



■ The Westaim Corporation

Corporate Update



August 2014

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Disclaimers

Non-GAAP Measures

Non-GAAP Measures – Westaim

Westaim uses both international financial reporting standards (“IFRS”) and non-GAAP measures to assess performance. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. Book value per share represents shareholders’ equity at the end of the period, determined on an IFRS basis, divided by the total number of common shares outstanding on the same date. Adjusted book value per share represents shareholders’ equity at the end of the period, determined on an IFRS basis and adjusted to include or exclude one or more items required by IFRS but which are either unusual or non-recurring, divided by the total number of common shares outstanding on the same date.

Non-GAAP Measures – Houston International Insurance Group, Ltd.

HIIG uses both United States generally accepted accounting principles (“GAAP”) and non-GAAP measures to assess performance and certain non-GAAP measures are disclosed in this document. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under GAAP and are unlikely to be comparable to similar measures used by other companies. Adjusted shareholders’ equity represents shareholders’ equity at the end of the period, determined on a GAAP basis and adjusted to include or exclude one or more items required by GAAP but which are either unusual or non-recurring.

Additional Information

Additional Information

The following documents filed by the Company with the securities commissions or similar regulatory authorities in Canada are expressly incorporated by reference into this presentation: (i) audited annual consolidated financial statements of the Company for the year ended December 31, 2013 including the notes thereto and the related management’s discussion and analysis (“MD&A”) thereon, (ii) annual information form dated April 8, 2013 in respect of the financial year ended December 31, 2012, (iii) management information circular dated May 14, 2014 in respect of the annual and special meeting of shareholders held on June 19, 2014, (iv) material change report dated March 17, 2014 (the “March MCR”) relating to the execution by Westaim HIIG Limited Partnership (the “Partnership”) of the Initial Secondary Purchase Agreement and the Treasury Purchase Agreement (as such terms are defined in the March MCR), (v) interim unaudited consolidated financial statements of the Company for the three and six months ended June 30, 2014 including the notes thereto and the related MD&A thereon, (vi) supplemental financial information related to HIIG dated March 20, 2014, (vii) material change report dated August 8, 2014 relating to the completion by the Partnership of the acquisition (the “Acquisition”) of approximately 70.8% of the issued and outstanding HIIG shares, and (viii) selected financial information in respect of HIIG dated August 28, 2014. Copies of these documents are available through the internet on the System for Electronic Document Analysis and Retrieval at www.sedar.com. Upon request to the Chief Financial Officer of Westaim at 212 King Street West, Suite 201, Toronto, Ontario M5H 1K5, telephone: 416-203-2253, the Company will promptly provide a copy of any continuous disclosure document free of charge to any security holder of Westaim.

Certain totals, subtotals and percentages may not reconcile due to rounding.

Executive Summary

Key Highlights

- On July 31, 2014, Westaim HIIG Limited Partnership (the “**Partnership**”), an Ontario limited partnership established by The Westaim Corporation (“**Westaim**” or the “**Company**”), completed the acquisition of an approximate 70.8% equity interest in Houston International Insurance Group, Ltd. (“**HIIG**”), an international specialty insurance company headquartered in the United States (the “**Acquisition**”)
- The Acquisition involved:
 - the purchase by the Partnership of an aggregate of 16,588,865 shares of HIIG common stock (“**HIIG Shares**”) from certain shareholders of HIIG for an aggregate purchase price of \$53.7 million; and
 - the purchase by the Partnership from HIIG of an aggregate of 18,702,673 HIIG Shares from treasury for an aggregate purchase price of \$85 million
- In order to complete the Acquisition and to provide working capital, the Partnership received funding of \$141.1 million as follows: (i) approximately \$75.7 million from Westaim, (ii) approximately \$24.3 million and \$22.9 million from affiliates of Everest Re Group, Ltd. and Catlin Group Limited, respectively, (iii) \$10 million from Stephen L. Way, Chairman and Chief Executive Officer of HIIG, and/or certain investors affiliated with Mr. Way, and (iv) approximately \$8.2 million from certain other existing shareholders of HIIG and other investors
- In connection with the Acquisition, Westaim raised (i) approximately C\$135.1 million (C\$128.1 million net of fees) through the private placement of subscription receipts at a purchase price of C\$2.65 per share and (ii) approximately C\$14.3 million through the private placement of common shares at a purchase price of C\$2.65 per share
- As a result of the foregoing and certain related transactions:
 - HIIG’s Adjusted Stockholders’ Equity⁽¹⁾ as at June 30, 2014 was \$232.5 million;
 - Westaim had 70,297,342 common shares issued and outstanding as of July 31, 2014;
 - the Partnership was the largest shareholder of HIIG owning approximately 70.8% of the outstanding HIIG Shares while Westaim was the largest holder of Class A limited partnership units of the Partnership (“**Units**”) owning approximately 53.3% of the outstanding Units;
 - Westaim had a look-through economic interest in HIIG of approximately 37.7%; and
 - Westaim had cash and cash equivalents on hand of approximately C\$94.0 million

The Partnership acquired approximately 70.8% of HIIG for an approximate purchase price of \$138.7 million

(1) HIIG’s Adjusted Stockholders’ Equity as at June 30, 2014 is HIIG’s stockholders’ equity as at June 30, 2014 as determined in accordance with United States generally accepted accounting principles as adjusted to give effect to (i) the closing of the acquisition of HIIG, (ii) the treasury purchase of HIIG Shares by the Partnership, and (iii) other related transactions that occurred on July 31, 2014 all as if they had occurred on June 30, 2014.

The Westaim Corporation

Overview

- The Westaim Corporation is an investment company listed on the TSX Venture Exchange (TSXV: WED)
- Westaim's investment in Houston International Insurance Group, Ltd. is consistent with our strategy to deploy capital at above average risk-adjusted returns over the long-term
- Upon completing the investment in HIIG, Westaim has approximately C\$94.0 million in cash and C\$50.9 million in non-capital tax loss carry-forwards*
- Westaim is currently seeking additional investment opportunities to continue to create value for its shareholders

* Non- capital tax carry-forwards as at Q2 2014 (June 30, 2014)

Principles and Strategy

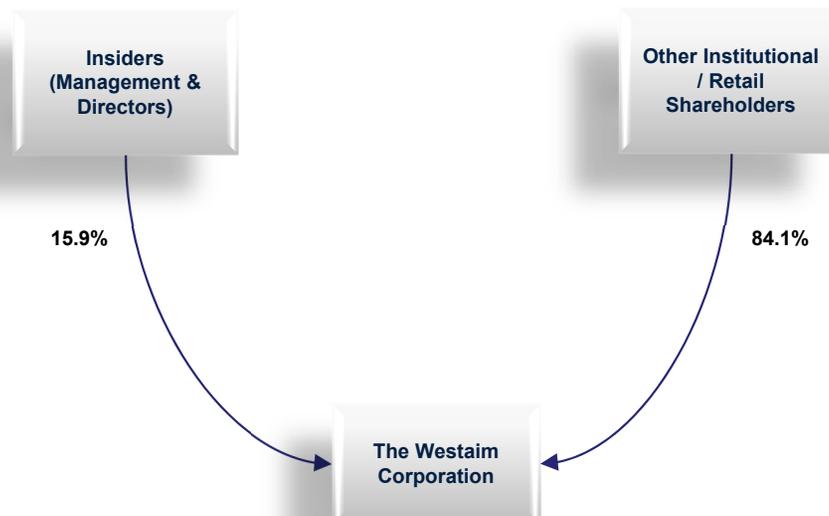
- Share a long term horizon with our shareholders
- Strive to grow our book value per share at above market rates over the long term
- Maximize shareholder value by focusing on cash generation and return on invested capital
- Allocate capital patiently, often times sacrificing short term performance for long term gain
- Remain opportunistic in the evaluation of strategic investment opportunities
- Maintain a conservative capital structure and strong balance sheet
- Seek a margin of safety when evaluating investment opportunities

Market and Financial Statistics *

Ticker	TSXV:WED	Assets	
Share price (8/27/2014)	\$ 3.15	Cash and cash equivalents	\$ 31.1
Shares outstanding	70.3 m	Accounts receivable	0.1
Market capitalization	\$ 221.4	Total assets	\$ 31.2
Shareholders' equity - Q2-14	\$ 22.6	Liabilities	
Capital structure	Debt free	Accounts payable and accrued	\$ 5.6
BVPS (basic) - Q2-14	\$ 1.62	Site restoration provision	3.0
BVPS (adjusted) - Q2-14	\$ 2.13	Total Liabilities	8.7
		Shareholders equity	22.6
		Total Liabilities & Equity	\$ 31.2

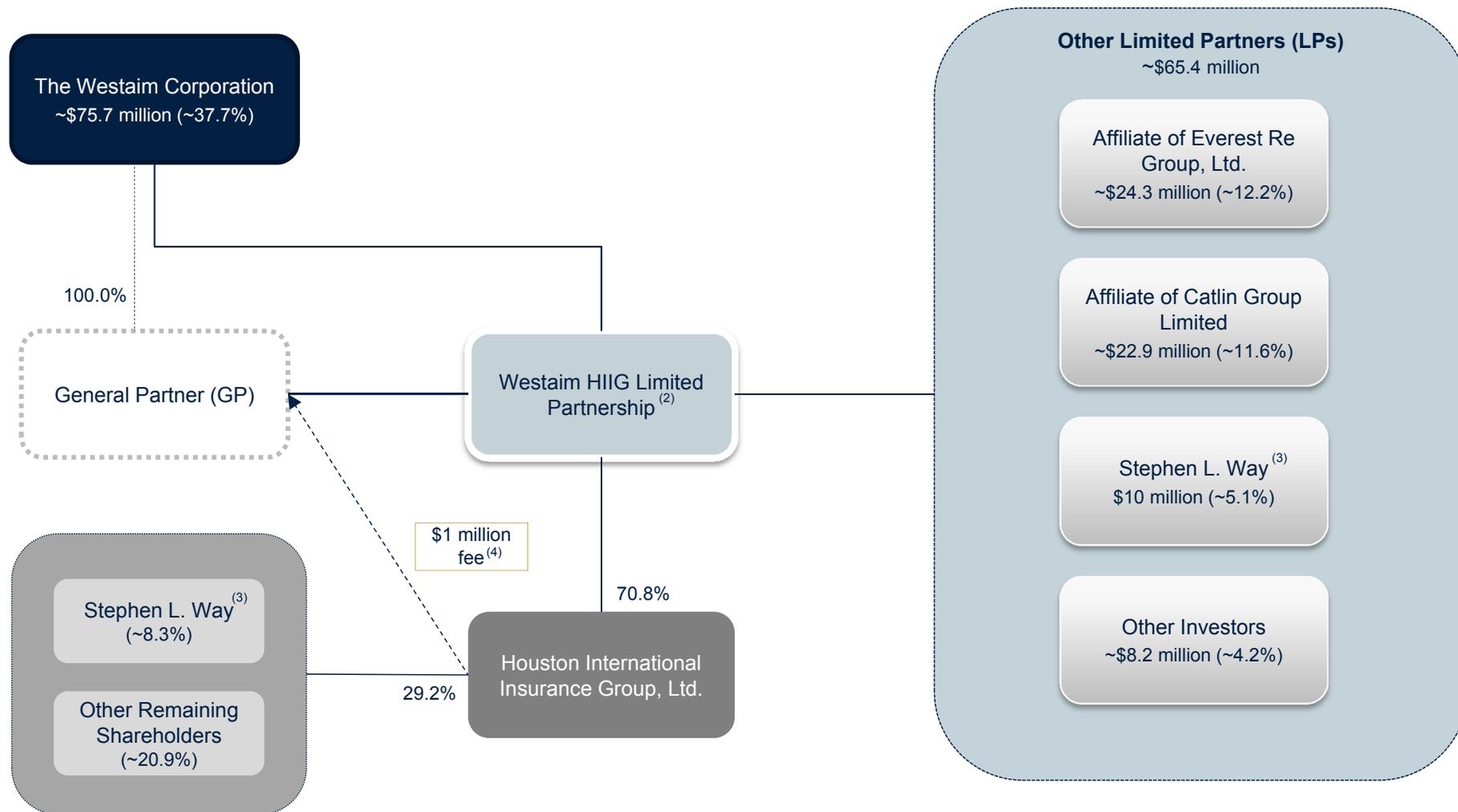
* Balance sheet data as at Q2 2014 (June 30, 2014); In Canadian dollar millions except per share data
BVPS (adjusted) after giving effect to the reimbursement of \$3.1 million in professional fees and an adjustment of \$3.8 million for costs related to the equity financing that was completed subsequent to the end of the second quarter

Shareholders (as on July 31, 2014)



Investment Overview

Investment Structure ⁽¹⁾



Figures in US \$

- (1) As at July 31, 2014; Percentages in brackets represent economic look-through interest in HIIG
- (2) Limited Partnership established by Westaim to acquire an ownership interest in HIIG
- (3) Includes investment through family trusts associated with Stephen L. Way
- (4) \$1 million per annum for the first three years and \$0.5 million per annum for the next two years

Houston International Insurance Group

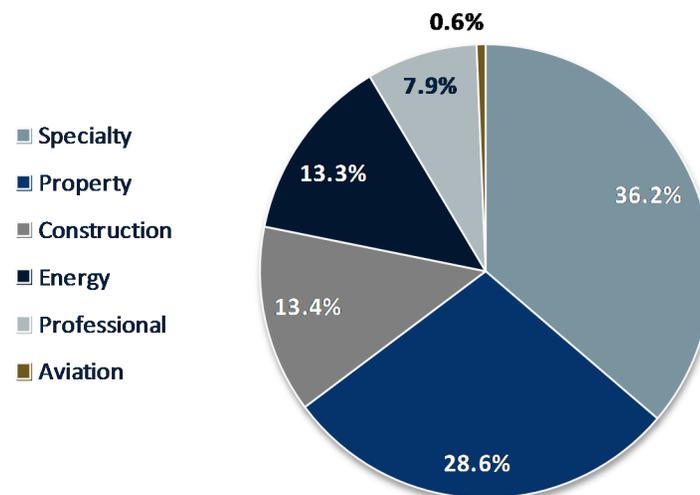
Overview

- HIIG was formed in 2010 through a merger between a specialty insurance startup (formed in 2007 by Stephen Way) and a specialty insurance company owned by a consortium of private equity investors
 - Several members of HIIG’s senior management team are ex-HCC executives
- Gross Written Premiums of \$383.6 million⁽¹⁾
- Adjusted Stockholders’ Equity of \$232.5 million⁽²⁾
- Insurance company subsidiaries are rated A- (Excellent) or better by A.M. Best
- Headquartered in Houston, Texas

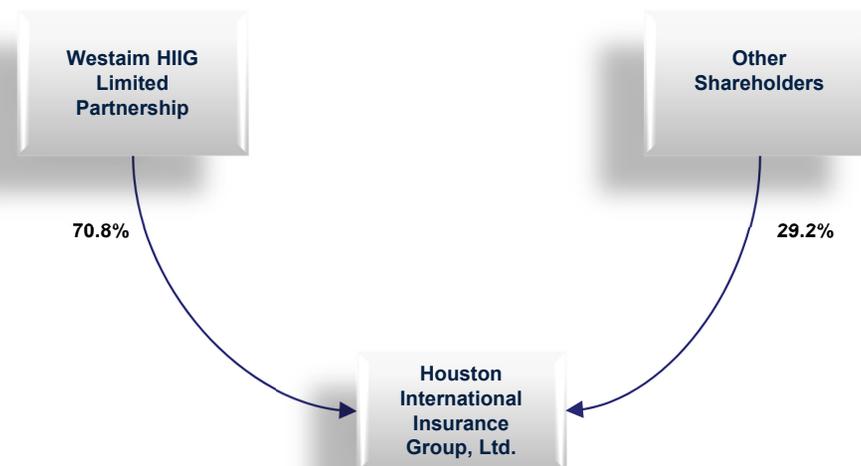
Principles and Strategy

- Underwriting Discipline
 - Profitable underwriting ahead of premium growth
- Mitigation of Risk
 - Experienced underwriting team who understand nuances of specialized lines of business
- Capital Preservation
 - Focused on downside protection vs. upside potential
- Controlled Growth
 - Organic (opportunistic)
 - M&A (selective acquisitions of underwriting agencies)
- Conservative Reserving
 - Minimize impact of extraordinary events

Lines of Business – 2013 GWP⁽¹⁾



Shareholders (as on July 31, 2014)



(1) For the year ending December 31, 2013 from continuing operations

(2) Adjusted Stockholders’ Equity as at June 30, 2014 is determined in accordance with United States generally accepted accounting principles and after giving effect to (i) the closing of the acquisition of HIIG, (ii) the treasury purchase of HIIG shares by the Partnership, and (iii) other related transactions that occurred on July 31, 2014 all as if they had occurred on June 30, 2014

Houston International Insurance Group

Underwriting

Lines of Business	Description	Type of Insurance	2013 GWP *
Construction	Cranes; Specialty Contractors and Heavy Transport	General Liability, Auto Liability, Excess Liability, Property/Inland Marine, Workers Compensation	\$51.3 million
Energy	Mining and Onshore Oil & Gas	General Liability, Auto Liability, Excess Liability, Property/Inland Marine, Workers Compensation	\$50.9 million
Professional	Miscellaneous E&O and D&O including Lawyers; Regional banks and Home Health Providers	Errors & Omissions Liability, Directors & Officers Liability, Fidelity Bonds	\$30.4 million
Specialty	Niche business including Hospitality; Pest Control; Artisan Contractors; Commercial Auto (small risks principally in Louisiana) and Texas WC	Primarily General Liability and in some cases Auto Liability, Property, Texas Workers Compensation	\$138.9 million
Transactional Property	Catastrophe risks; Large Fortune 1000 type accounts	Domestic and International property catastrophe risks	\$109.5 million
Miscellaneous Lines			\$2.5 million

The team has an average of 25 years of underwriting experience successfully writing these lines of business

* For the year ending December 31, 2013 from continuing operations

Houston International Insurance Group

Financial Information ⁽¹⁾

For the six months ended
June 30, 2014 **June 30, 2013**
 (unaudited)

Income Statement

Gross Written Premium	\$ 254,189	\$ 216,578
Net Premiums Written	152,245	134,775
Net Premiums Earned	155,977	95,469
Net Income	\$ 8,461	\$ 1,494

For the six months ended
June 30, 2014 **June 30, 2013**
 (unaudited)

Balance Sheet Information

Stockholders' Equity at June 30, 2014	\$ 151,645
Adjusted Stockholders' Equity at June 30, 2014 ⁽³⁾	232,487

Segmented Information

Net Premiums Written:

Construction	\$ 23,858	\$ 15,959
Energy	26,649	12,781
Professional	14,392	13,863
Property	15,782	21,692
Specialty	67,916	60,487
Non-continuing lines and other	3,648	9,993
	<u>\$ 152,245</u>	<u>\$ 134,775</u>

Net Loss and Loss Adjustment Expense Ratio:

Construction	60.6%	61.5%
Energy	54.7%	64.8%
Professional	60.1%	38.5%
Property	35.5%	43.0%
Specialty	71.5%	75.6%
Non-continuing lines and other	n.m. ⁽²⁾	n.m. ⁽²⁾
	<u>66.0%</u>	<u>71.1%</u>

(1) The above selected financial information has been derived from the interim consolidated financial statements of Houston International Insurance Group, Ltd. ("HIIG"). Such statements are the responsibility of the management of HIIG. The information herein is unaudited and is presented in accordance with United States generally accepted accounting principles ("US GAAP")

(2) Not meaningful, but included in the aggregate ratios below

(3) Adjusted Stockholders' Equity as at June 30, 2014 is determined in accordance with United States generally accepted accounting principles and after giving effect to (i) the closing of the acquisition of HIIG, (ii) the treasury purchase of HIIG shares by the Partnership, and (iii) other related transactions that occurred on July 31, 2014 all as if they had occurred on June 30, 2014

Conclusion

Summary

- In early 2014, Westaim announced another transformative transaction
 - Partnered with third party investors and an experienced management team with a proven track record in the global specialty P&C insurance market to invest \$138.7 million in HIIG (the Partnership received total funding of \$141.1 million and Westaim's investment in the Partnership was approximately \$75.7 million)
 - Raised gross proceeds of approximately C\$149.4 million through equity financings of subscription receipts and common shares

- Upon completing the HIIG acquisition, Westaim had approximately C\$94.0 of cash, which provides the ability to:
 - Continue to support HIIG in the execution of its business plan; and
 - Actively evaluate and respond quickly to opportunities within the global financial services industry

Westaim is well positioned to further enhance shareholder value through its current investment in HIIG and through additional long-term investments within the global financial services industry