

**FORM 51-102F3**  
**MATERIAL CHANGE REPORT**

**ITEM 1      Name and Address of Company**

The Westaim Corporation (“**Westaim**” or the “**Corporation**”)  
70 York Street, Suite 1700  
Toronto, ON  
M5J 1S9

**ITEM 2      Date of Material Change**

May 5, 2015.

**ITEM 3      News Release**

A news release (the “**News Release**”) disclosing the material change was issued on May 5, 2015 through the facilities of Marketwired and filed on the System for Electronic Document Analysis and Retrieval (SEDAR).

**ITEM 4      Summary of Material Change**

On May 5, 2015, the Corporation announced that it had executed a non-binding term sheet (the “**Term Sheet**”) with Arena Investors, LLC (“**Arena**”) relating to the proposed acquisition by Westaim of Arena for nominal consideration and the establishment and funding by Westaim of a specialty finance company to be named “Arena Finance Company” (“**AFC**”). The acquisition of Arena, the establishment, capitalization and organization of AFC and the commencement of operations of each of Arena and AFC are hereby referred to as the “**Arena Transactions**”.

In order to fund the start-up costs of Arena and AFC and to capitalize AFC, Westaim entered into an agreement with GMP Securities L.P. (“**GMP**”) and TD Securities Inc. (together, the “**Underwriters**”), pursuant to which the Underwriters have agreed to purchase, on a private placement basis, 61,540,000 special warrants (the “**Special Warrants**”) of the Company at a price of \$3.25 per Special Warrant (the “**Offering Price**”) for aggregate gross proceeds to Westaim of \$200,005,000 (the “**Offering**”). In addition, the Company will grant the Underwriters an option (the “**Underwriters’ Option**”), exercisable up to two business days prior to the closing date of the Offering, to arrange for the purchase of up to an additional 9,231,000 Special Warrants at the Offering Price. If the Underwriters’ Option is exercised in full, the total gross proceeds of the Offering will be \$230,005,750.

In addition to the Offering, Westaim expects to complete a concurrent non-brokered private placement of Special Warrants on the same terms as the Offering for an amount of up to approximately \$23,500,000 (7,230,770 Special Warrants) (the “**Concurrent Private Placement**”). Investors in the Concurrent Private Placement are expected to include certain directors, officers, insiders and related parties of Westaim and/or its subsidiaries (collectively, the “**Insider Purchasers**”) and certain other investors determined by Westaim (including a \$2,500,000 subscription from Daniel B. Zwirn). Closing of each of the Offering and the Concurrent Private Placement will be conditional upon the closing of the other.

Each Special Warrant shall be exercisable into one subscription receipt (each, a “**Subscription Receipt**”) of Westaim for no additional consideration. Westaim has agreed that, as soon as reasonably practicable following the Closing Date, it will prepare and file a preliminary short form prospectus and, after clearing any comments raised by the securities regulators, a (final) short form prospectus (the “**Final Prospectus**”) to qualify the distribution of the Subscription Receipts. Westaim has agreed to use its best efforts to obtain a receipt for the Final Prospectus as soon as reasonably practicable and shall use reasonable commercial efforts to have the Subscription Receipts listed on the TSXV.

Each Subscription Receipt will, subject to adjustment in certain circumstances, entitle the holder thereof to receive, without further consideration or action: (i) one common share of Westaim (each, an “**Underlying Share**”) upon satisfaction of the Escrow Release Conditions provided that such conditions have been satisfied at or prior to the Termination Time (as defined in Schedule “A” hereto); or (ii) if the Escrow Release Conditions are not satisfied at or prior to the Termination Time, an amount equal to the full purchase price of a Subscription Receipt plus the holder’s *pro rata* entitlement to the interest earned or income generated, if any, on such amount (less any applicable withholding tax).

The subscription for Special Warrants pursuant to the Concurrent Private Placement by certain of the Insider Purchasers constitutes a “related party transaction” as defined in Multilateral Instrument 61-101- *Protection of Minority Security Holders in Special Transactions* (“**MI 61-101**”). Such subscription is exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 as neither the fair market value of the securities to be issued to the Insider Purchasers nor the consideration paid for such securities by the Insider Purchasers will exceed 25% of Westaim’s market capitalization.

**ITEM 5 Full Description of Material Change**

Please see Schedule “A” attached hereto.

**ITEM 6 Reliance on subsection 7.1(2) of National Instrument 51-102**

Not applicable.

**ITEM 7 Omitted Information**

Not applicable.

**ITEM 8 Executive Officer**

For additional information with respect to the material change referred to herein, the following person may be contacted:

J. Cameron MacDonald, President and Chief Executive Officer  
Telephone number: (416) 969-3333

**ITEM 9 Date of Report**

This material change report is dated as of the 5th day of May, 2015.

## Schedule “A”

All figures in Canadian dollars unless otherwise specified.

On May 5, 2015, the Corporation announced that it had executed a non-binding term sheet (the “**Term Sheet**”) with Arena Investors, LLC (“**Arena**”) relating to the proposed acquisition by Westaim of Arena for nominal consideration and the establishment and funding by Westaim of a specialty finance company to be named “Arena Finance Company” (“**AFC**”). The acquisition of Arena, the establishment, capitalization and organization of AFC and the commencement of operations of each of Arena and AFC are hereby referred to as the “**Arena Transactions**”.

### The Offering

In order to fund the start-up costs of Arena and AFC and to capitalize AFC, Westaim has entered into an agreement with the Underwriters, pursuant to which the Underwriters have agreed to purchase, on a private placement basis, 61,540,000 Special Warrants at the Offering Price of \$3.25 per Special Warrant for aggregate gross proceeds to Westaim of \$200,005,000. In addition, the Company will grant the Underwriters an Underwriters’ Option, exercisable up to two business days prior to the Closing Date, to arrange for the purchase of up to an additional 9,231,000 Special Warrants at the Offering Price. If the Underwriters’ Option is exercised in full, the total gross proceeds of the Offering will be \$230,005,750.

In addition to the Offering, Westaim expects to complete the Concurrent Private Placement on the same terms as the Offering for an amount of up to approximately \$23,500,000 (7,230,770 Special Warrants). Investors in the Concurrent Private Placement are expected to include the Insider Purchasers and certain other investors determined by Westaim (including a \$2,500,000 subscription from Daniel B. Zwirn). Closing of each of the Offering and the Concurrent Private Placement will be conditional upon the closing of the other.

Sales of the Special Warrants may be made to purchasers pursuant to exemptions from the prospectus and registration requirements of applicable securities laws of each of the provinces and territories of Canada and in certain other jurisdictions.

Each Special Warrant shall be exercisable into one Subscription Receipt for no additional consideration. Westaim has agreed that, as soon as reasonably practicable following the Closing Date, it will prepare and file a preliminary short form prospectus and, after clearing any comments raised by the securities regulators, a Final Prospectus to qualify the distribution of the Subscription Receipts. Westaim has agreed to use its best efforts to obtain a receipt for the Final Prospectus as soon as reasonably practicable and shall use reasonable commercial efforts to have the Subscription Receipts listed on the TSXV.

Each Subscription Receipt will, subject to adjustment in certain circumstances, entitle the holder thereof to receive, without further consideration or action: (i) one Underlying Share upon satisfaction of the Escrow Release Conditions provided that such conditions have been satisfied at or prior to the Termination Time; or (ii) if the Escrow Release Conditions are not satisfied at or prior to the Termination Time, an amount equal to the full purchase price of a Subscription Receipt plus the holder’s *pro rata* entitlement to the interest earned or income generated, if any, on such amount (less any applicable withholding tax).

In connection with their services, Westaim has agreed to pay to the Underwriters a cash commission (the “**Commission**”) of 5.5% of the aggregate proceeds of the Offering (provided that a Commission of 2.75% will be payable in respect of certain president’s list subscribers). An amount equal to 50% of the

Commission will be paid by Westaim on the Closing Date, with the balance to be paid upon satisfaction of the Escrow Release Conditions.

The gross proceeds from the sale of the Special Warrants, less an amount equal to (i) 50% of the Commission plus (ii) the costs and expenses of the Underwriters (the “**Escrowed Funds**”), will be held by Equity Financial Trust Company as escrow agent (the “**Escrow Agent**”) under the terms of an escrow agreement to be entered into among the Company, the Escrow Agent and the Underwriters, pending the receipt of notice from Westaim confirming that all of the following conditions to the release of the proceeds from escrow (the “**Escrow Release Conditions**”) have been satisfied or waived by both the Company and the Underwriters, acting reasonably:

1. all conditions required to complete the Arena Transactions (other than payment of the purchase price therefor and any conditions listed below comprising the Escrow Release Conditions) having been satisfied or waived by the Company, acting reasonably and such waiver being disclosed in writing to the Underwriters;
2. the TSXV having approved, respectively, the listing of the Underlying Shares on the TSXV and the Arena Transactions;
3. the SEC having approved the registration of Arena Investors and, if required, AFC and the respective personnel of Arena Investors and AFC;
4. the legal and economic terms of the Arena Transactions being no less favourable in the aggregate to Westaim as compared to the terms as described in the Term Sheet and the press release announcing the Offering in the opinion of the Underwriters, acting reasonably;
5. the Underwriters having received a certificate of the Chief Executive Officer of Westaim confirming that the legal and economic terms of the Arena Transactions are no less favourable to Westaim in the aggregate as compared to the terms as described in the Term Sheet and the press release announcing the Offering;
6. Westaim having delivered a notice to the Escrow Agent confirming that (i) all regulatory, corporate and other approvals required in respect of the Offering and the Concurrent Private Placement and have been obtained; and (ii) all other escrow release conditions have been met or waived; provided that the prior written consent of the Underwriters is obtained for any waiver referenced in (ii) above, such consent not to be unreasonably withheld or delayed; and
7. the satisfaction of any additional conditions for the release of the Escrowed Funds as may be mutually agreed upon by Westaim and the Underwriters.

If the Escrow Release Conditions are not satisfied on or before the earlier of: (i) 4:30 p.m. (Toronto time) on September 15, 2015; and (ii) the time and date, if any, that the parties determine not to proceed with the Arena Transactions (in each case, the “**Termination Time**”), the Escrow Agent and the Company will return to each holder of Special Warrants or Subscription Receipts, as applicable, commencing on the second business day following the Termination Time, an amount equal to the issue price of each holder’s Subscription Receipts and their *pro rata* entitlements to interest actually earned or income generated on such amount (less any applicable withholding tax).

The subscription for Special Warrants pursuant to the Concurrent Private Placement by certain of the Insider Purchasers constitutes a “related party transaction” as defined in MI 61-101. Such subscription is exempt from the formal valuation and minority shareholder approval requirements of MI 61-101 as neither

the fair market value of the securities to be issued to the Insider Purchasers nor the consideration paid for such securities by the Insider Purchasers will exceed 25% of Westaim's market capitalization.

## **Arena Acquisition and Related Transactions**

### ***Term Sheet***

Westaim has executed the Term Sheet with Arena relating to the proposed acquisition for nominal consideration by Westaim of Arena or, if determined appropriate, the business currently carried out by Arena, in either case led by Daniel B. Zwirn and the establishment and funding by Westaim of AFC. Arena is a U.S. based investment firm led by Daniel B. Zwirn, which specializes in fundamentals-based, asset-oriented credit investments. Daniel B. Zwirn and companies affiliated with Daniel B. Zwirn, over his career have structured and managed over US\$10 billion in special situation financing and asset-oriented investments globally.

The Term Sheet represents the current intention of Westaim and Arena regarding the acquisition of Arena by Westaim, the establishment and funding of AFC by Westaim and the operation of each of Arena and AFC. However, subject to certain exceptions relating to exclusivity, confidentiality and costs, the Term Sheet is not binding on the parties. There can be no assurance that the transactions described in the Term Sheet will occur on the terms described herein or at all.

Westaim and Arena intend to build and operate two businesses, namely, Arena and AFC. Arena is expected to become a global investment management company focused on providing third party clients with credit-oriented and other investments that aim to deliver attractive yields with low volatility. Arena intends to implement a typical performance based fee structure involving a fixed percentage management fee based on assets under management and an incentive fee based on return on investment. Westaim is expected to capitalize AFC, a specialty finance company, with US\$200 million to undertake fundamentals-based, asset-oriented credit-focused investments to complement Arena and participate in credit-oriented opportunities generated from Arena's expected investment pipeline. Additional details regarding Arena may be found in the form ADV to be filed by Arena with the SEC as soon as practicable after the date hereof.

### ***Arena***

Arena is expected to focus on managing the assets of third party, fee paying client capital through investments in a wide variety of fundamentals-based, asset-oriented credit focused opportunities in accordance with its investment mandate. Daniel Zwirn is expected to become the Chief Executive Officer of Arena. Other senior management and "front office" employees of Arena will be identified and hired.

Westaim is expected to enter into an agreement with Mr. Zwirn and other key employees of Arena ("**Arena Management**") that provides Arena Management the ability to "earn-in" up to a 75% common share ownership position in Arena based on meeting certain pre-established thresholds of assets under management ("**AUM**") and profitability measured by trailing twelve months EBITDA margin ("**TTM EBITDA**"). The initial earn-in entitlement of 49% of the common share ownership is expected to be achieved once Arena's AUM reaches or exceeds US\$1 billion and its TTM EBITDA reaches or exceeds 35% (the "**Initial Threshold**"). Additional increases in AUM and TTM EBITDA are expected to result in additional earn-ins until the maximum earn-in ownership level of 75% is reached by Arena's AUM reaching or exceeding US\$5 billion and its TTM EBITDA reaching or exceeding 60%. Prior to the earn-in, 100% of the common shares of Arena will be owned by Westaim.

At the commencement of operations of Arena, notwithstanding that Arena Management is not expected to own any of the common shares of Arena, it is expected that Arena Management will have a 49%

participation interest in the after-tax cumulative cash flows of Arena until such time as the Initial Threshold is achieved.

It is expected that Arena Management (including Mr. Zwirn) will commit to invest 50% of their portion of the first US\$50 million of after-tax ownership distributions of Arena (and 25% thereafter) in common shares of Westaim to be purchased in the open market at the then current trading price, subject to a maximum in respect of any one purchaser or group of purchasers acting jointly or in concert, of 19.9% of the outstanding common shares of Westaim.

### ***AFC***

AFC is expected to focus on investing in a wide variety of fundamentals-based, asset-oriented credit focused opportunities in accordance with its investment policy. Daniel Zwirn is expected to become Chief Executive Officer of AFC. The other employees of AFC will be comprised of both members of Arena Management and other individuals.

It is expected that Westaim will purchase US\$200 million of common shares of AFC from treasury at \$10.00 per share (20,000,000 common shares) representing 100% ownership of AFC. The proceeds of this common share purchase are expected to be used to fund a portfolio of loan assets and other investments in accordance with the investment policy of AFC.

As a long-term incentive plan for management, AFC is expected to issue stock options to Arena Management and other selected employees of AFC representing 20% of the basic common shares of AFC outstanding on closing. Each tranche of options is expected to vest equally on the first, second, third, fourth and fifth anniversary of the closing date of the Arena Acquisition. Each tranche is expected to have the following terms:

- Tranche A: 5% (1,000,000 options) at a strike price of US\$10.00 per common share;
- Tranche B: 5% (1,000,000 options) at a strike price of US\$12.50 per common share;
- Tranche C: 5% (1,000,000 options) at a strike price of US\$15.00 per common share; and
- Tranche D: 5% (1,000,000 options) at a strike price of US\$17.50 per common share.

### ***Closing of Arena Transactions***

Completion of the Arena Transactions is expected to be subject to the satisfaction or waiver of certain conditions including, without limitation, (i) completion of the Offering and the Concurrent Private Placement, (ii) Arena having been registered with the SEC as an investment adviser, (iii) the negotiation and execution of the Definitive Documents, (iv) approval of the TSXV, and (v) such other conditions as may be specified in the Definitive Documents or required by the TSXV. Completion of the Arena Transactions is currently targeted for August 2015.

Westaim is expected to agree to pay for the estimated start-up costs of Arena and AFC of up to US\$4.3 million. Thereafter, Westaim is expected to finance the operating expenses of Arena and AFC, at its sole discretion, through debt facilities to be extended to each company.