

Chasing Illiquidity.

September 30, 2015

CAPITALIZEforKIDS



ARENA
INVESTORS, LP



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Arena is a global investment firm and merchant capital provider that seeks to generate attractive, risk-adjusted, stable, and uncorrelated returns by opportunistically investing across the entire credit spectrum in areas where conventional sources of capital are scarce.

- The Arena Group (“Arena”) was formed in partnership with The Westaim Corporation (“Westaim”), a publicly traded Canadian holding company focused on the financial services industry.
- Led by Daniel B. Zwirn and an experienced management team, Arena specializes in generating attractive, risk-adjusted returns through fundamentals-based, asset-oriented credit investments.
- Over his career, Daniel B. Zwirn and companies affiliated with Daniel B. Zwirn have originated, structured and managed over US\$10 billion in approximately 1,000 special situation financing and asset-oriented investments globally.
- Global macro environment challenges and an onerous regulatory environment (Basel III) have greatly reduced traditional financial institutional participation in the middle market credit sector providing as favorable an environment to Arena’s strategy as has been the case for two decades.
- Since September 2015, Arena is capitalized with approximately \$180 million. The current staff consists of 25 employees.

|| Chasing Illiquidity



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Six areas of investment opportunities.

Corporate Private Credit

Real Estate Private Credit*

Commercial and Industrial Assets

Structured Finance

Consumer Assets

Corporate Securities

* Real Estate and Real Estate-related credit investments



Arena capitalizes on the credit opportunities that are created by a world of heightened regulation, systemic deleveraging, and diminished credit expansion.

- We believe the current environment bodes well for Arena to originate compelling new opportunities and to acquire high quality investments that provide the potential for excellent risk adjusted returns.
- There is a flight to supposed quality whereby enormous central bank-driven liquidity is chasing a finite set of the largest, most liquid and accessible investment opportunities.
- This results in historically tight spreads, lower trading volumes, and a false sense of security created by measures of volatility that use as their basis the price action of liquid securities rather than financial risk inherent in underlying assets.
- This, in turn, creates a vast and growing world of “non-standard,” hard-to-access assets (corporate, property, structured finance, consumer) with no appeal to conventional allocators of capital.



Challenges facing smaller commercial banks and depository institutions

- Despite improvements in the broader landscape for depository institutions, many small commercial banks face challenges posed by non-performing legacy assets and an oppressive regulatory environment that strongly discourages non-recourse lending.
- U.S. and European bank regulators are acting to facilitate consolidation among small community banks which have historically provided a majority of loans to small and medium-sized enterprises. As a result, many remaining community banks have been reluctant to lend, despite significant current demand.
- Proprietary asset-oriented investing teams housed inside commercial and investment banks have been regulated out of existence. These were the world's largest source of flexible capital unconstrained by the limitations of conventional asset managers. They were the primary competitors of the former D.B. Zwirn & Co.



Challenges facing specialty finance companies, middle market lending funds, and BDCs

- **Wholesale banks** – majority of banks large enough to provide rediscount financing have limited incentive to do so and have eliminated origination teams. Without vibrant rediscount financing, specialty finance firms cannot grow.
- **Credit wraps** – market gone. This drastically reduces the buyer universe for securitized assets, thereby raising the cost of capital for those who seek to access the ABS markets.
- **Securitizations** – reduced market over the last several years for all securitization issuance in all but the most conventional collateral, meaning that the vast majority of assets cannot be financed with publicly traded bonds. This forces them on to private balance sheets, which require higher IRRs to compensate for greater perceived illiquidity.
- Regulatory limitations, rediscount finance restrictions, and the narrowly defined investment mandates of most investors lead to highly competitive markets in thin bands of asset opportunities, leaving large opportunities to exploit.



The macro environment and the reduced competition amongst capital providers are widening the great divide between those to whom credit is easily accessible and those to whom it is not.

Optimal Macro Environment⁽¹⁾

- The macroeconomic environment is as favorable to Arena's strategy as it has been for two decades.
- Massive and continued central bank intervention has caused a flight to supposed quality, towards the largest and most easily accessed assets that provide investors a false sense of access to liquidity in the public markets.
- Given the current and expected legal, regulatory and political environment, it promises only to get more compelling over the next several years.



The macro environment and the reduced competition amongst capital providers are widening the great divide between those to whom credit is easily accessible and those to whom it is not.

Reduced Competition

- The competitive environment for Arena is as favorable as it has been since the early 1990s, when the large pools of proprietary bank capital began to form. These are now gone.
- A majority of the former market participants against which Arena's team members competed have been regulated out of existence or continue to be hampered by regulation. These included the proprietary special situation groups of the major banking firms. Other competitors such as several alternative asset managers have retreated to pursue the opportunities available to them in their original core competencies in the purely liquid markets.
- The large-scale asset gatherers tend to be narrowly focused on artificially separate buckets driven by fund-raising objectives and focused on larger-size opportunities, thus creating an imbalance which results in a systematic opportunity to deploy capital in the strategies we pursue.



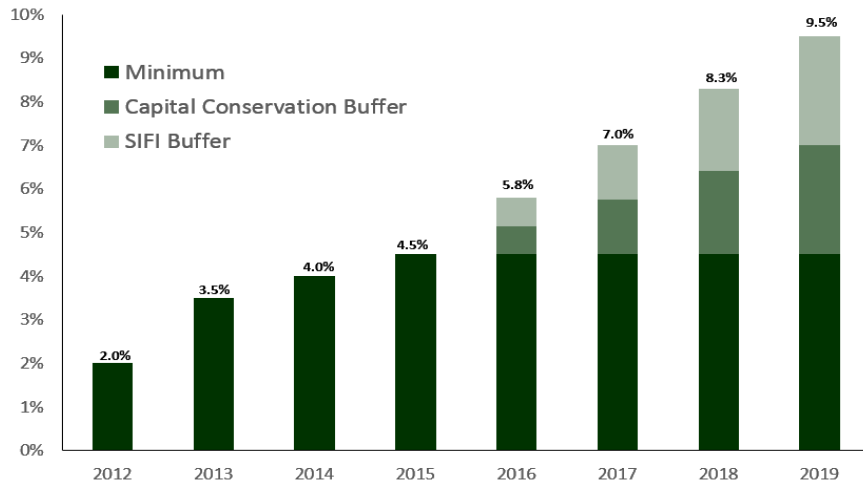
Basel III – Implementation will continue through 2019.

- Basel III aims to improve global banks' abilities to absorb shocks from financial/economic dislocation by: (i) strengthening capital, (ii) increasing liquidity, and (iii) improving funding. Issues addressed under Basel III are:
 - Increasing minimum Tier 1 common equity requirements for all banks
 - Systematically important financial institutions ("SIFIs") - surcharges of 1.0% to 3.5%
 - New risk weighting for certain assets
 - Higher quality of equity capital with deductions for a number of items including deferred tax assets, minority interests, goodwill and other intangibles
 - Banks' off-balance sheet exposure/risk with a migration to centralized clearing



Under Basel III, global banks will encounter a number of new challenges which are supportive of non-regulated providers of capital such as Arena.

Common Equity Requirements on the rise⁽¹⁾



Institutional limitations of traditional lenders or conventional sources of capital

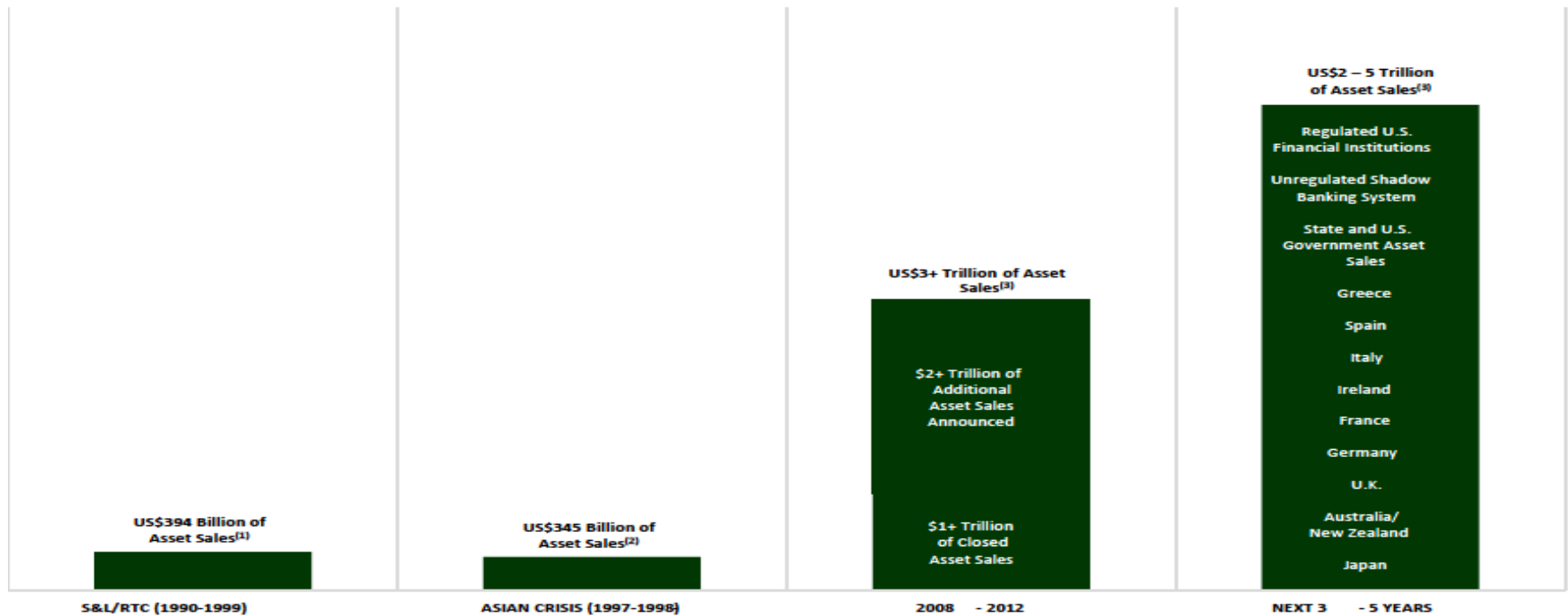
- Reduced credit availability
- Increased cost of credit
- Less financial innovation due to regulatory friction
- Asset and business divestitures creating buying opportunities
- Lower profitability and ROEs

In conclusion: The regulatory drive to protect government insured depositors leads to credit risk being systematically expunged from bank balance sheets. This benefits the providers of non-bank, unregulated, alternative capital.

Source: Bank of International Settlements, Deloitte



We expect the ongoing liquidation of assets in the next several years to generate trillions of financial asset sales, further increasing supply of opportunities available to us.



(1) Federal Deposit Insurance Corporation

(2) Federal Reserve Bank of St. Louis. "Corporate Response to Distress: Evidence from the Asian Financial Crisis." July 2006

(3) Arena management



Financial institutions remain ill-suited to finance non-standard, idiosyncratic assets.

Providing credit to the middle market is difficult:

- It is generally more labor intensive than lending to larger companies due to the smaller size of each investment and the fragmented nature of information for such companies.
- It requires due diligence and underwriting practices consistent with the demands and economic limitations of the middle market; and
- It requires more extensive ongoing monitoring by the lender/investor.

The demand from those with limited access to the capital markets is high yet underserved:

- The markets for commercial & industrial loans can be used as a proxy for the corporate lending areas where Arena would focus.
- According to the Federal Reserve Board of Governors January 2015 Senior Loan Officer Opinion Survey on Bank Lending Practices (the “SLOOS”), demand for small-balance commercial and industrial loans remains strong.



Institutional limitations of traditional lenders or conventional sources of capital

- Narrowly drawn investment guidelines prevent otherwise compelling opportunities from being considered.
- Particular geographies or industries are frequently “disliked” without fundamental reasons.
- Regulatory restrictions in certain fund types including BDCs, SBICs, etc.
- Size minimums; big is seen to be better as it enables asset gathering, even though the smaller opportunities often times are more attractive.
- Strict liquidity terms of entities and the need for investments to have “liquid style” marks.
- Reluctance to deal with “tough borrowers” and no appetite whatsoever to operate / hold / sell assets if they default.
- Over-reliance on the presence of other investors creating a “herd mentality”.
- Frequently arbitrary capital charges governing regulated bank and insurer balance sheets.



The ABS market remains greatly challenged and securitization has become less accessible, thereby restricting flow of credit.

- Investing public remains skeptical. Investors lost billions investing in securities that were supposed to be safe. As a result, the ABS market is likely to take years to recover to previous levels, if it does at all.
- Q1 2015 issuance is 82% below peak issuance (Q1 2007).
- Securitization has become less favorable. In the wake of the financial crisis in 2008, the SEC has imposed new restrictions that require that at least 5% of any and all securitized assets must remain held by the originator. This restricts securitization as a source of funding, decreases bank willingness to lend, and creates more opportunities for Arena to provide funding.⁽¹⁾

Issuance of Asset-Backed Securities

(Q4 2007 - Q1 2015, in \$ billion)⁽¹⁾



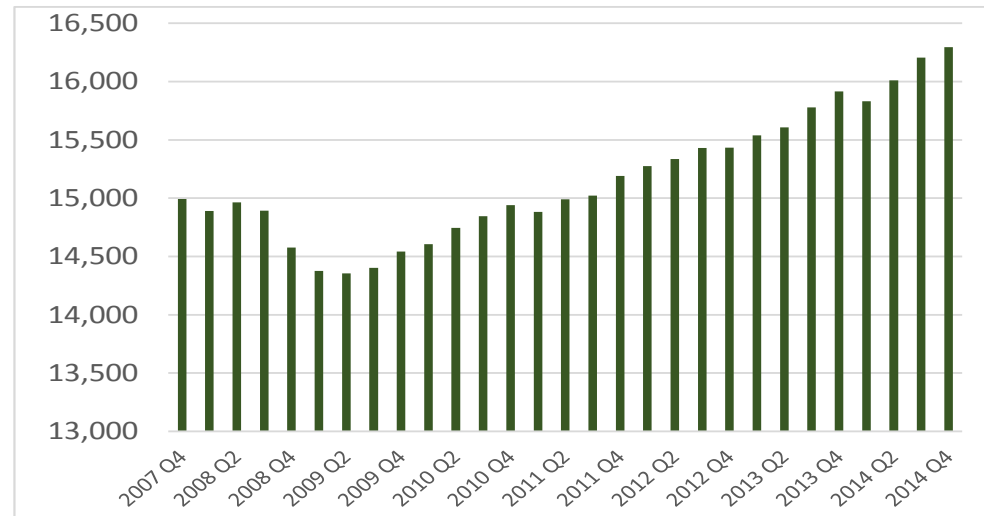
(1) SEC, Federal Reserve Bank of St. Louis, Bloomberg



Yet, the economy is growing and credit is needed. This creates significant opportunities for Arena.

- Economic growth driving new businesses. U.S. GDP has been growing more or less constantly since 5+ years.
- This consistent growth drives establishment of new businesses, many of which need financing but lack the cash flow track records necessary to access conventional liquidity channels (i.e. banks).

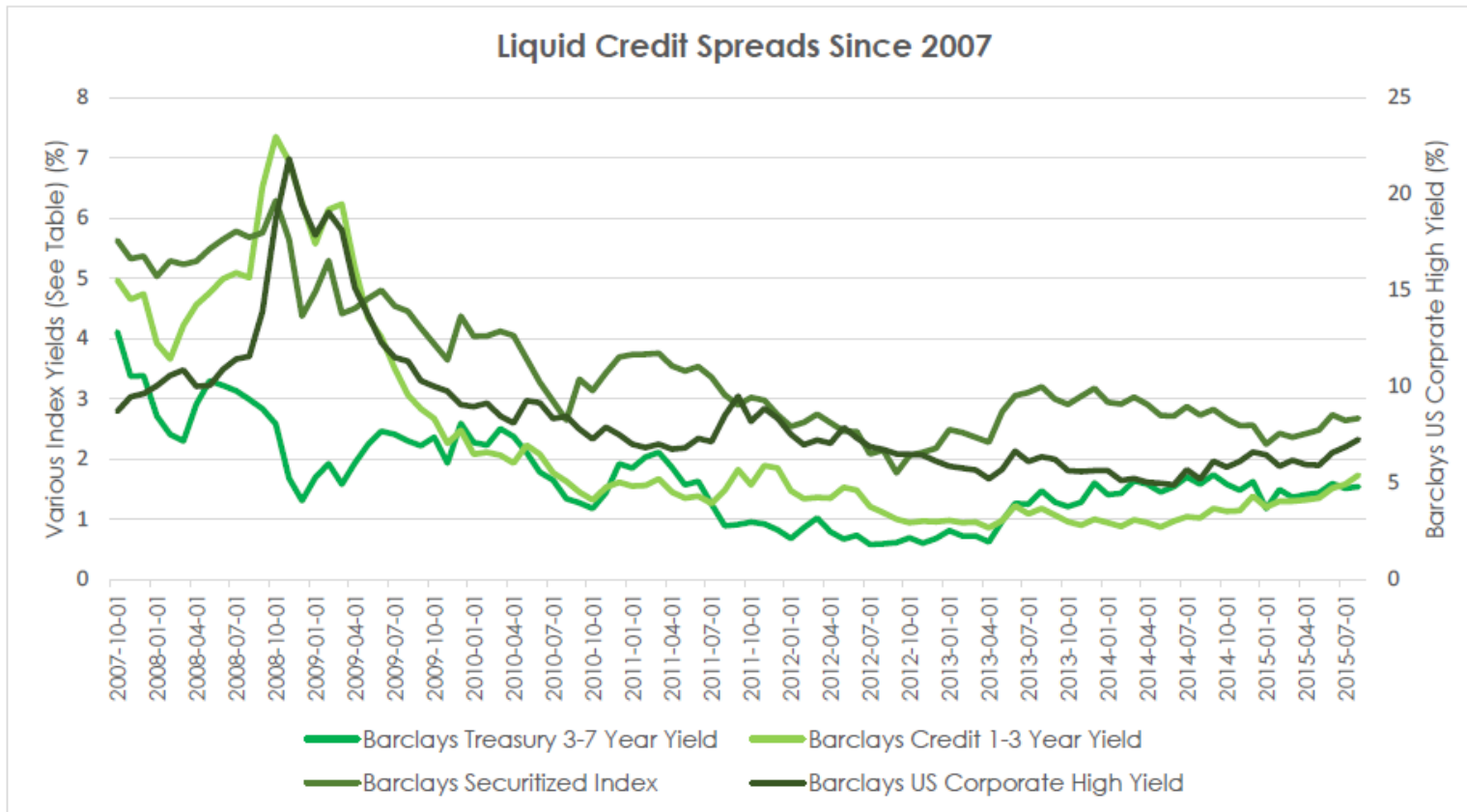
U.S. Real GDP
(Q4 2007 – Q4 2014; in \$ billion)⁽¹⁾



(1)SEC, Federal Reserve Bank of St. Louis, Bloomberg



Spread Remain Very Tight



Source: Barclays, Bloomberg

III Three Examples



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Three areas of investment opportunities for AOC.

Corporate Private Credit

These investments (mostly senior-secured, first lien loans to companies) presume the possibility of the worst case, which can be a default or even bankruptcy. They are loans to asset-heavy businesses with significant collateral coverage, short terms, high current coupons, monthly interest payments and frequent reporting requirements.

Structured Finance

This is the financing of loans. We give loans which are backed by other loans. This includes investments in “off-the-run” loans and securities backed by mortgages (commercial and residential), other small loans (including equipment leases, auto loans, retail purchase loans and unsecured consumer loans), and distressed or “charged-off” obligations of all of these types.

Real Estate Private Credit

We intend to do what is called “hard money” real estate lending. By “hard money” we mean situations where we are relatively indifferent to whether a borrower repays us or defaults. Why? Because we expect to have collateral that we can sell or refinance. We intend to seek conservative LTVs, and assets that are highly profitable or easy to liquidate.

(1) The investment examples contained herein are noted for illustrative purposes only. There is no guarantee that such investments, or similar ones, will be available in the future, or that Arena will be able to execute on them successfully. Other investment examples from other strategies pursued by Arena are available upon request.

Appendix Cases



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Corporate Private Credit

Credit opportunities in Healthcare Services, Enterprise Software, Communications Franchises, Oil & Gas, Oilfield Services, Franchised Restaurants, etc.

Where we focus:

We like investments that conventional providers of capital will not consider for non-economic or process reasons.

Typically, we like situations where an arbitrary or external (i.e., regulatory) decision is made to not invest in certain geographies or assets even though the underlying credit parameters are sound. We aim to understand these risks and like to get exposure to them.

We also like “babies that are thrown out with the bathwater”. For example, in the aftermath of the crisis in residential mortgages when banks, regulators and rating agencies revised their views on consumer credit, traditional lenders drastically reduced their willingness to provide financing to many other types of consumer finance.

The investment examples contained herein are noted for illustrative purposes only and refer to investments made by entities previously managed by Daniel B. Zwirn and not by Arena Investors, LP. There is no guarantee that such investments, or similar ones, will be available in the future, or that Arena will be able to execute on them successfully.

For example:

An American enterprise software provider required a loan to acquire a competitor.

The company was highly profitable (EBITDA approx. \$20MM on \$60MM revenue) and enjoyed a robust “razor and blade” business model that included substantial long-term contracted maintenance revenue streams subsequent to the system’s initial implementation. An investment decision needed to be made quickly. However, the company found that conventional sources of capital viewed any software business as a “technology risk” and were not willing to provide financing. The company was backed by a PE firm with whom we did several non-traditional transactions in that industry.

The company therefore decided that it was in their favor to pay a premium for speed and process transparency. We structured and provided a highly collateralized, \$30MM junior secured term loan with a three-year term.



Corporate Private Credit

Recurring themes and why “chasing illiquidity” makes sense in corporate private credit.

We would consider:

- Bridge loans/transition financing
- Debtor-in-Possession financings (DIPs)
- Junior secured loans
- Junior capital to facilitate restructurings
- Equity co-investments or warrants alongside corporate loans

Why the opportunity exists:

- The majority of the most effective competitors were housed within the investment banks and have been regulated out of business.
- New entrants are forced (structurally, or because of regulation) to compete for a narrow set of opportunities.
- Capital-impaired commercial and investment banks are virtually unwilling to commit capital in the middle market to all but the “easiest” credits.
- Consequently, there is a substantial and persistent increase in spreads from the first lien through junior secured debt in situations that are not within the narrow mandate of conventional competitors.



Structured Finance

Credit opportunities in “off-the-run” loans and securities backed by Mortgages, Equipment Leases, Auto Loans, Retail Purchase Loans and unsecured Consumer Loans, etc.

Where we focus:

The business of extending loans against loans is interesting because of the “premium for scale” that occurs.

For example: a \$1 loan is worth \$1. However, 10 such loans will be priced at a premium and are worth \$11 or more. There is a perception of intangible value that is created by aggregating loans.

Opportunities also exist in the acquisition of pools of loans at a discount from banks and other financial institutions. One can then either procure a conventional rediscount loan from a traditional source and substantially reduce our risk, or service the assets through liquidation.

Conventional lenders do not like to lend against loans.

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For example:

3-year, \$30MM secured revolving loan to a leading company in the structured settlements space.

The loan is collateralized by a first lien on all of the company's tangible and intangible assets that are not encumbered by a senior warehouse lender, including its right to receive servicing fees and distributions on its retained interests in its current and future warehouse and term funding vehicles, as well as its pipeline assets and unencumbered structured settlement receivables.

This investment represented an opportunity to partner with a leader in the structured settlements space, allowing us to receive the security and downside protection of a debt instrument while participating in the growth and upside of the company through a share of the profits that the firm generates through the sale or term securitization of its assets.

Economics are comprised included a 9.0% per annum current pay coupon and a 10.0% profit share of net term securitization proceeds.



Structured Finance

Recurring themes and why “chasing illiquidity” makes sense in corporate private credit.

We would consider:

- CMBS and RMBS
- CLOs & CDOs
- Automotive loans, credit cards, and other consumer credit securitizations
- Aviation and other leased asset securitizations
- Esoteric asset securitization
- Synthetics, Catastrophe bonds

Why the opportunity exists:

- Large number of poorly performing structured credit pools, some of which are in liquidation.
- Large exposures in banks and insurance companies.
- International financial institutions and private wealth accounts “stuffed” with this paper by investment banks before the 2008 crisis.
- The securitization markets for non-top tier structured finance assets has not re-emerged.



Real Estate
Private
Credit

Credit opportunities in Office, Retail, Healthcare, Multi-family, Large-scale Single Family, Hotels, etc.

Where we focus:

There often are attractive situations that traditional lenders, for non-value related reasons, do not like.

Because bank capital is never quick to get and almost always inflexible, there are many instances where the entity seeking the loan does not want traditional financing.

Banks are often slow and unnecessarily intrusive regarding matters not relevant to credit performance. They frequently require personal guarantees, onerous documentation requirements, etc.

Many people are willing to pay a premium for speed and ease-of-use. Those borrowers are attractive.

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For example:

The owner of a \$60MM development property in a high-end suburb of Detroit needed \$38MM in a first mortgage to finance the discounted payoff of a \$45MM existing bank loan. As a result of frivolous litigation and other unpleasant but legal behavior on the part of the borrower, the bank, while their loan was comfortably covered by assets, was eager to exit the relationship at a discount. We provided a \$38MM, 19% first mortgage loan requiring a full personal guarantee to the borrower. This allowed the bank to free up capital while allowing the borrower to pocket \$7MM of value to which he was not originally entitled.

Soon after the loan was provided, the borrower resumed his established pattern of behavior. Without the constraints of a bank, we were able to make clear to the borrower that we were indifferent between getting paid our interest and principal and foreclosing on the asset and triggering the personal guarantee. This had the desired effect and outcome.



Real Estate
Private
Credit

Recurring themes and why “chasing illiquidity” makes sense in corporate private credit.

We would consider:

- Idiosyncratic, short-term, highly secured opportunities
- Opportunistic value-added niche acquisitions
- Large-scale single family homes and other related personal assets
- Telecom-related and other industry-purpose real estate
- Environmentally distressed projects
- Property with “entitlement upside”

Why the opportunity exists:

- Refinancing rates to non-trophy NOI-producing properties that otherwise may have been able to be securitized (i.e. multi-family, hotel, office, retail, etc.) have become prohibitively expensive.
- Many traditional commercial lenders have ceased or greatly decreased lending due to diminished balance sheet capacity and regulators' push to increase C&I lending versus real estate.
- A “wall” of CMBS debt is scheduled to roll in the next five years, creating an enormous refinancing demand.
- Decreased funds available to smaller, niche-oriented real estate lenders due to the dramatic decrease in rediscount lines available from banks as well as the lower number of alternative market competitors in the space.



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