when making an investment decision, and have systems and controls to assist it in protecting itself against fraud, a borrower may fraudulently misrepresent information relating to its financial health, operations or compliance with the terms under which AOC is prepared to advance funds or AFHC is prepared to purchase a loan. In cases of fraud, it will be difficult



and more unlikely that the Arena FINCOs will be able to collect amounts owing under a loan or realize on collateral, which could have a material adverse effect on the Arena FINCOs and, in turn, adversely affect the financial condition and/or profitability of Westaim.

*The Arena FINCOs may fail to realize any profits*

The Arena FINCOs invest in securities that are not publicly traded or that are otherwise illiquid, including complex structured products. There may be no readily available liquidity in these securities, particularly at times of market stress or where many participants may be seeking liquidity at the same time. In many cases, the Arena FINCOs may be prohibited, whether by contract, by applicable securities laws or by the lack of a liquid market, from selling such securities for a period of time. Moreover, even if the securities are publicly traded, large holdings of securities can often be disposed of only over a substantial length of time, exposing the investment returns to risks of downward movement in market prices during the required holding period. Accordingly, under certain conditions, the Arena FINCOs may be forced to either sell securities at lower prices than they had expected to realize or defer, potentially for a considerable period of time, sales that had been planned to be made. Investment in illiquid assets involves considerable risk and the Arena FINCOs may lose some or all of the principal amount of such investments.

*The Arena FINCOs make investments in businesses that it does not control, exposing the Arena FINCOs to the risk of decisions made by others*

Investments by the Arena FINCOs will include investments in debt or equity of businesses that it does not control. Such investments may be acquired through trading activities or through purchases of securities from the issuer. Those investments will be subject to the risk that the company, in which the investment is made, may make business, financial or management decisions contrary to our expectations, with which we do not agree or that the majority stakeholders or the management of the company may take risks or otherwise act in a manner that does not serve the Arena FINCOs' interests. In addition, the Arena FINCOs may make investments in which it shares control over the investment with co-investors, which may make it more difficult for Arena Investors to implement its investment approach or exit the investment when it otherwise would. If any of the foregoing were to occur with respect to one or more significant investments, the values of such investments by the Arena FINCOs could decrease and results could suffer as a result.

*The valuation of the Arena FINCOs investments will be subject to significant subjectivity*

Valuation methodologies for certain of Arena FINCOs investments may be subject to significant subjectivity, and the value of assets or investments established pursuant to such methodologies may never be realized, which could result in significant losses for Arena FINCOs. There may be no readily-ascertainable market prices for the types of illiquid investments that Arena FINCOs may acquire. The fair value of such investments is determined periodically by Arena FINCOs based on its valuation methodologies. These policies are based on a number of factors, including the nature of the investment, the expected cash flows from the investment, bid or ask prices provided by third parties for the investment, the length of time the investment has been held, the trading price of securities (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies.

*Loan concentration may increase investment risks*

Arena Investors invests in a variety of industries on behalf of the Arena FINCOs. However, if industry segments in which the Arena FINCOs has a concentration of investments experience adverse economic or business conditions, loan delinquencies, default rates or write-downs in those segments may increase and could materially adversely affect the Arena FINCOs, and accordingly, adversely affect the financial condition and/or profitability of Westaim.

*The operations of the Arena FINCOs are largely unregulated*

Unlike major commercial banks, asset-based lenders are not subject to regulatory capital requirements that would impede their ability to extend credit. Any changes to the regulation of the asset-based lending industry could have a material adverse effect on the Arena FINCOs' business and, accordingly, adversely affect the financial condition and/or profitability of Westaim.

*AFHC may be considered to be conducting a U.S. trade or business*

Under U.S. tax laws, if a fiscally transparent entity is engaged in the conduct of a trade or business in the United States, an interest holder in such entity is also treated as so engaged. There is a risk that the U.S. tax authorities may assert that AFHC, a fiscally transparent entity for U.S. federal income tax purposes, is engaged in the conduct of a U.S. trade or business by virtue of its investment activity. If the U.S. tax authorities successfully make this assertion, then AFHC will be treated as engaged in the conduct of a trade or business in the United States. In such instance, AFHC will be subject to U.S. federal income tax at a maximum 21% rate (under current law) that is effectively connected with a U.S. trade or business (“**Effectively Connected Income**”), and will be required to file U.S. federal income tax returns to report such income. If U.S. federal income tax was not timely paid, or a U.S. federal income tax return was not timely and correctly filed, AFHC could also be subject to penalties and interest relating to any such underpayment of taxes; the liability for any underpaid taxes will remain outstanding for at least three years once a tax return is filed, but remains outstanding indefinitely if no U.S. federal income tax return is filed. AFHC may also be subject to a 30% “branch profits tax” on any Effectively Connected Income; this branch profits tax may be reduced to 5% under the United States-Canada income tax treaty, however, if AFHC qualifies for treaty benefits. In addition to the foregoing, AFHC may have tax payment and tax return filing obligations in one or more states in which AFHC conducts activities or has investment activity.

*The Arena FINCOs use leverage, which could materially adversely affect the ability to achieve positive rates of return*

The Arena FINCOs use leverage, either directly or through the use of derivative instruments, to increase the yield on the overall accounts and may use leverage in certain of its investments. The use of leverage poses a significant degree of risk, most notably by significantly increasing the risk of loss associated with leveraged investments that decline in value and enhances the possibility of a significant loss in the value of the investments. Volatility in the credit markets increases the degree of risk associated with such leverage. Increases in interest rates could also decrease the value of fixed-rate debt investments made by the Arena FINCOs. To the extent there is a significant increase in the use of leverage, any of the foregoing circumstances could have a material adverse effect on the Arena FINCOs’ results.

## **DESCRIPTION OF CAPITAL STRUCTURE**

The authorized capital of Westaim consists of an unlimited number of common shares, an unlimited number of Class A preferred shares, issuable in series and an unlimited number of Class B preferred shares, issuable in series. On February 8, 2010, the Company filed articles of amendment to create a series of Class A preferred shares designated as Series 1 Class A non-voting, participating, convertible preferred shares (the “**Non-Voting Shares**”). The terms of the Non-Voting Shares were revised on February 26, 2010 and September 11, 2012.

As of the date hereof, the Company had issued and outstanding 129,181,585 Common Shares. No Non-Voting Shares or other series of Class A preferred shares or Class B preferred shares are outstanding.

### **Common Shares**

Each Common Share carries one vote at all meetings of shareholders, is entitled to receive dividends as and when declared by the directors, and, subject to the prior rights of the holders of the Non-Voting Shares, is entitled to a pro rata share of the remaining property and assets of the Company distributable to the holders of the Common Shares and the Non-Voting Shares, upon any liquidation, dissolution or winding up of the Company.

The insurance laws applicable to Skyward Specialty prohibit any person from acquiring control of a domestic insurance company or any entity that controls such insurance company unless that person has filed a notification with specified information with that state’s Commissioner of Insurance (the “**Commissioner**”) and has obtained the Commissioner’s prior approval (the “**Control Restrictions**”). Under such laws, the acquisition of 10% or more of the voting securities of an insurance company or an entity that controls an insurance company is presumptively considered an acquisition of control of the insurance company, although such presumption may be rebutted. Accordingly, any person or entity that acquires, directly or indirectly, 10% or more of the voting securities of Westaim without the requisite prior approvals will be in violation of these laws and may be subject to injunctive action requiring the disposition or seizure of those securities or prohibiting the voting of those securities, or to other actions that may be taken by the applicable state insurance regulators.

In view of the foregoing restrictions, the by-laws of Westaim contain the following provisions designed to enable the Company to enforce compliance with the Control Restrictions:

- The Company may require a proposed subscriber or transferee of shares to submit a declaration with respect to the holding of shares of the Company and any other matter that the directors consider relevant to determine if the registration of the subscription or transfer would result in a violation of the Control Restrictions.
- The Company also may require a declaration at any time if proxies are solicited from shareholders or when, in the opinion of the directors, the acquisition, ownership, holding or control of shares by any person could violate the Control Restrictions.
- The Company has the power to refuse to issue or record a transfer and to prevent a shareholder from exercising the voting rights, of any share of any class if:
  - (a) such person (i) owns, holds or controls, directly or indirectly; or (ii) following the issue or recording of the transfer, the shareholder would own, hold or control, directly or indirectly, a “significant voting interest” in the Company, unless the required approvals from all relevant insurance regulatory authorities have been obtained; or
  - (b) the person requesting the issue or recording of the transfer refuses to sign and deliver a declaration (or provide other information reasonably necessary to assist the directors in making a determination that the Control Restrictions have not been contravened) with respect to his, her or its ownership, holding or control of shares of the Company.

For these purposes, a “significant voting interest” in the context of the Company means the holding, directly or indirectly, of voting securities of the Company carrying 10% or more of the votes carried by all voting securities of the Company.

The restrictions relating to the transfer and the issue of shares of the Company do not generally apply to the transfer and the issue of securities of the Company in favour of a securities broker while such securities broker is performing no more than a function that is usual and customary for a securities broker.

The restrictions on the ownership, transfer and voting of the Common Shares may have an effect on the marketability and liquidity of such securities.

The foregoing provisions will cease to apply if and for so long as the Control Restrictions are no longer applicable to the Company.

### **Class A Preferred Shares**

The Class A preferred shares of each series shall rank equally with the Class A preferred shares of every other series with respect to dividends and return of capital, and shall be entitled to preference over the Class B preferred shares and Common Shares and over any other shares ranking junior to the Class A preferred shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidating, dissolution or winding-up of the Company, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs. Except as required by law or unless provision is made in the Company’s articles, in general, the holders of the Class A preferred shares as a class shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

### *Non-Voting Shares*

Any holder of Non-Voting Shares may convert any or all Non-Voting Shares held by such holder into Common Shares based on the then applicable exercise number which at the date hereof is one Common Share for each Non-Voting Share. The Non-Voting Shares: (a) rank equally with the Class A preferred shares of every other series with respect to dividends and return of capital; (b) are entitled to such dividends as the directors may declare; provided, however,

that no dividend on the Non-Voting Shares shall be declared unless the directors shall declare an equal dividend on the Common Shares; and (c) are entitled to a preference as to \$0.0001 per Non-Voting Share over the Class B preferred shares and the Common Shares and over any other shares ranking junior to the Non-Voting Shares, following which the Non-Voting Shares shall rank equally with the Common Shares with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of Westaim, whether voluntary or involuntary, or any other distribution of the assets of Westaim for the purpose of winding up its affairs. Except as required by law, the holders of the Non-Voting Shares as a series shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

### **Class B Preferred Shares**

Subject to the prior rights of the Class A preferred shares, the Class B preferred shares of each series shall rank equally with the Class B preferred shares of every other series with respect to dividends and return of capital, and shall be entitled to preference over the Common Shares and over any other shares ranking junior to the Class B preferred shares with respect to priority in payment of dividends and in the distribution of assets in the event of the liquidating, dissolution or winding-up of the Company, or any other distribution of the assets of the Company among its shareholders for the purpose of winding-up its affairs, but are subject to the preference of the Class A preferred shares. Except as required by law or unless provision is made in the Company’s articles, in general, the holders of the Class B preferred shares as a class shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

## **MARKET FOR SECURITIES**

### **Trading Price and Volume**

The Common Shares are currently listed and posted for trading on the TSXV under the symbol “WED”. The following table sets forth the reported high and low prices and the aggregate volume of trading of the Common Shares on the TSXV for the periods indicated:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Aggregate Volume</u>
<b>2023</b>	<b>(C\$)</b>	<b>(C\$)</b>	
January .....	2.93	2.64	1,495,154
February .....	3.00	2.90	1,671,227
March .....	2.99	2.80	1,626,209
April .....	3.00	2.84	2,523,540
May .....	3.35	2.81	5,613,688
June .....	3.73	3.30	9,233,263
July .....	3.69	3.50	1,199,915
August .....	3.62	3.41	1,218,508
September .....	3.60	3.44	3,459,765
October .....	3.73	3.50	4,310,385
November .....	3.89	3.59	5,753,939
December.....	3.92	3.73	1,460,351

The Preferred Securities were listed and posted for trading on the TSXV under the symbol “WED.PR.A” until July 17, 2023. There was no trading of such securities on the TSXV during the most recently completed financial year of the Company.

## Prior Sales

During the fiscal year ended December 31, 2023, the Company issued the following securities that are not listed or quoted on a marketplace:

### DSUs

Date of Issue	Type of Security Issued	Number of Securities Issued	Issuance / Exercise Price Per Security
March 31, 2023	Deferred Share Units	56,807	C\$2.95
April 22, 2023	Deferred Share Units	4,035 <sup>(1)</sup>	C\$2.98
June 30, 2023	Deferred Share Units	32,078	C\$3.60
September 30, 2023	Deferred Share Units	33,353	C\$3.76
December 31, 2023	Deferred Share Units	31,964	C\$3.76

Note:

- (1) Issued to Stephen Cole for the stub period April 1, 2023 to April 22, 2023, when he resigned as a director of the Company. All of the DSUs that were held by Stephen Cole (485,787) were settled for cash as of May 31, 2023.

The Company has a total of 1,027,583 DSUs outstanding as of December 31, 2023.

### RSUs

In addition, on January 23, 2023, Westaim granted an aggregate of 480,000 restricted share units (“RSUs”). One-third of such RSUs vested on January 23, 2024, one-third of such RSUs vest on September 30, 2024 and the remaining one-third of such RSUs vest on September 30, 2025. The Company has a total of 3,455,198 RSUs outstanding as of December 31, 2023.

### SARs

Furthermore, on December 28, 2023, Westaim granted an aggregate of 4,338,530 stock appreciation rights (“SARs”) to officers and employees of the Company. The SARs vested immediately with an exercise price of C\$3.83 per SAR, each exercisable until December 15, 2026. These represent all of the SARs that are outstanding as of December 31, 2023.

## DIVIDENDS AND DISTRIBUTIONS

The Company has not declared dividends or distributions for any of its three most recently completed fiscal years and does not expect to declare dividends or distributions in the foreseeable future. Other than the applicable “solvency test” under the ABCA, there are no restrictions preventing the Company from declaring dividends on any classes of its shares, however, any future payment of dividends will be dependent upon the earnings and financial condition of the Company and other factors that the directors may deem appropriate at the time.

## DIRECTORS AND EXECUTIVE OFFICERS

### Name, Residency and Principal Occupation

The following table sets forth the names, residency, principal occupation and position(s) with the Company of the current directors of Westaim and the period of service as a director. All directors hold office until the next annual meeting of shareholders of the Company or until the director resigns or a successor is duly elected or appointed.

Name and Residency	Principal Occupation at Present <sup>5</sup>	Position(s) with the Company	Period of Service as a Director
Ian W. Delaney <sup>(3)</sup> Ontario, Canada	Executive Chair of the Company	Director and Executive Chair of the Company	May 1996 to date
John W. Gildner <sup>(1)(2)(3)</sup> Ontario, Canada	Independent businessman	Director and Chair of the Audit Committee	May 2009 to date

Name and Residency	Principal Occupation at Present <sup>5</sup>	Position(s) with the Company	Period of Service as a Director
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer of the Company	Director, President and Chief Executive Officer	December 2008 to date
Lisa Mazzocco <sup>(2)(3)</sup> California, United States	Independent consultant	Lead Director and Chair of the Corporate Governance Committee	May 2020 to date
Kevin E. Parker <sup>(1)(2)(3)</sup> New York, United States	Managing Partner at Sustainable Insight Capital Management (“SICM”) ( <i>an institutional investment firm</i> )	Director and Chair of the Human Resources and Compensation Committee	May 2020 to date
Michael Siegel <sup>(2)(3)(4)</sup> New York, United States	Chief Executive Officer of Legeis Capital, LLC ( <i>an advisory firm focused on the intersection of insurance and asset management</i> )	Director	September 2023 to date
Bruce V. Walter <sup>(1)(3)</sup> Ontario, Canada	Chair of Nunavut Iron Ore, Inc. ( <i>a resource company</i> )	Director	1997 - 2012; May 2015 to date

Notes:

- (1) John W. Gildner, Kevin E. Parker and Bruce V. Walter are members of the audit committee of the Board (the “**Audit Committee**”).
- (2) Kevin E. Parker, John W. Gildner, Lisa Mazzocco and Michael Siegel are members of the human resources and compensation committee of the Board (the “**Human Resources and Compensation Committee**”).
- (3) Ian W. Delaney, John W. Gildner, Lisa Mazzocco, Kevin E. Parker, Michael Siegel and Bruce V. Walter are members of the nominating and corporate governance committee of the Board (the “**Corporate Governance Committee**”).
- (4) Mr. Siegel was appointed to the Board on September 21, 2023.
- (5) Each of the directors has been engaged for more than five years in his present principal occupation except for Ms. Mazzocco and Mr. Siegel. From April 2011 to October 2020, Ms. Mazzocco was the Chief Investment Officer at University of Southern California (“**USC**”) (*a private research university*). From October 2020 to December 2020, Ms. Mazzocco was a special advisor to the President of USC. Since December 2020, Ms. Mazzocco has been an independent consultant. From August 2009 to January 2020, Mr. Siegel was a Managing Director of RBC Capital Markets, LLC (*an investment bank*) and from January 2017 to January 2020, he was the President and Chief Executive Officer of RBC Alternative Asset Management, LLC (*an affiliate of RBC Capital Markets, LLC*).

The following table sets forth the names, residency and office of the executive officers of the Company:

Name and Residency	Office(s) with the Company	Principal Occupation During the Past Five Years
Ian W. Delaney Ontario, Canada	Executive Chair of the Company	Executive Chair of the Company
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer of the Company	President and Chief Executive Officer of the Company
Robert T. Kittel Ontario, Canada	Chief Operating Officer of the Company and Corporate Secretary	Chief Operating Officer of the Company
Glenn G. MacNeil Ontario, Canada	Chief Financial Officer of the Company	Chief Financial Officer of the Company

### Shareholdings of Directors and Executive Officers

As at the date hereof, the directors and executive officers of the Company as a group beneficially own, directly or indirectly, or exercise control or direction over 13,622,740 or approximately 10.5% of the number of issued and outstanding Common Shares.

### Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Company, no director or executive officer of the Company is, as at the date of this AIF, or was, within ten years before the date of this AIF, a director, Chief Executive Officer or Chief Financial Officer of any company (including Westaim) that:

- (a) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under Canadian securities legislation, that was in effect for a period of more than 30 consecutive days, (an “**order**”), that was issued while the director or executive officer was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer; or

- (b) was subject to an order that was issued after the director or executive officer ceased to be a director, Chief Executive Officer or Chief Financial Officer and which resulted from an event that occurred while that person was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer.

To the knowledge of the Company, except as set out below, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of this AIF, or has been within the ten years before the date of this AIF, a director or executive officer of any company (including Westaim) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Parker was a director of agri.capital Group S.A. (“ACG”) before resigning in January 2015. Following his resignation, ACG filed for bankruptcy in Luxembourg in February 2015.

Mr. Parker was a Manager of Green Partners Technology Holdings GmbH (“GPTH”). In 2014, a judge of the district court of St. Gallen, Switzerland ordered the voluntary dissolution of GPTH by bankruptcy and it was deleted from the commercial register in 2015.

To the knowledge of the Company, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

Certain of the Company’s directors and officers serve or may agree to serve as directors or officers of other companies or have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company’s directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. To the knowledge of the Company, there are no existing or potential material conflicts of interest between Westaim or any of its subsidiaries and any director or officer of Westaim or any of its subsidiaries.

## **AUDIT COMMITTEE**

### **The Audit Committee’s Charter**

The responsibilities and duties of the Audit Committee are set out in the Audit Committee’s charter, the text of which is set forth in Appendix “A” to this AIF.

## **Composition of the Audit Committee**

The Audit Committee consists of three members: John W. Gildner (Chair), Kevin E. Parker and Bruce V. Walter. All members of the Audit Committee are “independent” and “financially literate” for the purposes of National Instrument 52-110 – *Audit Committees* (“NI 52-110”).

## **Relevant Education and Experience**

The following is a description of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee:

*John W. Gildner* – Mr. Gildner holds a B.B.A. from Wilfrid Laurier University, having specialized in Economics. Mr. Gildner is currently a private investor. Prior to 2009, Mr. Gildner was a Managing Director of CIBC World Markets Inc., an investment bank, where he worked for 25 years (at both CIBC World Markets Inc. and Wood Gundy Limited, which was purchased by the Canadian Imperial Bank of Commerce in 1988) in various roles within the trading operations. Most recently at CIBC World Markets Inc., Mr. Gildner was head of the firm’s equity division proprietary trading groups, where he had oversight of the firm’s equity-related proprietary investing and trading strategies and activities. Mr. Gildner also served on several management, risk management, due diligence, and investment committees at the company. In these capacities, Mr. Gildner has had extensive experience analyzing and evaluating financial results and the financial statements of public companies. In 2010 Mr. Gildner obtained the Chartered Director (C.Dir.) designation from the Directors College (a joint venture of McMaster University and The Conference Board of Canada).

*Kevin E. Parker* – Mr. Parker is currently the Managing Partner at SICM. He has over 35 years of investment experience. Prior to SICM, Kevin was a Member of the Management Board of Deutsche Bank for 10 years and the former Global Head of Deutsche Asset Management from 2004 to 2012. In this role, he was responsible for more than \$750 billion dollars invested across a broad range of assets including Equities, Fixed Income, Real Estate, Infrastructure, Private Equity, Hedge Funds, Sustainable Investments and other businesses. Also at Deutsche Bank, Mr. Parker served as the Global Head of Institutional Equities from 2000 until 2004 and from 1997 until 2000 was responsible for building and developing Deutsche Bank’s Equity Derivatives, Prime Brokerage Services, Equity Trading and Equity Proprietary Trading Businesses. Prior to Deutsche Bank, Mr. Parker was a Managing Director at Morgan Stanley and served in a variety of positions, including Head of Asian Derivatives, Global Head of Equity Derivatives Trading and Chief Information Officer. Mr. Parker holds a Bachelor of Science in Finance from New York University.

*Bruce V. Walter* – Mr. Walter is currently Chair of Nunavut Iron Ore, Inc., a position he has held since 2011. From 2008 to 2023, he served as Vice Chair of Centerra Gold Inc. From 2002 until 2007, he was a director and officer of Dynatec Corporation, initially as Vice-Chair and from 2005 as President and Chief Executive Officer. Prior thereto Mr. Walter’s career included serving as President of Sherritt Inc., President and Chief Executive Officer of Plaintree Systems Inc., and Managing Director and Co-Head of the Media, Telecom & Technology investment and corporate banking group at BMO Nesbitt Burns. Mr. Walter also served as Vice-President of Horsham Corporation and was a partner in the predecessor law firm to Davies Ward Phillips & Vineberg LLP. Mr. Walter received his Juris. Doctor (J.D.) and Master of Business Administration degrees from York University in 1981. He received his PhD in law in 1985 from the University of Cape Town.

## **Pre-Approval of Audit and Non-Audit Services by Independent Auditors**

The Audit Committee pre-approves all audit services provided to the Company by its independent auditors. The Audit Committee’s policy or practice regarding the pre-approval of non-audit services is that all such services shall be pre-approved by the Audit Committee as a whole or by the Chair of the Audit Committee, who must report all such pre-approvals to the Audit Committee at its next meeting following the granting thereof. Prior to the granting of any pre-approval, the Audit Committee or its Chair, as the case may be, must be satisfied that the performance of the services in question will not compromise the independence of the independent auditors.



## Audit Committee Oversight

At no time since the commencement of the Company's most recently completed financial year has a recommendation of the Audit Committee to nominate or compensate an external auditor not been accepted by the Board.

## Audit Fees

The following table summarizes fees billed by the Company's independent auditors, Deloitte LLP, for the years ended December 31, 2023 and December 31, 2022:

<b>(in thousands of U.S. dollars)</b>	<b>2023</b>	<b>2022</b>
Audit Fees <sup>(1)</sup>	\$261.9	\$244.9
Audit-Related Fees	-	-
Tax Fees	-	-
All Other Fees	-	-
<b>Total Fees</b>	<b>\$261.9</b>	<b>\$244.9</b>

Note:

(1) Includes reviews of quarterly consolidated financial statements.

## Exemption

The Company is relying upon the exemption in Section 6.1 of NI 52-110 with respect to the reporting obligations of "venture issuers".

## PROMOTERS

No person or company has been, within the two most recently completed financial years, or during the current financial year, of the Company, a promoter of Westaim or of a subsidiary of Westaim.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

### Legal Proceedings

The Company is not aware of any pending or threatened proceedings or claims for damages involving the Company. In the normal course of carrying on its business, each of Skyward Specialty and Arena becomes the subject of claims and is involved in various legal proceedings. However, the Company is not aware of any pending or threatened proceedings or claims for damages involving Skyward Specialty or Arena that are expected to have a material impact on Westaim.

### Regulatory Actions

During the financial year ended December 31, 2023, there were no: (a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority; (b) other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision; and (c) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Management of the Company is not aware of any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company:

- (a) a director or executive officer of the Company;
- (b) a person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the Company's outstanding voting securities; and
- (c) an associate or affiliate of any of the persons or companies referred to in paragraphs (a) or (b).

### **TRANSFER AGENT AND REGISTRAR**

The registrar and transfer agent for the Common Shares is Computershare Investor Services Inc., located in Calgary, Alberta, Canada.

### **MATERIAL CONTRACTS**

Except for contracts entered into in the ordinary course of business, the only contracts: (a) entered into during the 12-month period ended December 31, 2023 which are material; or (b) entered into before the 12-month period ended December 31, 2023, but are still in effect, and which are required to be filed with the Canadian securities regulatory authorities are the following:

- (a) Fairfax Transaction Agreement; and
- (b) second Amended and Restated AIGH LLCA.

The Fairfax Transaction Agreement was filed on SEDAR+ on June 25, 2023. For further information on the Fairfax Transaction Agreement, see "*Business of the Company – General Development of the Business – Westaim – Preferred Securities and Warrants*". The Second Amended and Restated AIGH LLCA was filed on SEDAR+ on March 26, 2020. For further information on the Second Amended and Restated AIGH LLCA, see "*Current Investments – Arena and the Arena FINCOs – Arena Investors*".

### **INTERESTS OF EXPERTS**

The Company's auditors are Deloitte LLP, Chartered Professional Accountants and Licensed Public Accountants, who have prepared the Auditor's Report to Shareholders dated March 27, 2024. Deloitte LLP has confirmed that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario. To the Company's knowledge, Deloitte LLP has no registered or beneficial interest, direct or indirect, in any securities or other property of the Company.

### **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under the Company's equity compensation plans, where applicable, is contained in the Company's management information circular. Additional financial information relating to the Company is contained in the Company's comparative financial statements and associated management's discussion and analysis for its most recently completed fiscal year ended December 31, 2023.

All of these documents as well as additional information relating to the Company are available on SEDAR+ at [www.sedarplus.ca](http://www.sedarplus.ca).

## APPENDIX “A”

### THE WESTAIM CORPORATION

### AUDIT COMMITTEE CHARTER

(Revised March 2024)

#### A. Overview and Mandate

The Audit Committee (the “**Committee**”) is responsible to the Board of Directors (the “**Board**”) of The Westaim Corporation (the “**Corporation**”). The Committee shall review the annual consolidated financial statements of the Corporation and shall report thereon to the Board before such annual consolidated financial statements are approved by the Board, and shall oversee the accounting and financial reporting processes of the Corporation and the audits of the financial statements of the Corporation. The Committee also shall perform the duties as described under “Duties and Responsibilities” below.

The Committee, in its capacity as a committee of the Board, shall be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including for the resolution of disagreements between management and the auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Corporation (the “**auditor**”), and each auditor must report directly to the Committee.

It is recognized that the Committee will be acting only within the terms of reference set out herein and it is not intended that the Committee shall usurp any of the powers or responsibilities of the Board as set out in the Business Corporations Act (Alberta) and/or the By-laws of the Corporation.

The Committee may engage independent counsel or other advisors as it determines necessary to carry out its duties.

The Corporation shall provide for appropriate funding, as determined by the Committee in its capacity as a committee of the Board, for payment of:

- a. compensation to any auditor;
- b. compensation to any independent counsel or adviser employed by the Committee pursuant to this charter; and
- c. ordinary administrative expenses of the Committee that are necessary or appropriate in respect of the performance by the Committee of its duties.

#### B. Membership and Attendance at Meetings

1. The members of the Committee shall consist of not fewer than three (3) members each of whom shall be a director of the Corporation.
2. A majority of members of the Committee shall satisfy the independence requirements applicable to members of audit committees under National Instrument 52-110 – Audit Committees of certain of the Canadian Securities Administrators and the requirements of any other applicable legislation or stock exchange rules, subject to any exemptions or relief that may be granted from such requirements (collectively, the “**Independence Requirements**”).
3. Each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation’s financial statements.

4. The Chair of the Committee shall be appointed by the Board and shall be responsible for the overall operation of the Committee and shall satisfy the Independence Requirements.
5. Members shall serve one-year terms and may serve consecutive terms.
6. The auditor of the Corporation is entitled to receive notice of every meeting of the Committee and be heard thereat.
7. In its discharge of its responsibilities and duties set out herein, the Committee shall have free and unrestricted access at all times, either directly or through its duly appointed representatives, to the relevant accounting books, records and systems of the Corporation and shall discuss with the officers of the Corporation such books, records, systems and other matters considered appropriate.

**C. Duties and Responsibilities**

The Committee shall fulfill the following duties arising from its mandate set out above:

1. Review and assess the adequacy of this charter on an annual basis, or more often if deemed appropriate.
2. Review the annual consolidated financial statements of the Corporation and the notes thereto following the examination thereof by the auditor and prior to their approval by the Board and report to the Board thereon.
3. Review and approve the quarterly financial statements, notes thereto and quarterly management discussion and analysis (MD&A) and related press releases of the Corporation prior to their release.
4. Review the annual MD&A, and other public disclosure documents and related press releases, including any prospectus prior to their approval by the directors.
5. Review, and approve, the planned scope of the examination of the annual and quarterly consolidated financial statements and all related audit activities by the auditor of the Corporation, including expected related audit fees.
6. Review the accounting principles and practices to be applied and followed by the Corporation during the fiscal year and any significant changes from those applied and followed during the previous year or quarter.
7. Review the adequacy of the systems of internal accounting and audit policies, practices and controls established by the Corporation, and discuss with the auditor the results of its reviews and reports.
8. Review all litigation and claims involving or against the Corporation which could materially adversely affect its financial position and which the auditor or any officer of the Corporation may refer to the Committee.
9. Ensure the auditor's ultimate accountability to the Board and the Committee as representatives of the shareholders and as such representatives, to evaluate the performance of the auditor and review and report to the directors regarding the nomination and the remuneration and other material terms of the engagement of the auditor, and the performance by the auditor thereunder, and to recommend to the shareholders the reappointment or replacement of the auditor.
10. Ensure that the auditor submits on a periodic basis to the Committee, a formal written statement delineating all relationships between the auditor and the Corporation, consistent with Canadian auditor independence standards, and to review such statement and to actively engage in a dialogue with the auditor with respect to any disclosed or undisclosed relationships or services that may impact on the objectivity and independence of the auditor, and to review the statement and the dialogue with the Board of Directors and recommend to the Board of Directors appropriate action to ensure the independence of the auditor.

11. Provide a line of communication between the auditor and the Board, and communicate directly with the auditor and with any internal auditor of the Corporation.
12. Meet with the auditor at least once per quarter without management present to allow a candid discussion regarding any concerns the auditor may have and to resolve any disagreements between the auditor and management regarding the Corporation's financial reporting.
13. Review and pre-approve non-audit services provided by the auditor.
14. Review and approve hiring policies regarding partners, employees, and former partners and employees of the present and former external auditors of the Corporation.
15. Review any internal audit plan and review all reports arising from any such internal audit activity.
16. Approve the Corporation's Disclosure Policy and review and assess the adequacy of the policy on an annual basis, or more often if deemed appropriate.
17. Review and approve all "related party" transactions, as defined by the rules of the applicable regulatory authorities.
18. Review the status of taxation matters of the Corporation and its major subsidiaries.
19. Review the short term investment strategies respecting the cash balance of the Corporation.
20. Review any hedging strategies of the Corporation.
21. Review the adequacy of all insurance policies maintained by the Corporation.
22. Establish procedures for:
  - a. the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
  - b. the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
23. Review regular reports from management and others with respect to the Corporation's compliance with laws and regulations having a material impact on the financial statements of the Corporation.
24. Review annually the Corporation's reserves, if any, with respect to environmental, health and safety matters.
25. Review quarterly, for reasonableness, the valuations of any derivatives held by the Corporation.
26. Review quarterly, for reasonableness, the valuations of the Corporation's investments in private and public companies, if and where applicable.
27. Conduct or undertake such other duties as may be required from time to time by any applicable regulatory authorities, including the TSX Venture Exchange or any other stock exchange.
28. At least annually, undertake a self assessment of the Committee's performance of its duties.

**D. Meetings**

1. Meetings of the Committee are held as required and at least quarterly.
2. Committee meetings may be called by the Committee Chair or by a majority of the Committee members.

3. The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board. Notwithstanding such procedures, a meeting of the Committee may also be called by the external auditor.
4. A quorum for the transaction of business at any meeting of the Committee is a majority of appointed members.
5. The Committee may invite to a meeting any officers or employees of the Corporation, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities.
6. Meetings may be held by way of telephone conference call or videoconference.
7. A written resolution signed by all Committee members entitled to vote on that resolution at a meeting of the Committee is as valid as one passed at a Committee meeting.
8. The Corporate Secretary will ensure that minutes of the proceedings of all meetings of the Committee are maintained and available to the Board when requested.

**E. Reporting**

The Committee shall report on its review of the annual audited consolidated financial statements and quarterly unaudited consolidated financial statements of the Corporation to the Board prior to the approval of financial statements by the Board. In addition, the Chair of the Committee shall, when deemed necessary or when requested by the Chair of the Board, report to the Board from time to time on the activities of the Committee.