

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

ITEM 1 Name and Address of Company

The Westaim Corporation (“**Westaim**” or the “**Corporation**”)
212 King Street West, Suite 201
Toronto, Ontario M5H 1K5

ITEM 2 Date of Material Change

March 12, 2014.

ITEM 3 News Release

A news release disclosing the material change was issued on March 12, 2014 through the facilities of Marketwire and filed on the System for Electronic Document Analysis and Retrieval (SEDAR).

ITEM 4 Summary of Material Change

The Corporation announced today that Westaim HIIG Limited Partnership (the “**Partnership**”), an Ontario limited partnership established by the Corporation for this purpose, has agreed to acquire a significant interest in Houston International Insurance Group, Ltd. (“**HIIG**”), an international specialty insurance company headquartered in Houston with offices in Atlanta, Birmingham, Chicago and New York.

ITEM 5 Full Description of Material Change

In connection with the Acquisition (as defined below), the Partnership will acquire an approximate 42.5% equity ownership interest in HIIG for US\$75 million at an overall valuation of approximately 89% of HIIG’s December 31, 2013 Adjusted Stockholders’ Equity.¹ In addition, the Partnership will have the exclusive right and obligation (subject to financing as described below) to acquire an additional equity ownership interest of approximately 24.6% at a valuation of approximately 84% of HIIG’s December 31, 2013 Adjusted Stockholders’ Equity which would result in an overall valuation for the Acquisition of approximately 87% of HIIG’s December 31, 2013 Adjusted Stockholders’ Equity.

The key terms of the Acquisition and certain related transactions are summarized below:

Initial Acquisition

- The Partnership was formed under the laws of Ontario. In addition to being the sole limited partner of the Partnership at the present time, Westaim, through a wholly-owned subsidiary, is the general partner entitled to direct the business and affairs of the Partnership.

¹ “**Adjusted Stockholders’ Equity**” is defined as HIIG’s stockholders’ equity as at December 31, 2013 adjusted for (i) the Treasury Purchase (as defined below) as part of the Initial Acquisition (as defined below), (ii) an agreed upon adjustment to the deferred tax asset, and (iii) other minor adjustments, all as defined in the Initial Secondary Purchase Agreement (as defined below) and Second Acquisition Purchase Agreement (as defined below), as applicable.

- The Partnership has agreed to acquire an approximate 42.5% interest in HIIG for aggregate consideration of US\$75 million (the “**Initial Acquisition**”) and, following the Initial Acquisition, will have the exclusive right and obligation to increase its ownership in HIIG to approximately 67.1% conditional on the Partnership raising the funds necessary to complete such purchase on terms reasonably satisfactory to the Partnership.
- The Initial Acquisition will be a two-part transaction involving the concurrent (i) acquisition by the Partnership for US\$15 million of approximately 14.1% of the outstanding shares of common stock of HIIG (“**HIIG Shares**”) held by certain shareholders of HIIG, including Lightyear Capital Fund II, L.P. (the “**Sellers**”) in accordance with the terms and conditions of a stock purchase agreement between the Partnership and the Sellers (the “**Initial Secondary Purchase Agreement**”), and (ii) subscription by the Partnership for US\$60 million of HIIG Shares from treasury in accordance with the terms and conditions of a subscription agreement between the Partnership and HIIG (the “**Treasury Purchase Agreement**”). Please refer to Schedules “A” and “B” to this material change report for a summary of the key provisions of the Initial Secondary Purchase Agreement and the Treasury Purchase Agreement, respectively.
- The Initial Acquisition valuation is expected to be approximately 89% of the Adjusted Stockholders’ Equity of HIIG as at December 31, 2013.
- To fund the Initial Acquisition, the Partnership has signed equity commitment letters with the Corporation and certain other investors for an aggregate of approximately US\$77 million. Pursuant to these equity commitment letters, the Partnership will collectively be funded as to (i) US\$20 million by Westaim from its current funds, (ii) US\$20 million by each of Catlin Group Limited (Catlin) and Everest Re Group, Ltd. (Everest), (iii) US\$10 million by Stephen L. Way, Chairman and Chief Executive Officer of HIIG, and (iv) US\$7 million by certain other existing shareholders of HIIG and other investors.
- Upon completion of the Initial Acquisition, the Partnership will be entitled to nominate 6 directors to HIIG’s 10 person board of directors.

Second Acquisition

- Under a stock purchase agreement (the “**Second Acquisition Purchase Agreement**”) to be entered into in connection with (and as a condition to) the completion of the Initial Acquisition, the Partnership will also have the right and obligation (for 6 months after the completion of the Initial Acquisition) to purchase the remaining HIIG Shares owned by the Sellers for an aggregate purchase price of approximately US\$38.7 million (the “**Second Acquisition**”) and together with the Initial Acquisition, the “**Acquisition**”). Please refer to Schedule “C” to this material change report for a summary of the key provisions of the Second Acquisition Purchase Agreement.
- Completion of the Second Acquisition will be conditional on the Partnership raising the funds necessary to complete such purchase on terms reasonably satisfactory to the Partnership.

- Upon completion of the Second Acquisition, the HIIG board of directors will be reduced to 8 members who shall be elected by a majority vote of all stockholders (with the Partnership expected to own approximately 67.1% of the HIIG Shares).
- The Second Acquisition valuation is expected to be approximately 84% of the Adjusted Stockholders' Equity of HIIG as at December 31, 2013.

Overall, after giving effect to the Initial Acquisition and Second Acquisition, the Partnership is expected to have purchased approximately 67.1% of HIIG for approximately US\$116 million at an overall valuation of approximately 87% of HIIG's December 31, 2013 Adjusted Stockholders' Equity.

The Acquisition is subject to the receipt of all requisite regulatory approvals, including TSX Venture Exchange approval, and any other regulatory approvals required under applicable United States competition and insurance laws, including approval of the Departments of Insurance of the States of Texas and Oklahoma.

The Initial Acquisition is expected to close in Q2 2014.

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) 203-2253

ITEM 9 Date of Report

This material change report is dated as of the 17th day of March, 2014.

Schedule “A”

Summary of the Initial Secondary Purchase Agreement

The following is a summary of certain provisions of the stock purchase agreement (the “**Agreement**”) dated March 12, 2014 between Lightyear Fund II, L.P. (“**Lightyear**”) and certain other stockholders of Houston International Insurance Group, Ltd. (“**HIIG**”) as identified on Schedule A to the Agreement (together with Lightyear, the “**Sellers**” and each, a “**Seller**”) and Westaim HIIG Limited Partnership (the “**Buyer**”). The description is a summary only and is qualified in its entirety by the full text of the Agreement, a copy of which is available on SEDAR at www.sedar.com.

The Agreement sets forth the terms and conditions of a transaction (the “**Initial Acquisition**”) under which the Buyer will purchase from the Sellers an aggregate of approximately 4,385,965 shares of capital stock of HIIG (the “**Initial Acquired Shares**”), subject to adjustment.

Purchase Price

The aggregate purchase price (the “**Purchase Price**”) for the Initial Acquired Shares will be equal to the percentage which the Initial Acquired Shares bears to the total number of shares of capital stock of HIIG (“**HIIG Shares**”) outstanding multiplied by the product of (a) the total estimated stockholders’ equity of HIIG and (b) 75%.

Payment at Closing

At the closing of the Initial Acquisition (the “**Closing**”), the Buyer shall pay to the Sellers an aggregate amount in cash equal to (i) the Purchase Price, (ii) less the Escrow Amount (as defined below). In addition, the Buyer acknowledges and agrees that, at the Closing, HIIG shall pay to Lightyear an amount equal to US\$169,000. The Agreement contains detailed provisions providing for the determination of the final stockholders’ equity on which the final Purchase Price will be determined and the mechanics of any required adjustments to the amounts paid at Closing.

If the final Purchase Price is not determined at the Closing, then to secure and to serve as a fund in respect of the Sellers’ obligations regarding any adjustments to the Purchase Price, the Buyer, JP Morgan Chase Bank N.A. (the “**Escrow Agent**”) and Lightyear, as the representative of the Sellers (the “**Sellers’ Representative**”) (on behalf of the Sellers) will enter into an escrow agreement (the “**Escrow Agreement**”) at the Closing, pursuant to which the Escrow Agent will agree to hold (i) all of the HIIG Shares owned by the Sellers immediately after the Closing (the “**Remaining Shares**”), for the period from and after the Closing to the Remaining Share Closing (as defined in the remaining share purchase agreement to be entered into between the Buyer and the Sellers (the “**Remaining Share Purchase Agreement**”), and (ii) the Escrow Amount.

At the Closing, the Buyer shall deposit an amount equal to 10% of the Purchase Price (the “**Escrow Amount**”) with the Escrow Agent, to be held in an escrow account pursuant to the terms of the Escrow Agreement. Upon the resolution of the final stockholders’ equity and after giving effect to any payments made to Buyer pursuant thereto, the remaining Escrow Amount shall be released to the Sellers’ Representative pursuant to the terms of the Escrow Agreement and the terms of the Agreement.

Representations and Warranties

Seller Representations and Warranties

The Agreement contains a number of representations and warranties of the Sellers (as supplemented by the Sellers' Disclosure Schedule relating to, among other things, corporate status, the corporate authorization and enforceability of, and board approval of, the Agreement and the Initial Acquisition, title to the Initial Acquired Shares, requisite governmental filings and consents, the absence of intercompany arrangements, litigation and finders' fees.

Buyer Representations and Warranties

Similarly, the Agreement contains a number of representations and warranties of the Buyer relating to, among other things, corporate status, the corporate authorization and enforceability of, and board approval of, the Agreement and the Initial Acquisition, requisite governmental filings and consents, finders' fees, the absence of any impediments to the completion of the Initial Acquisition and the ability of the Buyer to complete an equity financing (the "**Equity Financing**") as a precondition to the completion of the Initial Acquisition.

Non-Solicitation Covenant

The Sellers have agreed that the Sellers (in their capacity as stockholders of HIIG) will not, and shall use reasonable best efforts to cause their respective affiliates and their respective members, officers, directors, employees and other representatives not to, directly or indirectly:

- (a) initiate, solicit, encourage, facilitate or accept any inquiries, proposals, offers or other indications of interest by or from any Person with respect to, or the making of, any proposal that constitutes or would reasonably be expected to lead to any Acquisition Proposal²; or
- (b) (i) engage or otherwise participate in any discussions, conversations, negotiations or other communications with, or furnish access to its properties, books and records or provide or confirm any information or data to, or otherwise cooperate with, assist, or participate in, facilitate or encourage any effort by any person relating to any proposal that constitutes or would reasonably be expected to lead to any Acquisition Proposal, (ii) approve, endorse or recommend, or propose

² "**Acquisition Proposal**" means, other than the transactions contemplated by the Agreement, any inquiry, indication of interest, offer or proposal made by any person or group of persons relating to any (i) merger, reorganization, share exchange, consolidation, plan of arrangement, joint venture or other business combination or similar transaction involving any of the Acquired Companies (as defined below), (ii) sale, lease, license, transfer or other disposition directly or indirectly by merger, reorganization, share exchange, consolidation, plan of arrangement, joint venture, business combination, asset sale, liability assumption, bulk reinsurance, reinsurance, coinsurance or otherwise, of the assets of the Acquired Companies, (iii) issuance or sale or other disposition (including by way of merger, consolidation, business combination, share exchange, joint venture or similar transaction) of any equity interests of the Acquired Companies, (iv) transaction or series of transactions in which any person (or the stockholders of such person) would acquire beneficial ownership or the right to acquire beneficial ownership of equity interests of any of the Acquired Companies, (v) any other offer or proposal to acquire or transfer from any Seller or its respective affiliates any portion of the assets of the Acquired Companies, including (A) any sale, transfer or other disposition of, or the placing of any encumbrance on, the Initial Acquired Shares or the Remaining Shares, (B) the issuance of any security exercisable or convertible into, or exchangeable or redeemable for, capital stock of any of the Acquired Companies or (C) the granting of any rights, warrants, options, calls or commitments to acquire the Initial Acquired Shares or the Remaining Shares or (vi) any combination of the foregoing.

publicly to approve, endorse or recommend, any Acquisition Proposal or (iii) execute or enter into any letter of intent, agreement in principle, merger agreement, acquisition agreement, term sheet or any other non-binding or binding understanding or arrangement with, or accept or agree to any offer or proposal by or from, any person other than the Buyer and its affiliates with respect to any Acquisition Proposal.

Equity Financing

The Buyer has agreed to use its reasonable best efforts to obtain the financing required to complete the Initial Acquisition as promptly as practicable and in any event at or prior to the Closing, including using its reasonable best efforts to (i) maintain in effect the executed commitment letters pursuant to which the investors party thereto have committed to provide financing in connection with such financing (the “**Equity Commitment Letters**”) in accordance with the terms and conditions thereof, (ii) satisfy on a timely basis all conditions applicable to the Buyer in the Equity Commitment Letters that are within their control and (iii) enforce its rights under the Equity Commitment Letters (including by taking enforcement actions against the persons providing the Equity Financing) at or prior to the Closing.

The Buyer has agreed to keep the Sellers informed on a reasonably current basis in reasonable detail of the status of its efforts to consummate the Equity Financing.

Other Covenants

Mutual Covenants

Each of the Buyer and the Sellers has agreed to a number of mutual covenants, including to:

- (a) use reasonable best efforts to consummate and make effective the transactions contemplated by the Agreement and any ancillary agreements (including, among others, the Remaining Share Purchase Agreement, the second amended and restated stockholders’ agreement being entered by HIIG, the Buyer and the other stockholders of HIIG, the Escrow Agreement and certain mutual releases) (collectively, the “**Ancillary Agreements**”);
- (b) use reasonable best efforts to obtain any regulatory approvals required to be obtained in connection with the transactions contemplated by the Agreement and any Ancillary Agreements; provided, neither the Buyer nor the Sellers shall be required to satisfy any conditions, undertakings or requirements that would or would reasonably be likely to result in a Burdensome Condition³; and

³ “**Burdensome Condition**” means (A) a material impairment of the benefits, taken as a whole, which the Buyer reasonably expects to derive from the consummation of the transactions contemplated by the Agreement and any Ancillary Agreements had the Buyer not been obligated to take or refrain from taking or agree to take or refrain from taking such action or suffer to exist such condition, limitation, restriction or requirement, (B) a negative effect on the business or the assets, liabilities, properties, operations, results of operations or condition (financial or otherwise) of the Acquired Companies that is material to the Acquired Companies, taken as a whole, or of the Buyer that would be material to the Buyer (after giving effect to the transactions contemplated herein), (C) any requirement to sell, divest, operate in a specified manner, hold separate or discontinue or limit, before or after the date of Closing (the “**Closing Date**”), any assets, liabilities, businesses, operations, or interest in any assets or businesses of the Acquired Companies that are material to the Acquired Companies, taken as a whole, or would be material to the Buyer (after giving effect to the transactions contemplated in the Agreement) or (D) any requirement relating to the contribution of capital, keep-well or capital maintenance arrangements or maintaining certain risk based capital levels or any restrictions on dividends or distributions that is material to the Acquired Companies, taken as a whole, or would be material to the Buyer (after giving effect to the transactions contemplated in the Agreement).

- (c) execute and deliver any Ancillary Agreements to which they are a party.

Buyer Covenants

In addition to the foregoing, the Buyer has agreed to cover 100% of all transfer taxes, if any, arising out of or in connection with the transactions contemplated by the Agreement and any of the Ancillary Agreements.

Seller Covenants

The Sellers have agreed to a number of covenants, including to:

- (a) permit the Buyer and its authorized representatives to have reasonable access to the documents, information, books and records and contracts of the HIIG, HIIG Service Company, Houston Specialty Insurance Company, Imperium Insurance Company, Oklahoma Specialty Insurance Company, Great Midwest Insurance Company and HIIG Underwriters Agency, Inc. (collectively, the “**Acquired Companies**”), and to the employees and properties thereof for any reasonable purpose relating to the Agreement;
- (b) not cause the Acquired Companies to (i) conduct their business outside of the ordinary course of business, (ii) fail to use their commercially reasonable best efforts to preserve intact their business organizations, keep available the services of officers and key employees, consultants and agents of their businesses and maintain material relationships (contractual or otherwise) and goodwill with third parties or (iii) violate or otherwise breach its obligations under the subscription agreement to be entered into between the Buyer and HIIG concurrently with this Agreement (the “**Subscription Agreement**”); and
- (c) for a period of thirty-six (36) months following the Closing Date, not to, directly or indirectly, solicit for employment or hire any individual who is then currently, or within the prior six (6) month period has been, an employee of any Acquired Company or any of their affiliates; provided, however, that nothing shall prohibit any of the Sellers or any of their respective affiliates from (a) engaging in general advertising not directed at any such employee or (b) hiring any Person who has been terminated by the Buyer or the Acquired Companies without cause.

Survival of Representations, Warranties and Covenants

The representations, warranties, covenants and agreements contained in the Agreement shall survive the Closing and shall remain in full force and effect until the date that is fifteen (15) months from the Closing Date, other than those covenants and agreements the terms of which expressly provide that they shall survive for a longer period, which shall survive for such longer period.

Conditions of Closing

The obligations of the Buyer to effect the Closing are subject to the satisfaction (or waiver by the Buyer) as of the Closing Date of the following conditions, among others:

- (a) the representations and warranties of the Sellers shall be true and correct in all respects as of the Closing Date;

- (b) the covenants and agreements of each of the Sellers set forth in the Agreement to be performed or complied with at or prior to the Closing Date shall have been duly performed or complied with in all material respects;
- (c) all applicable regulatory approvals shall have been obtained;
- (d) no applicable law or governmental order shall prohibit the consummation of the Closing;
- (e) there shall have been no material adverse effect on the assets, liabilities, results of operations or condition (financial or otherwise) of the Acquired Companies (taken as a whole), subject to certain exceptions (a “**Company Material Adverse Effect**”);
- (f) HIIG and The Frost National Bank, as administrative agent, and each of the lenders party thereto, shall each have executed and delivered a revised credit agreement in a form and substance reasonably satisfactory to the Buyer; and
- (g) the amended executive employment agreement by and between HIIG, HIIG Service Company and Stephen Way shall be in full force and effect and shall not have been amended and Stephen Way shall be the chief executive officer of HIIG.

The obligations of the Sellers to effect the Closing are subject to the satisfaction (or waiver by the Sellers) as of the Closing Date of the following conditions, among others:

- (a) the representations and warranties of the Buyer shall be true and correct in all respects as of the Closing Date;
- (b) the covenants and agreements of the Buyer set forth in the Agreement to be performed or complied with at or prior to the Closing Date shall have been duly performed or complied with in all material respects;
- (c) no applicable law or governmental order shall prohibit the consummation of the Closing; and
- (d) all closing conditions set forth in the Subscription Agreement shall have been satisfied or waived, other than the Closing, and the Closing of the Subscription Agreement shall be scheduled to occur immediately following the Closing of the Agreement.

Indemnification

By the Sellers

The Sellers have agreed to severally and not jointly, indemnify and defend Buyer and its affiliates (excluding the Acquired Companies), and their respective officers, directors, agents, advisers and representatives (collectively, the “**Buyer Indemnitees**”) against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all losses incurred or sustained by, or imposed upon, the Buyer Indemnitees and arising out of:

- (a) any inaccuracy in or breach of any of the representations or warranties of such Seller contained in the Agreement (determined, for the purpose of these indemnity provisions without regard to any “materiality,” “material adverse effect” or other similar qualification contained in or otherwise applicable to such representation or warranty); or

- (b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by such Seller pursuant to the Agreement.

By the Buyer

The Buyer has agreed to indemnify and defend each of the Sellers, their respective affiliates, and the respective officers, directors, agents, advisers and representatives of each Seller and their affiliates (collectively, the “**Seller Indemnitees**”) against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all losses incurred or sustained by, or imposed upon, the Seller Indemnitees and arising out of:

- (a) any inaccuracy in or breach of any of the representations or warranties of the Buyer contained in the Agreement, or in any certificate or instrument delivered by or on behalf of the Buyer pursuant to the Agreement (determined, for the purpose of these indemnity provisions, without regard to any “materiality,” “material adverse effect” or other similar qualification contained in or otherwise applicable to such representation or warranty); or
- (b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by the Buyer pursuant to the Agreement.

Limitations

The indemnification provided for above shall be subject to the following limitations:

- (a) the Sellers shall not be liable to the Buyer Indemnitees for indemnification (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Seller Fundamental Representations⁴) for any loss unless such loss (or series of related losses) equals or exceeds US\$10,000; provided, however, that any series of losses arising from or relating to the same underlying facts, events or circumstances will be aggregated for purposes of determining whether such losses exceed US\$10,000;
- (b) the Buyer shall not be liable to the Seller Indemnitees for indemnification (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Buyer Fundamental Representations⁵) for any loss unless such loss (or series of related losses) equals or exceeds US\$10,000, provided, however, that any series of losses arising from or relating to the same underlying facts, events or circumstances will be aggregated for purposes of determining whether such losses exceed US\$10,000;

⁴ “**Seller Fundamental Representations**” means the representations and warranties of the Sellers with respect to the following: (i) authority, organization and qualification of the Sellers, (ii) binding effect of the Agreement, (iii) ownership of the Remaining Shares, and (iv) finders’ fees.

⁵ “**Buyer Fundamental Representations**” means the representations and warranties of the Buyer with respect to the following: (i) authority, organization and qualification, (ii) binding effect of the Agreement, and (iii) finders’ fees.

- (c) the Sellers shall not be liable to the Buyer Indemnitees for indemnification (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Seller Fundamental Representations) until the aggregate amount of all losses in respect of indemnification (other than those based upon, arising out of, with respect to or by reason of the Seller Fundamental Representations) exceeds US\$100,000, and then only to the extent of such excess;
- (d) the Buyer shall not be liable to the Seller Indemnitees for indemnification (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Buyer Fundamental Representation) until the aggregate amount of all losses in respect of indemnification (other than those based upon, arising out of, with respect to or by reason of the Buyer Fundamental Representation) exceeds US\$100,000, and then only to the extent of such excess;
- (e) the Sellers' maximum aggregate liability for indemnification (other than with respect to losses attributable to actual fraud by the Sellers in making the representation or warranty in the Agreement to which the applicable claim for indemnification relates ("**Fraud Losses**")) shall be limited to an amount equal to 8% of the Purchase Price (such amount, the "**Cap**") and each Seller's maximum aggregate liability for indemnification (other than with respect to Fraud Losses) shall not exceed an amount equal to 8% of the portion of the Purchase Price received by such Seller; and
- (f) the Buyer's maximum aggregate liability (other than with respect to losses attributable to actual fraud by the Buyer in making the representation or warranty in the Agreement to which the applicable claim for indemnification relates) for indemnification shall be limited to the Cap.

In no event shall the Sellers be liable, in aggregate indemnification in respect of any losses incurred or sustained by, or imposed upon, any Acquired Company (including where any such loss causes or results in a related loss to be recognized by any other Buyer Indemnitee solely as a result of an ownership interest in such Acquired Company) exceeding the aggregate proportionate share of the HIIG Shares held by the Sellers as of the Closing, before giving effect to any stock issuance pursuant to the Subscription Agreement (calculated for this purpose on a fully-diluted basis).

Termination of the Agreement

The Agreement may be terminated, and the transactions contemplated hereby abandoned, at any time prior to the Closing:

- (a) by written agreement of the Buyer and the Sellers' Representative;
- (b) by the Buyer, on the one hand, or the Sellers' Representative, on the other hand, by giving written notice of such termination to the other parties, if the Closing shall not have occurred on or prior to the date that is six (6) months following the date of the Agreement;
- (c) by the Buyer, on the one hand, or the Sellers' Representative, on the other hand, by giving written notice of such termination to the other parties, if a governmental authority of competent jurisdiction shall have enacted, enforced or entered any applicable law or a final and non-appealable governmental order shall be in effect that prohibits or permanently enjoins any party from consummating the transactions contemplated by the Agreement;

- (d) by the Buyer, by giving written notice of such termination to the Sellers' Representative, if there shall have been a breach of or inaccuracy in any representation or warranty of any of the Sellers set forth in the Agreement, or a breach by any of the Sellers of, or a failure by any of the Sellers to perform, any of their covenants or agreements set forth in the Agreement, which breach, inaccuracy or failure to perform, either individually or in the aggregate, would result in, if occurring or continuing as of the Closing, the failure of a condition of Closing to be satisfied, and which breach, inaccuracy or failure to perform has not been cured within thirty (30) days following written notice thereof to the Sellers' Representative or, by its nature, cannot be cured within such time period;
- (e) by the Sellers' Representative, by giving written notice of such termination to the Buyer, if there shall have been a breach of or inaccuracy in any representation or warranty of the Buyer set forth herein, or a breach by the Buyer of, or a failure by Buyer to perform, any of its covenants or agreements set forth in the Agreement, which breach, inaccuracy or failure to perform, either individually or in the aggregate, would result in, if occurring or continuing as of the Closing, the failure of a condition of Closing to be satisfied, and which breach, inaccuracy or failure to perform has not been cured within thirty (30) days following written notice thereof to the Buyer or, by its nature, cannot be cured within such time period;
- (f) by the Sellers' Representative, if (i) all of the conditions of Closing have been satisfied or irrevocably waived by the party entitled to waive such condition (other than those conditions that by their terms are to be satisfied at the Closing, each of which shall be capable of being satisfied at the Closing), (ii) the Sellers' Representative has given written notice to the Buyer that it is ready, willing and able to consummate the Closing and (iii) the Buyer fails to consummate the transactions contemplated by the Agreement on the date that is no less than five (5) business days after which the Closing should have occurred pursuant to the Agreement; or
- (g) by the Buyer by giving written notice of such termination to the Sellers' Representative, if there shall have occurred any change, event or condition which results in a Company Material Adverse Effect.

Schedule "B"

Summary of the Treasury Purchase Agreement

The following is a summary of certain provisions of the subscription agreement (the "**Agreement**") dated March 12, 2014 between Houston International Insurance Group, Ltd. ("**HIIG**" or the "**Company**") and Westaim HIIG Limited Partnership (the "**Subscriber**"). The description is a summary only and is qualified in its entirety by the full text of the Agreement, a copy of which is available on SEDAR at www.sedar.com.

Subscription

The Subscriber will agree to subscribe for approximately 15,424,165 common shares of the Company from treasury (the "**Purchased Shares**"), subject to adjustment. The determination of the number of Purchased Shares to be purchased at the Closing (as defined below) will be calculated in the manner set out in Exhibit 2 attached to the Agreement.

Purchase Price and Closing

The purchase price (the "**Purchase Price**") to be paid by the Subscriber is expected to be approximately US\$60,000,000.

The closing (the "**Closing**") of the purchase and sale of the Purchased Shares shall occur on the date (the "**Closing Date**") that is not later than the third business day following the day on which all of the conditions set forth in the Agreement are satisfied or waived, or at such other time as HIIG and the Subscriber may agree.

At the Closing, the Subscriber shall pay to the Company the aggregate Purchase Price in cash. The Company and the Subscriber shall deliver the necessary standard certificates and receipts.

Purchased Shares Adjustment

The number of Purchased Shares shall be decreased if the final stockholders' equity exceeds the estimated stockholders' equity. It shall be increased if the final stockholders' equity is less than the estimated stockholders' equity. The determination of the number of Purchased Shares to be decreased or increased shall be calculated substantially in the manner set out in Exhibit 2 to the Agreement.

Further Adjustments

In the event the Subscriber acquires the Remaining Shares (as such term is defined in the remaining share purchase agreement (the "**Remaining Share Purchase Agreement**")) to be entered into between the Lightyear Fund II, L.P. and certain other stockholders of HIIG (the "**Sellers**") and the Subscriber, the Subscriber agrees to further adjust the number of Purchased Shares to be acquired at Closing (the "**Second Tranche Adjustment**") as described below.

In the event of a Second Tranche Adjustment, the Subscriber shall return to the Company for cancellation and without consideration a number of shares of common stock of HIIG ("**Shares**") equal to the difference between (a) the number of Purchased Shares acquired by the Subscriber at Closing and (b) the number of Shares determined by dividing (A) the Purchase Price by (B) the quotient obtained by dividing (x) final stockholders' equity by (y) the number of Shares outstanding as at December 31, 2013.

Representations, Warranties and Covenants of the Subscriber

The Subscriber has provided a number of standard form representations, warranties, covenants and acknowledgments to the Company including, *inter alia*, with respect to domicile, sales literature, tax advice, finders, corporate existence and good standing, reliance on exemption under US law, restrictions on transfer, status as an accredited investor, acknowledgement of the speculative nature of investment, legending and full observance of laws.

Representations and Warranties of the Company

The Company has provided a number of representations and warranties to the Subscriber, including with respect to governmental filings and consents, taxes, employee benefits, employee matters, compliance with laws and governmental authorizations, intellectual property, real property, insurance contracts, reinsurance, insurance regulatory filings, insurance producer licenses, investment assets, operations insurance, reserves, environmental matters, finders' fees and the following:

- (a) the organization, qualification and authority of each of HIIG, HIIG Service Company, Houston Specialty Insurance Company, Imperium Insurance Company, Oklahoma Specialty Insurance Company, Great Midwest Insurance Company and HIIG Underwriters Agency, Inc. (collectively, the “**Acquired Companies**”) to, amongst other things, execute the Agreement;
- (b) the binding effect of the Agreement and each Ancillary Agreement (as such term is defined in the stock purchase agreement dated March 12, 2011 between the Subscriber, HIIG and the Sellers (the “**Stock Purchase Agreement**”));
- (c) in relation to the financial statements and undisclosed liabilities of each of Houston Specialty Insurance Company, Imperium Insurance Company, Oklahoma Specialty Insurance Company and Great Midwest Insurance Company (collectively, the “**Insurance Companies**”) and HIIG;
- (d) that the disclosure schedule delivered by HIIG to the Subscriber in connection with the execution and delivery of the Agreement (the “**HIIG Disclosure Schedule**”) sets out all indebtedness and encumbrances;
- (e) with respect to the absence of certain changes except as set forth in the HIIG Disclosure Schedule;
- (f) in respect of litigation and governmental orders;
- (g) in respect of the disclosure of material contracts (including those with any “change of control” provisions); and
- (h) in respect of the absence of indemnification agreements between the Acquired Companies and a third party except as disclosed in the HIIG Disclosure Schedule.

Survival of Representations and Warranties

The representations and warranties contained in the Agreement shall survive the Closing and shall remain in full force and effect until the date that is 15 months from the Closing Date, other than those covenants and agreements the terms of which expressly provide that they shall survive for a longer period.

Non-Solicitation Covenant

From the date of the Agreement through the earlier of the date (the “**Remaining Share Closing Date**”) acquisition of the Remaining Shares pursuant to the terms of the Remaining Share Purchase Agreement, the termination of the Remaining Share Purchase Agreement or the date of termination of the Agreement as applicable, HIIG will not, and shall cause the other Acquired Companies not to, directly or indirectly (except with respect to the Subscriber and its affiliates):

- (a) initiate, solicit, encourage, facilitate or accept any inquiries, proposals, offers or other indications of interest by or from any person with respect to, or the making of, any proposal that constitutes or would reasonably be expected to lead to any Acquisition Proposal⁶; or
- (b) (A) engage or otherwise participate in any discussions, conversations, negotiations or other communications with, or furnish access to its properties, books and records or provide or confirm any information or data to, or otherwise cooperate with, assist, or participate in, facilitate or encourage any effort by any person relating to any proposal that constitutes or would reasonably be expected to lead to any Acquisition Proposal, (B) approve, endorse or recommend, or propose publicly to approve, endorse or recommend, any Acquisition Proposal or (C) execute or enter into any letter of intent, agreement in principle, merger agreement, acquisition agreement, term sheet or any other non-binding or binding understanding or arrangement with, or accept or agree to any offer or proposal by or from, any person other than the Subscriber and its affiliates with respect to any Acquisition Proposal.

Notwithstanding the foregoing, nothing shall be deemed or construed in any way to require any director of any Acquired Company to take or refrain from taking any action to the extent that such action or failure to take action would be inconsistent with his or her fiduciary duties in his or her capacity as a director. Furthermore, nothing shall preclude or interfere with the ability of HIIG, the other Acquired Companies or their respective officers and employees to initiate, participate in or continue discussions with various third parties concerning investments in the Subscriber for purposes of allowing the Subscriber to consummate the Financing.⁷

⁶ “**Acquisition Proposal**” means, other than the transactions contemplated by the Agreement, any inquiry, indication of interest, offer or proposal made by any person or group of persons relating to any: (i) merger, reorganization, share exchange, consolidation, plan of arrangement, joint venture or other business combination or similar transaction involving any of the Acquired Companies; (ii) sale, lease, license, transfer or other disposition directly or indirectly by merger, reorganization, share exchange, consolidation, plan of arrangement, joint venture, business combination, asset sale, liability assumption, bulk reinsurance, reinsurance, coinsurance or otherwise, of the assets of the Acquired Companies; (iii) issuance or sale or other disposition (including by way of merger, consolidation, business combination, share exchange, joint venture or similar transaction) of any equity interests of the Acquired Companies; (iv) transaction or series of transactions in which any person (or the stockholders of such person) would acquire beneficial ownership or the right to acquire beneficial ownership of equity interests of any of the Acquired Companies, other than the issuance of shares to employees in accordance with employee benefit plans; (v) any other offer or proposal to acquire or transfer from any Seller or its respective affiliates any portion of the assets of the Acquired Companies, including (A) any sale, transfer or other disposition of, or the placing of any encumbrance on, the Shares, (B) the issuance of any security exercisable or convertible into, or exchangeable or redeemable for, capital stock of any of the Acquired Companies or (C) the granting of any rights, warrants, options, calls or commitments to acquire the Shares, or (vi) any combination of the foregoing.

⁷ “**Financing**” means a financing by the Subscriber pursuant to a capital raise, securities offering or other means of raising aggregate gross proceeds sufficient to satisfy the Remaining Share Purchase Price (as that term is defined in the Remaining Share Purchase Agreement).

Other Covenants

Mutual Covenants

Each of HIIG and the Subscriber has agreed to a number of mutual covenants, including to:

- (a) use commercially reasonable best efforts to consummate and make effective, as soon as practicable after the date hereof, the transactions contemplated by the Agreement and any Ancillary Agreements;
- (b) use reasonable best efforts to obtain any regulatory approvals required to be obtained in connection with the transactions contemplated by the Agreement and any Ancillary Agreements; provided, neither the Subscriber nor the Company shall be required to satisfy any conditions, undertakings or requirements that would or would reasonably be likely to result in a Burdensome Condition⁸; and
- (c) execute and deliver any Ancillary Agreements to which they are a party.

HIIG Covenants

In addition to the foregoing, HIIG has agreed to a number of covenants, including to:

- (a) permit the Subscriber to have reasonable access to the documents of the Acquired Companies, and to their employees and properties;
- (b) conduct its business and the respective businesses of the Acquired Companies in the ordinary course and use reasonable best efforts to preserve intact its and their respective business organizations, keep available the services of officers and key employees, consultants and agents of their businesses and maintain material relationships and goodwill with third parties and others having business dealings with each of them. For greater certainty, HIIG shall cause the Acquired Companies not to:
 - (i) declare any dividend or distribution;
 - (ii) incur any indebtedness or any refinancing other than in the ordinary course of business in an aggregate amount less than US\$100,000 per annum;
 - (iii) modify or amend in any material respect or terminate any material contracts other than in the ordinary course of business;
 - (iv) make any material change in its actuarial, underwriting, pricing, reserving (including asset adequacy reserving) practices except as required by GAAP or standard accounting practices or changes in the interpretation or enforcement thereof or in the ordinary course of business;
 - (v) pay, settle, release or forgive any action or waive any right thereto other than in the ordinary course of business; or
 - (vi) undertake or commit to make any non-budgeted capital

⁸ “**Burdensome Condition**” means (A) a material impairment of the benefits, taken as a whole, which the Subscriber reasonably expects to derive from the consummation of the transactions contemplated by the Agreement and any Ancillary Agreements had the Subscriber not been obligated to take or refrain from taking or agree to take or refrain from taking such action or suffer to exist such condition, limitation, restriction or requirement, (B) a negative effect on the business or the assets, liabilities, properties, operations, results of operations or condition (financial or otherwise) of the Acquired Companies that is material to the Acquired Companies, taken as a whole, or of the Subscriber that would be material to the Subscriber (after giving effect to the transactions contemplated in the Agreement), (C) any requirement to sell, divest, operate in a specified manner, hold separate or discontinue or limit, before or after the Closing Date, any assets, liabilities, businesses, operations, or interest in any assets or businesses of the Acquired Companies that are material to the Acquired Companies, taken as a whole, or of the Subscriber that would be material to the Subscriber (after giving effect to the transactions contemplated in the Agreement) or (D) any requirement relating to the contribution of capital, keep-well or capital maintenance arrangements or maintaining certain risk based capital levels or any restrictions on dividends or distributions that is material to the Acquired Companies, taken as a whole, or would be material to the Subscriber (after giving effect to the transactions contemplated in the Agreement).

expenditures for which the aggregate consideration paid or payable in any individual transaction is in excess of US\$100,000;

- (c) use its commercially reasonable efforts to cause its respective, officers, directors, employees, auditors and other representatives to provide the Subscriber with all cooperation requested by the Subscriber that may be reasonably required by Subscriber in connection with the Financing; and
- (d) deliver to the Subscriber each of (i) the consolidated balance sheet of HIIG as at December 31, 2013 and the related statement of operations, changes in stockholders' equity and cash flows for the fiscal year then ended, and (ii) (A) the annual statement of each of the Insurance Companies as of and for the annual period ended December 31, 2013 to be filed with the applicable regulatory authorities, and (B) the audited annual financial statements of each of the Insurance Companies as of and for the annual period ended December 31, 2013.

Indemnity

Indemnification by the Company

The Company shall indemnify and defend the Subscriber and its respective affiliates and their respective officers, directors, agents, advisers and representatives (collectively, the “**Subscriber Indemnitees**”) against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all losses incurred or sustained by, or imposed upon, the Subscriber Indemnitees and arising out of:

- (a) any inaccuracy in or breach of any of the representations or warranties of the Company contained in the Agreement or in any certificate or instrument delivered by or on behalf of the Company pursuant to the Agreement;
- (b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by the Company pursuant to the Agreement; or
- (c) certain existing matters set forth in the HIIG Disclosure Schedule.

Indemnification by the Subscriber

The Subscriber shall indemnify and defend the Company and its officers, directors, agents, advisers and representatives (collectively, the “**Company Indemnitees**”) against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all losses incurred or sustained by, or imposed upon, the Company Indemnitees and arising out of:

- (a) any inaccuracy in or breach of any of the representations or warranties of the Subscriber contained in the Agreement or in any certificate or instrument delivered by or on behalf of the Subscriber pursuant to the Agreement; or
- (b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by the Subscriber pursuant to the Agreement.

Limitations

The indemnification provided for above shall be subject to the following limitations:

- (a) the Company shall not be liable to the Subscriber Indemnitees for indemnification pursuant to clause (a) under the heading “*Indemnity - Indemnification by the Company*” above (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Company Fundamental Representations⁹) for any loss unless such loss (or series of related losses) equals or exceeds US\$25,000; provided, however, that any series of losses arising from or relating to the same underlying facts, events or circumstances will be aggregated for purposes of determining whether such losses exceed US\$25,000;
- (b) the Subscriber shall not be liable to the Company Indemnitees for indemnification pursuant to clause (a) under the heading “*Indemnity - Indemnification by the Subscriber*” above (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Subscriber Fundamental Representations¹⁰) for any loss unless such loss (or series of related losses) equals or exceeds US\$25,000, provided, however, that any series of losses arising from or relating to the same underlying facts, events or circumstances will be aggregated for purposes of determining whether such losses exceed US\$25,000;
- (c) the Company shall not be liable to the Subscriber Indemnitees for indemnification pursuant to clause (a) under the heading “*Indemnity - Indemnification by the Company*” above (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Company Fundamental Representations) until the aggregate amount of all losses in respect of indemnification (other than those based upon, arising out of, with respect to or by reason of the Company Fundamental Representations) exceeds US\$1,000,000, and then only to the extent of such excess;
- (d) the Subscriber shall not be liable to the Company Indemnitees for indemnification pursuant to clause (a) under the heading “*Indemnity - Indemnification by the Subscriber*” above (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Subscriber Fundamental Representation) until the aggregate amount of all losses in respect of indemnification (other than those based upon, arising out of, with respect to or by reason of the Subscriber Fundamental Representation) exceeds US\$1,000,000, and then only to the extent of such excess;
- (e) the Company’s maximum aggregate liability for indemnification (other than with respect to losses attributable to actual fraud by or on behalf of the Company) shall be limited to US\$7,500,000 (such amount, the “**Cap**”); and
- (f) the Subscriber’s maximum aggregate liability (other than with respect to losses attributable to actual fraud by or on behalf of the Subscriber) for indemnification shall be limited to the Cap.

Indemnification Payment in Shares

If the Company is required to make an indemnification payment (an “**Indemnity Amount**”), prior to the Remaining Share Closing Date, (a) each of the price per Purchased Share under the Agreement and the price per Share paid to the Seller under the Stock Purchase Agreement shall be decreased to achieve a value for the aggregate number of Shares owned by the Subscriber (inclusive of Shares acquired pursuant to the Stock Purchase Agreement and after giving effect to payment of the Indemnity Amount) equal to 89% of the Subscriber’s proportionate share of new stockholders’ equity, and (b) promptly upon final determination of

⁹ “**Company Fundamental Representations**” means the representations and warranties of the Company with respect to the following: (i) authority, organization and qualification of the Sellers, (ii) binding effect of the Agreement, (iii) capital structure of the Acquired Companies, and (iv) finders’ fees.

¹⁰ “**Subscriber Fundamental Representations**” means the representations and warranties of the Subscriber with respect to the following: (i) authority, organization and qualification, and (ii) binding effect of the Agreement.

the Indemnity Amount and the Company's liability therefor, the Company shall issue to the Subscriber a number of Shares sufficient to effect such adjustment and to satisfy payment of such Indemnity Amount.

If the Company is required to pay an Indemnity Amount after the Remaining Share Closing Date, (a) each of the price per Purchased Share under the Agreement and the price per Share paid to the Sellers under the Stock Purchase Agreement shall be decreased to achieve a value for the aggregate number of Shares owned by the Subscriber (inclusive of Shares acquired pursuant to each of the Stock Purchase Agreement and the Remaining Share Purchase Agreement and after giving effect to payment of the Indemnity Amount) equal to 95% of the Subscriber's proportionate share of new stockholders' equity, and (b) promptly upon final determination of the Indemnity Amount and the Company's liability therefor, the Company shall issue to the Subscriber a number of Shares (rounded down to the nearest whole number) sufficient to effect such adjustment and satisfy payment of such Indemnity Amount.

Closing Conditions

Conditions to the Obligations of the Subscriber

The obligations of the Subscriber to effect the Closing are subject to the satisfaction (or waiver by the Subscriber) of a number of standard conditions, as well as the following conditions that:

- (a) the representations and warranties of the Company shall be true and correct in all respects as of the Closing Date;
- (b) the covenants and agreements of each of the Company set forth in the Agreement to be performed or complied with at or prior to the Closing Date shall have been duly performed or complied with in all material respects;
- (c) all applicable regulatory approvals shall have been obtained;
- (d) all parties to the Stock Purchase Agreement, the Remaining Share Purchase Agreement and the Amended Stockholders' Agreement (as such term is defined in the Stock Purchase Agreement) shall have executed and delivered each such agreement and the purchase by the Subscriber of the Shares from the Sellers as contemplated in the Stock Purchase Agreement shall have closed immediately prior to the Closing of the issue and sale of the Purchased Shares hereunder;
- (e) there shall have been no material adverse effect on the assets, liabilities, results of operations or condition (financial or otherwise) of the Acquired Companies (taken as a whole), subject to certain exceptions (a "**Company Material Adverse Effect**");
- (f) HIIG and The Frost National Bank, as administrative agent, and each of the lenders party thereto, shall each have executed and delivered a revised credit agreement in a form and substance reasonably satisfactory to the Subscriber;
- (g) the Subscriber shall have received the funds contemplated by the Equity Commitment Letters (as such term is defined in the Stock Purchase Agreement); and
- (h) the amended executive employment agreement by and between HIIG, HIIG Service Company and Stephen Way shall be in full force and effect and shall not have been amended and Stephen Way shall be the chief executive officer of HIIG.

Conditions to the Obligations of the Company

The obligations of the Company to effect the Closing are subject to the satisfaction (or waiver by the Company) as of the Closing Date of a number of standard conditions, as well as the following conditions that:

- (a) the representations and warranties of the Subscriber shall be true and correct in all respects as of the Closing Date;
- (b) the covenants and agreements of the Subscriber set forth in the Agreement to be performed or complied with at or prior to the Closing Date shall have been duly performed or complied with in all material respects;
- (c) all applicable regulatory approvals shall have been obtained; and
- (d) the Subscriber shall have executed and delivered the Stock Purchase Agreement, the Remaining Share Purchase Agreement and the Amended Stockholders' Agreement to which it is a party and all parties to the Stock Purchase Agreement, Remaining Share Purchase Agreement and the Amended Stockholders' Agreement shall have executed and delivered each such agreement and the purchase by the Subscriber of the Shares from the Sellers as contemplated in the Stock Purchase Agreement and all ancillary transactions related thereto shall have closed immediately prior to the Closing of the issue and sale of the Purchased Shares under the Agreement.

Termination

The Agreement may be terminated at any time prior to the Closing Date, as follows:

- (a) by written agreement of the Company and the Subscriber;
- (b) by the Company or the Subscriber if the Closing shall not have occurred on or prior to the date that is six months following the date of the Agreement;
- (c) by the Company or the Subscriber if a governmental authority of competent jurisdiction shall have enacted, enforced or entered any law or a final and non-appealable governmental order shall be in effect that prohibits or restrains any party from consummating the transactions contemplated by the Agreement;
- (d) by the Company or the Subscriber if there shall have been a breach of or inaccuracy in any representation or warranty of the other party set forth in the Agreement, or a breach by the other party hereto of, or a failure by the other party hereto to perform any of its covenants or agreements set forth in the Agreement, which breach, inaccuracy or failure to perform, either individually or in the aggregate, would result in, if occurring or continuing as of the Closing, the failure of a condition set forth in the section above titled "*Conditions to the Obligations of the Subscriber*" (if the Subscriber is seeking to terminate) or in the section above titled "*Conditions to the Obligations of the Company*" (if the Company is seeking to terminate), to be satisfied, and which breach, inaccuracy or failure to perform has not been cured within 30 days following notice thereof or, by its nature, cannot be cured within such time period; or
- (e) by the Subscriber if there shall have occurred any change, event or condition, which results in a Company Material Adverse Effect.

Expenses

Upon closing, HIIG shall be responsible for and shall pay (or reimburse) all costs and expenses (including legal fees and expenses) incurred by each of HIIG and the Subscriber in connection with the Agreement, the Stock Purchase Agreement, the Remaining Share Purchase Agreement and the transactions contemplated thereby, subject in all instances to a maximum aggregate payment on behalf of or reimbursement to the Subscriber of US\$2,500,000.

Schedule “C”

Summary of the Form of Second Acquisition Purchase Agreement

The following is a summary of certain provisions of the form of remaining share purchase agreement (the “**Agreement**”) to be entered into between Lightyear Fund II, L.P. (“**Lightyear**”) and certain other stockholders of Houston International Insurance Group, Ltd. (“**HIIG**”) as identified on Schedule A to the Agreement (together with Lightyear, the “**Sellers**” and each, a “**Seller**”) and Westaim HIIG Limited Partnership (the “**Buyer**”) concurrently with the completion of the transactions contemplated by the stock purchase agreement between the Buyer, the Sellers and HIIG (the “**Stock Purchase Agreement**”). The description is a summary only and is qualified in its entirety by the full text of the Agreement, a copy of which is available on SEDAR at www.sedar.com.

The Agreement sets forth the terms and conditions of a transaction (the “**Remaining Share Purchase**”) under which the Buyer will purchase from the Sellers an aggregate of approximately 12,202,900 shares of capital stock of HIIG (the “**Remaining Shares**”), subject to adjustment.

Purchase Price

The aggregate purchase price (the “**Remaining Share Purchase Price**”) for the Remaining Shares shall be an amount equal to the percentage which the Remaining Shares bears to the total number of HIIG shares outstanding (as at December 31, 2013) multiplied by the product of (a) the final stockholders’ equity as determined in accordance with the Stock Purchase Agreement and (b) 69.5%. The Agreement contains detailed provisions providing for the determination of the final stockholders’ equity on which the final Remaining Share Purchase Price will be determined and the mechanics of any required adjustments to the amounts paid at Remaining Share Closing Date (as defined below).

Payment at Remaining Share Closing

At the closing of the Remaining Share Purchase (the “**Remaining Share Closing Date**”), the Buyer has agreed to pay to the Sellers an aggregate amount (the “**Closing Share Payment**”) in cash equal to (i) the Remaining Share Purchase Price, less (ii) the Escrow Amount (as defined below). To the extent that the final stockholders’ equity has not been determined by the Remaining Share Closing Date, the Remaining Share Purchase Price will be subject to a post-Closing adjustment as described in the Agreement.

Escrows

If the final stockholders’ equity has not been determined as of the Remaining Share Closing, then to secure and to serve as a fund in respect of the Sellers’ obligations regarding any adjustments to the Purchase Price, at the Remaining Share Closing Date, (i) the Buyer, JP Morgan Chase Bank N.A. (the “**Escrow Agent**”) and Lightyear, as the representative of the Sellers (the “**Sellers’ Representative**”) (on behalf of the Sellers) will enter into an escrow agreement (the “**Escrow Agreement**”), and (ii) the Buyer shall deposit an amount equal to 10% of the Remaining Share Purchase Price (the “**Escrow Amount**”) with the Escrow Agent, to be held in an escrow account (the “**Escrow Account**”) pursuant to the terms of the Escrow Agreement. Upon the resolution of the final stockholders’ equity and after giving effect to any payments made to Buyer pursuant thereto, the Escrow Amount shall be released to the Sellers’ Representative pursuant to the terms of the Escrow Agreement and the terms of the Agreement.

Representations and Warranties

Seller Representations and Warranties

The Agreement contains a number of representations and warranties of the Sellers (as supplemented by the Sellers' Disclosure Schedule relating to, among other things, corporate status, the corporate authorization and enforceability of, and board approval of, the Agreement and the Remaining Share Purchase, title to the Remaining Shares, requisite governmental filings and consents, the absence of intercompany arrangements, litigation and finders' fees.

Buyer Representations and Warranties

Similarly, the Agreement contains a number of representations and warranties of the Buyer relating to, among other things, corporate status, the corporate authorization and enforceability of, and board approval of, the Agreement and the Remaining Share Purchase, requisite governmental filings and consents, finders' fees and the absence of any impediments to the completion of the Remaining Share Purchase.

Financing Cooperation

The Buyer has agreed to use its commercially reasonable efforts to complete a financing raising aggregate gross proceeds sufficient to satisfy the Remaining Share Purchase Price (the "**Financing**") as promptly as practicable; provided in no event shall the Buyer be obligated to take, agree to, or suffer to exist any condition, limitation, restriction or requirement that would reasonably be likely to result in a Burdensome Condition,¹¹ and neither the Buyer nor any other person shall be required to raise equity capital at a discount to its then current book value. The Buyer has agreed to keep the Sellers informed on a reasonably current basis in reasonable detail of the status of its efforts to consummate the Financing.

Other Covenants

Mutual Covenants

Each of the Buyer and the Sellers has agreed to a number of mutual covenants, including to:

- (a) use reasonable best efforts to consummate and make effective the transactions contemplated by the Agreement and any ancillary agreements (including the Escrow Agreement (if applicable) and any other agreements executed or to be executed in connection with the Agreement) (the "**Remaining Share Purchase Ancillary Agreements**");
- (b) use reasonable best efforts to obtain any regulatory approvals required to be obtained in connection with the transactions contemplated by the Agreement and any Remaining Share Purchase Ancillary Agreements; provided, neither the Buyer nor the Sellers shall be required to satisfy any conditions,

¹¹ "**Burdensome Condition**" means (A) a negative effect on the business or the assets, liabilities, properties, operations, results of operations or condition (financial or otherwise) of the Acquired Companies that is material to the Acquired Companies, taken as a whole, or of the Buyer that would be material to the Buyer (after giving effect to the transactions contemplated herein), taken as a whole, (B) any requirement to sell, divest, operate in a specified manner, hold separate or discontinue or limit, before or after the Remaining Share Closing Date, any assets, liabilities, businesses, operations, or interest in any assets or businesses of the Buyer that would be material to the Buyer (after giving effect to the transactions contemplated under the Agreement), taken as a whole, or any of the Acquired Companies that are material to the Acquired Companies, taken as a whole, or (C) any requirement relating to the contribution of capital, keep-well or capital maintenance arrangements or maintaining certain risk based capital levels or any restrictions on dividends or distributions that is material to the Acquired Companies, taken as a whole, or would be material to the Buyer (after giving effect to the transactions contemplated under the Agreement).

undertakings or requirements that would or would reasonably be likely to result in a Burdensome Condition; and

- (c) execute and deliver any Remaining Share Purchase Ancillary Agreements to which they are a party.

Buyer Covenants

In addition to the foregoing, the Buyer has agreed to a number of covenants, including to:

- (a) cover 100% of all transfer taxes, if any, arising out of or in connection with the transactions contemplated by the Agreement and any of the Remaining Share Purchase Ancillary Agreements;
- (b) for six (6) years after the Remaining Share Closing Date, the Buyer shall cause the Acquired Companies to indemnify and hold harmless the present and former directors of each Acquired Company which are or were also directors, officers, employees or designated representatives of Sellers in respect of acts or omissions occurring at or prior to the Remaining Share Closing to the extent provided under the applicable Acquired Company's certificate of incorporation and bylaws in effect on the date of the Agreement; and
- (c) for six (6) years after the Remaining Share Closing Date, the Buyer shall cause to be maintained in effect provisions in the Acquired Companies' certificate of incorporation and bylaws regarding elimination of liability of directors, indemnification of officers, directors and employees and advancement of expenses that are no less advantageous to the intended beneficiaries than the corresponding provisions in existence on the date of the Agreement.

Seller Covenants

The Sellers have agreed to a number of covenants, including to:

- (a) permit Buyer and its authorized representatives to have reasonable access to the documents, information, books and records and contracts of the Acquired Companies, and to the employees and properties thereof for any reasonable purpose relating to the Agreement; and
- (b) not enter into any agreement to sell, transfer or otherwise dispose of, or place any encumbrance on the Remaining Shares.

Survival of Representations, Warranties and Covenants

The representations, warranties, covenants and agreements contained in the Agreement shall survive the Remaining Share Closing and shall remain in full force and effect until the date that is twelve (12) months from the Remaining Share Closing Date, other than those covenants and agreements the terms of which expressly provide that they shall survive for a longer period, which shall survive for such longer period.

Conditions of Closing

The obligations of the Buyer to effect the Remaining Share Closing are subject to the satisfaction (or waiver by the Buyer) as of the Remaining Share Closing Date of the following conditions, among others:

- (a) the representations and warranties of the Sellers shall be true and correct in all respects as of the Remaining Share Closing Date;

- (b) the covenants and agreements of each of the Sellers set forth in the Agreement to be performed or complied with at or prior to the Remaining Share Closing Date shall have been duly performed or complied with in all material respects;
- (c) all regulatory approvals shall have been obtained;
- (d) no applicable law or governmental order shall prohibit the consummation of the Closing;
- (e) each Seller shall have executed and delivered each Remaining Share Purchase Ancillary Agreement to which it is a party and all closing conditions set forth in the Subscription Agreement (as such term is defined in the Stock Purchase Agreement) shall have been satisfied or waived; and
- (f) the Financing shall have been completed on terms and conditions reasonably satisfactory to the Buyer, it being agreed and understood that any Financing that relies in whole or in part on the Buyer or any other person to raise equity capital at a discount to its then current book value shall not be considered reasonably satisfactory to the Buyer for the purposes of the Agreement.

The obligations of the Sellers to effect the Remaining Share Closing are subject to the satisfaction (or waiver by the Sellers) as of the Remaining Share Closing Date of the following conditions, among others:

- (a) the representations and warranties of the Buyer shall be true and correct in all respects as of the Remaining Share Closing Date;
- (b) the covenants and agreements of the Buyer set forth in the Agreement to be performed or complied with at or prior to the Remaining Share Closing Date shall have been duly performed or complied with in all material respects;
- (c) no applicable law or governmental order shall prohibit the consummation of the Remaining Share Closing; and
- (d) the Buyer shall have executed and delivered each Remaining Share Purchase Ancillary Agreement to which it is a party and shall have caused each of its applicable affiliates to execute and deliver each of the Remaining Share Purchase Ancillary Agreements to which such affiliate is a party.

Indemnification

By the Sellers

The Sellers have agreed to severally and not jointly, indemnify and defend Buyer and its affiliates (excluding the Acquired Companies), and their respective officers, directors, agents, advisers and representatives (collectively, the “**Buyer Indemnitees**”) against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all losses incurred or sustained by, or imposed upon, the Buyer Indemnitees and arising out of:

- (a) any inaccuracy in or breach of any of the representations or warranties of such Seller contained in the Agreement (determined, for the purpose of these indemnity provisions without regard to any “materiality,” “material adverse effect” or other similar qualification contained in or otherwise applicable to such representation or warranty); or
- (b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by such Seller pursuant to the Agreement.

By the Buyer

The Buyer has agreed to indemnify and defend each of the Sellers, their respective affiliates, and the respective officers, directors, agents, advisers and representatives of each Seller and their affiliates (collectively, the “**Seller Indemnitees**”) against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all losses incurred or sustained by, or imposed upon, the Seller Indemnitees and arising out of:

- (a) any inaccuracy in or breach of any of the representations or warranties of the Buyer contained in the Agreement, or in any certificate or instrument delivered by or on behalf of the Buyer pursuant to the Agreement (determined, for the purpose of these indemnity provisions, without regard to any “materiality,” “material adverse effect” or other similar qualification contained in or otherwise applicable to such representation or warranty); or
- (b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by the Buyer pursuant to the Agreement.

Limitations

The indemnification provided for above shall be subject to the following limitations:

- (a) the Sellers shall not be liable to the Buyer Indemnitees for indemnification (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Seller Fundamental Representations¹²) for any loss unless such loss (or series of related losses) equals or exceeds US\$10,000; provided, however, that any series of losses arising from or relating to the same underlying facts, events or circumstances will be aggregated for purposes of determining whether such losses exceed US\$10,000;
- (b) the Buyer shall not be liable to the Seller Indemnitees for indemnification (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Buyer Fundamental Representations¹³) for any loss unless such loss (or series of related losses) equals or exceeds US\$10,000, provided, however, that any series of losses arising from or relating to the same underlying facts, events or circumstances will be aggregated for purposes of determining whether such losses exceed US\$10,000;
- (c) the Sellers shall not be liable to the Buyer Indemnitees for indemnification (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Seller Fundamental Representations) until the aggregate amount of all losses in respect of indemnification (other than those based upon, arising out of, with respect to or by reason of the Seller Fundamental Representations) exceeds US\$300,000, and then only to the extent of such excess;

¹² “**Seller Fundamental Representations**” means the representations and warranties of the Sellers with respect to the following: (i) authority, organization and qualification of the Sellers, (ii) binding effect of the Agreement, (iii) ownership of the Remaining Shares, and (iv) finders’ fees.

¹³ “**Buyer Fundamental Representations**” means the representations and warranties of the Buyer with respect to the following: (i) authority, organization and qualification, (ii) binding effect of the Agreement, and (iii) finders’ fees.

- (d) the Buyer shall not be liable to the Seller Indemnitees for indemnification (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of any inaccuracy in or breach of any Buyer Fundamental Representation) until the aggregate amount of all losses in respect of indemnification (other than those based upon, arising out of, with respect to or by reason of the Buyer Fundamental Representation) exceeds US\$300,000, and then only to the extent of such excess;
- (e) the Sellers' maximum aggregate liability for indemnification (other than with respect to losses attributable to actual fraud by the Sellers in making the representation or warranty in the Agreement to which the applicable claim for indemnification relates ("**Fraud Losses**")) shall be limited to an amount equal to 8% of the Remaining Share Purchase Price (such amount, the "**Cap**") and each Seller's maximum aggregate liability for indemnification (other than with respect to Fraud Losses) shall not exceed an amount equal to 8% of the portion of the Purchase Price received by such Seller; and
- (f) the Buyer's maximum aggregate liability (other than with respect to losses attributable to actual fraud by the Buyer in making the representation or warranty in the Agreement to which the applicable claim for indemnification relates) for indemnification shall be limited to the Cap.

In no event shall the Sellers be liable, in aggregate indemnification in respect of any losses incurred or sustained by, or imposed upon, any Acquired Company (including where any such loss causes or results in a related loss to be recognized by any other Buyer Indemnitee solely as a result of an ownership interest in such Acquired Company) exceeding the Indemnity Share¹⁴ (calculated for this purpose on a fully-diluted basis).

Termination of the Agreement

The Agreement may be terminated, and the transactions contemplated hereby abandoned, at any time prior to the Closing:

- (a) by written agreement of the Buyer and the Sellers' Representative;
- (b) by the Buyer, on the one hand, or the Sellers' Representative, on the other hand, by giving written notice of such termination to the other parties, if the Remaining Share Closing shall not have occurred on or prior to the date that is six (6) months following the date of the Agreement (the "**Outside Date**"), provided, however, that if the only condition remaining outstanding as of the Outside Date is the condition regarding obtaining all regulatory approvals and the Buyer is not in breach of its obligations under the Agreement, neither party shall have the right to terminate the Agreement until the date that is nine (9) months following the date of the Agreement;
- (c) by the Buyer, on the one hand, or the Sellers' Representative, on the other hand, by giving written notice of such termination to the other parties, if a governmental authority of competent jurisdiction shall have enacted, enforced or entered any applicable law or a final and non-appealable governmental order shall be in effect that prohibits or permanently enjoins any party from consummating the transactions contemplated by the Agreement;

¹⁴ "**Indemnity Share**" means an amount equal to (i) the number of Remaining Shares divided by (ii) the total issued and outstanding equity of HIIG as of the Remaining Share Closing (after giving effect to any stock issuance pursuant to the Subscription Agreement but excluding any and all shares of capital stock of HIIG issued after the Remaining Share Closing, whether pursuant to a stock split, stock dividend, recapitalization or otherwise).

- (d) by the Buyer, by giving written notice of such termination to the Sellers' Representative, if there shall have been a breach of or inaccuracy in any representation or warranty of any of the Sellers set forth in the Agreement, or a breach by any of the Sellers of, or a failure by any of the Sellers to perform, any of their covenants or agreements set forth in the Agreement, which breach, inaccuracy or failure to perform, either individually or in the aggregate, would result in, if occurring or continuing as of the Remaining Share Closing, the failure of a condition of Remaining Share Closing to be satisfied, and which breach, inaccuracy or failure to perform has not been cured within thirty (30) days following written notice thereof to the Sellers' Representative or, by its nature, cannot be cured within such time period;
- (e) by the Sellers' Representative, by giving written notice of such termination to the Buyer, if there shall have been a breach of or inaccuracy in any representation or warranty of the Buyer set forth in the Agreement, or a breach by the Buyer of, or a failure by Buyer to perform, any of its covenants or agreements set forth in the Agreement, which breach, inaccuracy or failure to perform, either individually or in the aggregate, would result in, if occurring or continuing as of the Remaining Share Closing, the failure of a condition of the Remaining Share Closing to be satisfied, and which breach, inaccuracy or failure to perform has not been cured within thirty (30) days following written notice thereof to the Buyer or, by its nature, cannot be cured within such time period;
- (f) by the Sellers' Representative, if (i) all of the conditions of the Remaining Share Closing have been satisfied or irrevocably waived by the party entitled to waive such condition (other than those conditions that by their terms are to be satisfied at the Remaining Share Closing, each of which shall be capable of being satisfied at the Remaining Share Closing), (ii) the Sellers' Representative has given written notice to the Buyer that it is ready, willing and able to consummate the Closing and (iii) the Buyer fails to consummate the transactions contemplated by the Agreement on the date that is no less than five (5) business days after which the Remaining Share Closing should have occurred pursuant to the Agreement; or
- (g) by the Buyer by giving written notice of such termination to the Sellers' Representative, if there shall have occurred any change, event or condition which results in a material adverse effect on the assets, liabilities, results of operations or condition (financial or otherwise) of the Acquired Companies (taken as a whole), subject to certain exceptions.

Termination Fee

If (i) either the Buyer or the Sellers' Representative, as applicable, terminates the Agreement pursuant to (A) clause (b) under the heading "*Termination of the Agreement*" summarized above, or (B) pursuant to clauses (c), (e) and (f) under the heading "*Termination of the Agreement*" summarized above, and (ii) the reasons that the Remaining Share Closing has not occurred prior to the date of such termination is not due to Sellers' breach of their obligations under the Agreement, then Buyer shall pay or cause to be paid to the Sellers' Representative an amount equal to US\$1,000,000 (the "**Buyer Termination Fee**").

Management Fee

In the event that the Agreement is terminated and the Buyer Termination Fee is payable, Lightyear Capital LLC shall be entitled to receive directly from HIIG 75% of the management fee otherwise payable by HIIG or its affiliates to Westaim HIIG GP Inc. following such termination, until the date on which Lightyear Capital LLC and its affiliates do not own, in the aggregate, shares of capital stock of HIIG representing over 8% of the then-outstanding capital stock in HIIG. The parties to the Agreement have agreed that the aggregate management fee payable to Westaim HIIG GP Inc. shall be no less than US\$1,000,000 per year for the three (3) year period following the Closing under the Stock Purchase Agreement and no less than US\$500,000 for any year thereafter.