



THE WESTAIM CORPORATION

ANNUAL INFORMATION FORM

in respect of the year ended December 31, 2013

DECEMBER 30, 2014

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INTERPRETATION

As used in this annual information form (the “**AIF**”), unless the context indicates or requires otherwise, the terms “**Company**” or “**Westaim**” refer to The Westaim Corporation (including, where applicable, its predecessor entities) and its subsidiaries and the term “**HIIG**” refers to Houston International Insurance Group, Ltd. Unless otherwise stated, the information contained in this AIF is as of December 30, 2014.

The Company’s accounts are maintained in Canadian dollars and all dollar amounts herein are expressed in Canadian dollars unless otherwise indicated. HIIG’s accounts are maintained in United States dollars and are prepared in accordance with United States generally accepted accounting principles (“**U.S. GAAP**”).

FORWARD-LOOKING STATEMENTS

This AIF contains certain “forward-looking statements” and “forward-looking information” which reflect the current expectations of management regarding the Company’s future growth, results of operations, performance and business prospects and opportunities. Such forward-looking statements include but are not limited to statements concerning: investment strategies; alternatives and objectives to maximize value for shareholders; expectations and assumptions relating to the Company’s business plan; expectations and assumptions relating to HIIG’s business and operations; the continued availability of the services of HIIG’s key personnel; expectations regarding the Company’s assets and liabilities; management’s belief that its estimates for determining the valuation of the Company’s assets and liabilities are appropriate; the Company’s views regarding potential future remediation costs; and the Company’s determination that the adoption of new accounting standards will not have a material impact on its consolidated financial statements. These statements are based on current expectations that are subject to risks, uncertainties and assumptions and Westaim can give no assurance that these expectations are correct.

The Company's actual results or financial position could differ materially from those anticipated by these forward-looking statements for various reasons generally beyond the Company's control, including, without limitation, the following factors: the Company's ability to implement its investment strategies or operate its business as management currently expects; the Company's ability to generate revenue from its investments; the Company and/or HIIG may have undisclosed liabilities; the Company's ability to obtain additional funding to pursue additional acquisitions or other investments; the occurrence of catastrophic events including terrorist attacks and weather related natural disasters; the cyclical nature of the property and casualty (“**P&C**”) insurance industry; HIIG’s ability to accurately assess the risks associated with the insurance policies that it writes and to adequately reserve against future claims; the effects of emerging claim and coverage issues on HIIG’s business; the effect of government regulations designed to protect policyholders and creditors rather than investors; the effect of climate change on the risks that HIIG insures; HIIG’s reliance on brokers and third parties to sell its products to clients; the effect of intense competition and/or industry consolidation; HIIG’s ability to accurately assess underwriting risk and to predict future claims frequency; the effect of risk retentions on HIIG’s risk exposure; HIIG’s ability to alleviate risk through reinsurance; dependence by HIIG on key employees; the effect of litigation and regulatory actions; HIIG’s ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers); HIIG’s ability to compete against larger more well-established competitors; unfavourable capital market developments or other factors which may affect the investments of HIIG; HIIG’s ability to maintain its financial strength and issuer credit ratings; HIIG’s ability to obtain additional funding; HIIG’s ability to successfully pursue its acquisition strategy; HIIG may be exposed to goodwill or intangible asset impairment in connection with its acquisitions; the ability of HIIG to receive dividends from its subsidiaries; HIIG’s reliance on information technology and telecommunications systems; dependence by HIIG on certain third party service providers; general economic, financial and political conditions; the volatility of the stock market and other factors affecting the Company’s share price; future sales of a substantial number of the Company’s common shares; and other risk factors set forth herein or in the Company's annual report or other public filings.

Westaim disclaims any intention or obligation to revise forward-looking statements whether as a result of new information, future developments or otherwise except as required by law. All forward-looking statements are expressly qualified in their entirety by this cautionary statement. Although Westaim has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause unanticipated actions, events or results. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could

differ materially from those anticipated in such statements. The reader is cautioned not to place undue reliance on forward-looking statements.

CORPORATE STRUCTURE

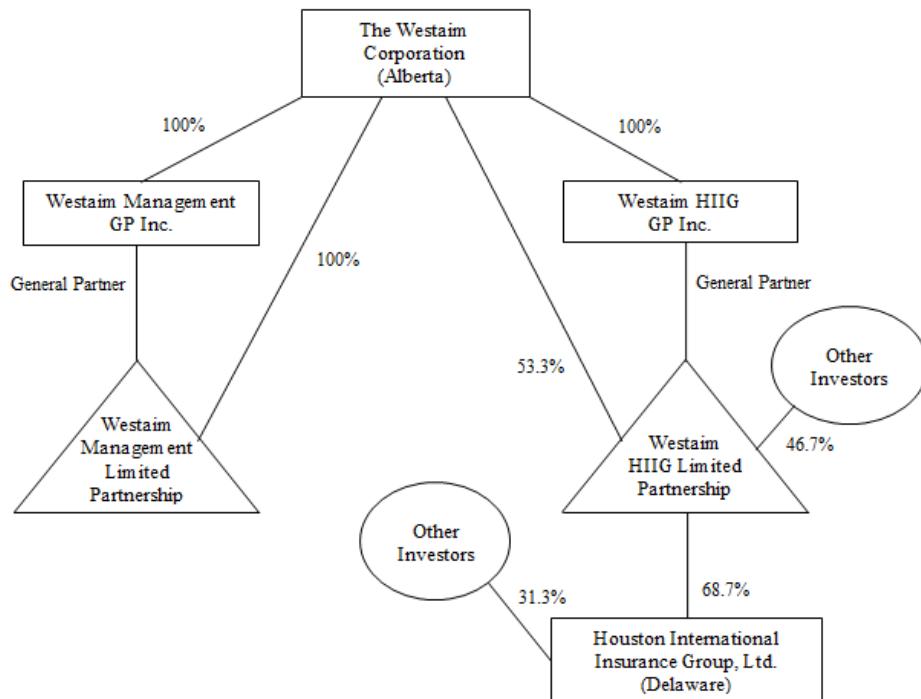
Name and Incorporation

Westaim was incorporated under the *Business Corporations Act* (Alberta) (the “**ABC**”) by Articles of Incorporation dated May 7, 1996 (the “**Articles**”). The Articles were amended effective June 26, 1996 to remove the private company restrictions on the transfer of securities, to create preferred share classes designated as Class A preferred shares and Class B preferred shares and to increase the maximum number of directors to fifteen. Restated Articles of Incorporation were issued under the ABCA on April 17, 2000 and the Articles were further amended on May 24, 2000 to permit meetings of shareholders to be held in certain specified cities outside of Alberta, or in any other city in Canada or the United States and to allow the board of directors of the Company (the “**Board**”) to appoint additional directors between annual meetings, subject to certain limitations. The Articles were amended again on February 8, 2010, February 26, 2010 and September 11, 2012 in connection with the creation of the Non-Voting Shares (as hereinafter defined) and the removal of the conversion restrictions attaching thereto. On October 1, 2013, the Articles were further amended to effect a 50:1 share consolidation of the Company’s outstanding common shares (the “**Consolidation**”). All information herein relating to the common shares of the Company is (unless otherwise indicated) presented on a post-Consolidation basis.

Westaim’s registered office is located at 2400, 525 8th Avenue S.W., Calgary, Alberta, T2P 1G1 and its head office is located at 70 York Street, Suite 1700, Toronto, Ontario M5J 1S9.

Intercorporate Relationships

The following chart sets forth the organizational structure of Westaim, including each of the material entities directly and indirectly owned and/or controlled by Westaim. Unless otherwise indicated, each of the entities identified in the chart has been incorporated or formed pursuant to the laws of the Province of Ontario:



BUSINESS OF THE COMPANY

General Development of the Business

On April 3, 2009, Westaim announced that it planned to pursue strategic investment opportunities designed to maximize the value of its strong balance sheet and non-cash resources. To implement this strategy, Westaim entered into a management services agreement (the “**MSA**”) with respect to the management of the day-to-day affairs of Westaim (including the provision of the services of a Chief Executive Officer and a Chief Financial Officer) and the presentation of strategic investment opportunities for the Board to consider. In connection with the execution of the MSA, J. Cameron MacDonald was appointed as a director and as President and Chief Executive Officer of the Company.

On January 25, 2010, Westaim announced that it had agreed to purchase all of the issued and outstanding shares of JEVCO Insurance Company (“**Jevco**”) from its parent company, Kingsway Financial Services Inc. (“**KFS**”), (the “**Jevco Acquisition**”) and had arranged equity financing of \$275 million for the purpose of completing the Acquisition. Following the approval of Westaim shareholders at a special meeting held on March 25, 2010 and the receipt of the necessary regulatory approvals, the Jevco Acquisition was completed on March 29, 2010. The aggregate purchase price paid by the Company to KFS in respect of the Jevco Acquisition was approximately 94.5% of the book value of Jevco’s net assets at December 31, 2009, being \$261.4 million, subject to certain closing and other adjustments.

On May 2, 2012, Westaim announced that it had entered into an agreement with Intact Financial Corporation (“**Intact**”) pursuant to which, subject to regulatory approval and other terms and conditions, Westaim agreed to sell to a wholly-owned subsidiary of Intact all of the issued and outstanding shares in the capital of Jevco for \$530 million in cash (the “**Jevco Sale Transaction**”). Shareholder approval for the Jevco Sale Transaction was received at a special meeting held on June 28, 2012 and the sale was completed on September 4, 2012. In connection with the completion of the Jevco Sale Transaction, the MSA was terminated with the then current management of Westaim becoming employees of the Company.

On September 28, 2012, Westaim effected a cash distribution by way of a return of capital on its common shares (the “**Common Shares**”) of \$37.50 per Common Share (the “**Cash Distribution**”). The Cash Distribution represented substantially all of the net proceeds realized from the Jevco Sale Transaction.

On March 12, 2014, the Company announced that Westaim HIIG Limited Partnership (the “**Partnership**”), an Ontario limited partnership established by Westaim, had agreed to acquire a significant equity interest in HIIG, an international specialty insurance company headquartered in Houston.

On April 23, 2014, Westaim completed the sale of an aggregate of 50,995,385 subscription receipts (the “**Subscription Receipts**”) at a purchase price of \$2.65 per Subscription Receipt for aggregate gross proceeds of approximately \$135.1 million (the “**Subscription Receipt Offering**”). On July 29, 2014, net proceeds of approximately \$128.2 million from the Subscription Receipt Offering were released from escrow to Westaim and an aggregate of 50,995,385 additional Common Shares were issued upon the conversion of the Subscription Receipts. An additional 5,399,020 Common Shares were issued on July 31, 2014 to certain funds and co-investors pursuant to subscription agreements entered into on April 23, 2014 (the “**Additional Private Placement**”). In connection with the Additional Private Placement, Westaim received additional gross proceeds of approximately \$14.3 million.

On July 31, 2014, the Partnership completed the acquisition (the “**HIIG Acquisition**”) of approximately 70.8% of the issued and outstanding shares of common stock of HIIG (“**HIIG Shares**”) for an aggregate purchase price of approximately US\$138.7 million. The HIIG Acquisition involved:

- (i) the purchase by the Partnership of an aggregate of 16,588,865 HIIG Shares from certain shareholders of HIIG for an aggregate purchase price of US\$53.7 million; and
- (ii) the purchase by the Partnership from HIIG of an aggregate of 18,702,673 HIIG Shares from treasury for an aggregate purchase price of US\$85.0 million.

Westaim filed a business acquisition report in respect of the HIIG Acquisition on October 8, 2014.

In order to complete the HIIG Acquisition and to provide working capital, the Partnership received funding of approximately US\$141.1 million. This funding was provided as to (i) approximately US\$75.7 million by Westaim, (ii) approximately US\$24.3 million and US\$22.9 million by affiliates of Everest Re Group, Ltd. and Catlin Group Limited, respectively, (iii) US\$10 million by Stephen L. Way, Chairman and Chief Executive Officer of HIIG, and/or certain investors affiliated with Mr. Way, and (iv) approximately US\$8.2 million by certain other existing shareholders of HIIG and other investors.

In connection with the HIIG Acquisition, the Company's wholly-owned subsidiary, Westaim HIIG GP Inc. (the "GP"), entered into a management services agreement ("HIIG MSA") with HIIG pursuant to which the GP is entitled to receive from HIIG a fee of US\$1.0 million for the first three years of the HIIG MSA and US\$0.5 million for the next two years relating to advisory services to be provided by the GP.

Westaim Management Limited Partnership (the "Manager") was established on February 25, 2014 for the purpose of providing management services to Westaim and entities established by Westaim and/or its affiliates. Pursuant to a management services agreement dated July 31, 2014 between the Manager and the GP, the Manager is entitled to receive from the GP a fee of US\$1.0 million for the first three years and US\$0.5 million for the next two years relating to advisory services to be provided by the Manager.

Summary Description of the Business

Overview

Westaim is a Canadian investment company seeking to partner with strong, successful and aligned management teams by providing capital and strategic expertise to businesses with a focus primarily on the financial services industry. Westaim invests directly and indirectly through acquisitions, joint ventures and other arrangements, with the objective of providing its shareholders with capital appreciation and real wealth preservation. Westaim's strategy is to pursue investment opportunities to grow shareholder value over the long term.

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

Investment Objective

Westaim's investment objective is to maximize the intrinsic value of its businesses on a per share basis over the long term. Westaim's senior management team has extensive experience in financial services, with particular expertise within the investment, property and casualty insurance, and asset management industries. Westaim takes an owners approach to its investments, and seeks to provide its shareholders and third-party capital providers with exposure to unique investment opportunities that can generate superior risk adjusted returns within the financial services industry.

Investment Philosophy

Westaim intends to seek to accomplish this objective by adhering to the following philosophy:

Taking a long-term approach: The Company seeks to share a long-term horizon with its shareholder partners, the management teams of its portfolio businesses and its strategic third party capital providers. A long-term approach allows Westaim to allocate capital patiently, often times sacrificing short-term gains for long-term performance.

Focusing on cash flow and returns on invested capital: The Company evaluates its investments by focusing on cash generation and returns on invested capital rather than on accounting profit. This focus allows Westaim to focus on the economic potential of the particular business and maximizing its intrinsic value.

Investing Opportunistically: The Company seeks to remain opportunistic and nimble in the evaluation of strategic investment opportunities. The flexibility provided by being opportunistic allows the Company to react quickly and take advantage of opportunities to deploy capital into businesses that have the potential to offer above average returns, combined with a healthy margin of safety.

Maintaining financial strength: Westaim seeks to maintain a conservative capital structure and strong balance sheet. As a result, Westaim will at times carry substantial cash balances as it searches for investment opportunities. This conservatism is expected to ensure that the Company has sufficient cash resources to react quickly to opportunities as and when they arise.

Investments

After the change to the current senior management team in April 2009, Westaim has made two significant investments, both of which were in the financial services industry.

In March 2010, Westaim completed the Jevco Acquisition for \$261.4 million, marking its first investment in the property & casualty insurance industry. Jevco is a Canadian based niche property & casualty insurance company with operations across Canada. After an unsolicited approach by Intact, Westaim sold all of the issued and outstanding shares in the capital of Jevco to a wholly-owned subsidiary of Intact for \$530 million in cash. The Jevco Sale Transaction was completed on September 4, 2012.

On July 31, 2014, the Partnership completed the acquisition of approximately 70.8% of the issued and outstanding HIIG Shares for an aggregate purchase price of approximately US\$138.7 million. HIIG is a U.S. based specialty property and casualty insurance company. For a description of HIIG, please see “CURRENT INVESTMENTS” below.

Westaim is currently assessing several additional investment opportunities in line with its strategy.

Competition

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

Employees

As at the date hereof, Westaim employs six individuals, three of whom are executive officers of Westaim with significant experience in originating, structuring, executing and managing Westaim’s investments.

In addition, Westaim management has an extensive network of relationships, and from time-to-time retains the services of consultants who provide the Company with specific expertise in certain niche areas.

CURRENT INVESTMENTS

Houston International Insurance Group, Ltd.

Overview

HIIG is a U.S. based diversified specialty insurance provider and managing general insurance agent covering risks in the United States and certain niche global markets. HIIG's business includes mining, onshore oil & gas, cranes, rigging and heavy transport, professional lines including miscellaneous E&O, lawyers and community banks, hospitality, special lines through several managing general underwriter ("MGU") partners, and large transactional property accounts worldwide. For the year ended December 31, 2013, HIIG had aggregate gross written premiums of approximately US\$400 million.

HIIG was founded in 2007 by Stephen L. Way, who has significant expertise and experience in the property and casualty insurance industry. Prior to HIIG in 1974, Mr. Way founded Houston Casualty Corporation (NYSE:HCC) an international specialty property and casualty insurance company and led the company until 2006.

HIIG is the parent company of Houston Specialty Insurance Company ("HSIC"), Oklahoma Specialty Insurance Company ("OSIC"), Imperium Insurance Company ("IIC"), Great Midwest Insurance Company ("GMIC"), HIIG Underwriting Agency, Inc. ("HIIGU") and HIIG Service Company ("HSC").

HSIC is a Texas-domiciled insurance company that writes risks primarily related to commercial auto, commercial property and general liability as a non-admitted carrier in 49 states and on an admitted basis in Texas.

OSIC is an Oklahoma-domiciled insurance company covering risks primarily related to commercial auto, commercial property and general liability as a non-admitted carrier in Texas and on an admitted basis in Oklahoma.

IIC is a Texas-domiciled insurance company that primarily writes direct insurance business covering risks primarily related to workers' compensation, commercial auto, commercial property, and general liability through general agents and managing general agents in the United States. IIC is licensed to write direct insurance and reinsurance in 49 states plus the District of Columbia.

GMIC is a Texas-domiciled insurance company that primarily covers workers' compensation, auto, property and general and professional liability. GMIC is licensed to write direct insurance in 45 states.

HIIGU, a Texas corporation, is a managing general insurance agent for property and casualty risks in specialty niche markets. HIIGU underwrote primarily on behalf of HIIG's insurance company subsidiaries. Beginning January 1, 2013, the insurance company subsidiaries began writing all of their business directly. HIIGU currently only actively underwrites business that is placed outside of the HIIG group of companies.

HSC, a Delaware corporation, provides various administrative services to the HIIG insurance company subsidiaries.

HIIG is headquartered in Houston (Texas) with offices in Atlanta (Georgia), Birmingham (Alabama), Chicago (Illinois), Dallas (Texas), Oklahoma City (Oklahoma) and Morristown (New Jersey).

Strategy

HIIG's strategy is to grow its business both organically and through selected acquisitions, with a focus on superior underwriting performance, in order to generate above-average risk adjusted returns. HIIG is managed by a proven management team, with significant experience in the US property and casualty industry. The key pillars of its strategy are:

Underwriting Discipline: HIIG seeks to create or acquire specialty lines of business that are run by very experienced underwriting staff who are experts in their line of business, and can maintain underwriting discipline through various market cycles. Profitable underwriting is emphasized over growth in premiums. HIIG strives to attract successful, experienced underwriters to its business that adhere to this underwriting philosophy.

Mitigation of Risk: By virtue of its underwriting discipline and through extensive use of reinsurance to cover targeted risk and protect HIIG against severity and catastrophe exposures, HIIG seeks to mitigate the risk of loss in each of its lines of business.

Capital Preservation: HIIG maintains a conservative balance sheet and executes a conservative investment philosophy with its invested assets.

Conservative Reserving: While actual losses are unknown at the time of issuing an insurance policy, HIIG relies on its volumes of loss data over long historical periods to better manage and forecast the underlying risk inherent in each policy.

Controlled Growth: HIIG is expected to grow organically by (i) increasing its geographic footprint with new and existing clients in selected lines of business; and (ii) the hiring of experienced and successful underwriting teams in existing and new lines of business, where HIIG believes opportunities for significant underwriting profitability exists. HIIG is expected to grow through selected acquisitions, primarily of high quality MGU agencies. By acquiring these agencies and integrating them with HIIG's existing platform, HIIG gets access to their seasoned book of business and the underwriting expertise of the management team.

Lines of Business

Currently, HIIG operates in the lines of business described below. The net written premiums ("NWP") for each line (in U.S. dollars and prepared in accordance with U.S. GAAP) for the periods indicated are as follows:

Business Line	Description	Type of Insurance	NWP for nine months ended September 30, 2014 (US\$MM)	NWP for year ended December 31, 2013 (US\$MM)
Construction	Cranes; Specialty Contractors and Heavy Transport	General Liability, Auto Liability, Excess Liability, Property/Inland Marine, Workers Compensation	\$34.4	\$41.8
Energy	Mining and Onshore Oil & Gas	General Liability, Auto Liability, Excess Liability, Property/Inland Marine, Workers Compensation	\$41.6	\$38.3
Specialty	Niche business including Hospitality; Pest Control; Artisan Contractors; Commercial Auto (small risks principally in Louisiana) and Texas Workers' Compensation	Primarily General Liability and in some cases Auto Liability, Property, Workers' Compensation	\$104.6	\$127.4
Professional	Miscellaneous E&O and D&O including Lawyers; Regional banks and Home Health Providers	Errors & Omissions Liability, Directors & Officers Liability, Fidelity Bonds	\$22.9	\$29.1
Transactional Property	Catastrophe risks; Large Fortune 1000 type accounts	Domestic and International property catastrophe risks	\$17.9	\$36.5
Non-continuing & other lines			\$3.3	\$12.0

Employees

As at November 30, 2014, HIIG had 191 full-time employees.

Competition

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

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

HIIG competes with a number of insurance companies and managing general agents which vary based on the line of business, volume of premium and geography. Competitors include: Markel Corporation, W.R. Berkley Corporation, American Financial Group Inc., HCC Insurance Holdings Inc., Hiscox, Ltd., AmTrust Financial Services, Inc., RLI Corp., OneBeacon Insurance Group, Ltd., Argo Group International Holdings, Ltd., Amerisafe, Inc. and Employers Holdings, Inc.

Some of these entities have greater resources including financial, marketing and personnel. Increased competition could result in lower premium rates and less favorable policy terms, which could adversely affect HIIG.

Distribution

The three distribution channels for the P&C insurance industry are retail and wholesale brokers, direct distribution and captive agents. Brokers act as intermediaries between P&C insurance companies and customers who wish to purchase P&C insurance, and represent the vast majority of the distribution of HIIG's business. Brokers typically distribute insurance policies of multiple insurance companies and act on behalf of customers.

Regulation

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

RISK FACTORS

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

Risks Relating to Westaim

Risks inherent in acquisitions generally

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

Operating expenses are expected to exceed revenues

The Company has made and intends to make investments in private entities which do not typically have an active market. Private investment transactions can be highly structured and the Company expects to take measures, where possible and appropriate, to create defined liquidity events. However, such liquidity events are rarely expected in the first three to five years of making an investment and may not be realized as expected or at all. While the Company may seek to obtain regular cash flow from these investments through management fees, dividends and/or interest payments, in the near term these revenues are not expected to be sufficient to offset the Company's operating expenses. In addition, Westaim does not expect that HIIG will declare or pay dividends in the foreseeable future. Accordingly, the Company expects to incur negative cash flow at the holding company level until such time as its revenues exceed its operating expenses, which negative cash flow is expected to be funded from the Company's cash resources.

Volatile stock price

The price of Westaim's common shares is expected to be highly volatile and will be drastically affected by various factors. Westaim cannot predict the timing of future acquisitions or other developments expected to take place in the future which will likely trigger major changes in the trading price of the common shares.

Liquidity and financing risks

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

Environmental risks

The Company has provided indemnifications to third parties with respect to future site restoration costs to be incurred on industrial sites formerly owned by the Company. The site restoration provision is based on periodic independent estimates of costs associated with soil and groundwater reclamation and remediation of these industrial

sites. The Company has accounted for estimated future restoration costs in its financial statements. Although the Company believes, based on consultation with experts and advisors, that such estimates are reasonable based on information currently available to the Company, the ultimate environmental costs are uncertain as they are dependent on the future use of the land and future laws and regulations. In addition, estimates of future expenditures could change as a result of periodic reviews of the underlying assumptions supporting the provision, including remediation costs, regulatory requirements and the impact of changes in the rate of inflation and interest rates. Although the Company has received indemnities from the previous owners of the industrial sites in respect of which the Company has indemnification obligations, there can be no guarantee that such indemnities will be available to the Company or will be sufficient to reimburse the Company for all costs incurred in connection with the Company's indemnification obligations.

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

Many state insurance regulatory laws contain provisions that require advance approval by state agencies of any change of control of an insurance company that is domiciled or, in some cases, has substantial business in that state. "Control" is generally presumed to exist through the ownership of 10% or more of the voting securities of a domestic insurance company or of any company that controls a domestic insurance company. As a subsidiary of Westaim is the general partner of the Partnership, which in turn owns greater than 50% of the outstanding common shares of HIIG, Westaim is considered to exercise control over HIIG and its insurance subsidiaries. Accordingly, any purchaser of Common Shares representing 10% or more of the voting power of all outstanding Common Shares will be presumed to have acquired control of HIIG's domestic insurance subsidiaries unless, following application by that purchaser, the relevant state insurance regulators determine otherwise. Any transaction that would constitute a change in control of any of HIIG's individual insurance subsidiaries would generally require prior approval by the insurance departments of the states in which the insurance subsidiary is domiciled.

The bylaws of the Company contain restrictions on the ownership, transfer and voting of the common shares of the Company which may have an effect on the marketability and liquidity of such securities.

Risks Relating to HIIG's Industry

As a property and casualty insurer, HIIG's business may suffer as a result of unforeseen catastrophe losses.

Property and casualty insurers are subject to claims arising from catastrophes. Catastrophes can be caused by various events, including hurricanes, tsunamis, tornados, windstorms, earthquakes, hailstorms, explosions, flooding, severe winter weather and fires and may include man-made events, such as terrorist attacks and systemic risks. The incidence, frequency and severity of catastrophes are inherently unpredictable. Some scientists believe that in recent years, changing climate conditions have added to the unpredictability and frequency of natural disasters. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event.

Although HIIG typically purchases reinsurance protection for risks that it believes bear a significant level of catastrophe exposure, the nature or magnitude of losses attributed to a catastrophic event or events may result in losses that exceed HIIG's reinsurance protection. It is therefore possible that a catastrophic event or multiple catastrophic events could have a material adverse effect on HIIG's financial position, results of operations and liquidity.

The insurance and reinsurance business is historically cyclical, and HIIG expects to experience periods with excess underwriting capacity and unfavourable premium rates, which could cause its results to fluctuate.

The insurance and reinsurance business historically has been a cyclical industry characterized by periods of intense price competition due to excessive underwriting capacity, as well as periods when shortages of capacity permitted an increase in pricing and, thus, more favourable premium levels. An increase in premium levels is often, over time, offset by an increasing supply of insurance and reinsurance capacity, either from capital provided by new entrants or by additional capital committed by existing insurers or reinsurers, which may cause prices to decrease. In addition, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the

insurance and reinsurance business significantly. Any of these factors could lead to a significant reduction in premium rates, less favourable policy terms and fewer opportunities to underwrite insurance risks, which could have a material adverse effect on HIIG's results of operations and cash flows.

HIIG's loss reserves are based on an estimate of its future liability, which may prove to be inadequate.

HIIG maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, including legal and other fees, for reported and unreported claims incurred at the end of each accounting period. Reserves do not represent an exact calculation of liability. Rather, reserves represent an estimate of what HIIG expects the ultimate settlement and administration of claims will cost. These estimates are based on HIIG's assessment of facts and circumstances then known, as well as estimates of future trends in severity of claims, frequency of claims, judicial theories of liability and other factors. These variables are affected by both internal and external events that could increase HIIG's exposure to losses, including changes in actuarial projections, claims handling procedures, inflation, climate change, economic and judicial trends, and legislative changes.

Volatility in the financial markets, economic events, legal/regulatory changes and other external factors may result in an increase in the number of claims and the severity of the claims reported. Many of these items are not directly quantifiable in advance. Additionally, there may be a significant reporting delay between the occurrence of the insured event and the time it is reported to HIIG.

The inherent uncertainties of estimating reserves are greater for certain types of liabilities, particularly those in which the various considerations affecting the type of claim are subject to change and in which long periods of time may elapse before a definitive determination of liability is made. Reserve estimates are continually refined in a regular and ongoing process as experience develops and further claims are reported and settled. Adjustments to HIIG's loss and loss adjustment expenses are reflected in its results of operations in the periods in which such estimates are changed. Because setting reserves is inherently uncertain, there can be no assurance that current reserves will prove adequate in light of subsequent events. If actual claims prove to be greater than HIIG's reserves, HIIG's financial position, results of operations and liquidity may be materially adversely affected.

The effects of emerging claim and coverage issues on HIIG's business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended liability for claims and coverage may emerge. These changing conditions may adversely affect HIIG's business by either extending coverage beyond its underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until considerable time after HIIG has issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under HIIG's insurance or reinsurance contracts may not be known for many years after a contract is issued, and HIIG's financial position, results of operations and cash flows may be materially adversely affected.

HIIG is subject to extensive governmental regulation.

HIIG is subject to extensive governmental regulation and supervision and its business depends on compliance with applicable laws and regulations and its ability to maintain valid licenses and approvals for its operations. Most insurance regulations are designed to protect the interests of policyholders rather than shareholders and other investors. In the United States, this regulation is generally administered by departments of insurance in each state in which HIIG does business and includes a comprehensive framework of oversight of its operations and review of its financial position. U.S. Federal legislation may lead to additional federal regulation of the insurance industry in the future.

Regulatory authorities have broad discretion to grant, renew or revoke licenses and approvals. Regulatory authorities may deny or revoke licenses for various reasons, including the violation of regulations. In some instances, HIIG follows practices based on its interpretations of regulations, or those it believes to be generally followed by the industry, which ultimately may be different from the requirements or interpretations of regulatory authorities. If HIIG does not have the requisite licenses and approvals and does not comply with applicable regulatory requirements, the insurance regulatory authorities could preclude or temporarily suspend HIIG from

carrying on some or all of its activities or otherwise penalize it. That type of action could have a material adverse effect on HIIG's results of operations. Also, changes in the level of regulation of the insurance industry (whether federal, state or foreign), or changes in laws or regulations themselves or interpretations by regulatory authorities, could have a material adverse effect on HIIG's business.

The Dodd-Frank Act expands the U.S. Federal government's presence in insurance oversight, streamlines state-based regulation of reinsurance and non-admitted insurance and establishes a new Federal Insurance Office with powers over most lines of insurance other than health insurance. The Federal Insurance Office is authorized to gather data and information to monitor aspects of the insurance industry, identify issues in the regulation of insurers about insurance matters, and pre-empt state insurance measures under certain circumstances. As the Dodd-Frank Act calls for numerous studies and contemplates further regulation, its future impact on HIIG's results of operations or financial position cannot be determined at this time.

HIIG cannot predict the effect, if any, climate change may have on the risks it insures.

Various scientists, environmentalists, international organizations and regulators believe that global climate change has added, and will continue to add, to the unpredictability, frequency and severity of natural disasters (including, but not limited to, hurricanes, tornados, freezes, other storms and fires) in certain parts of the world. In response to this belief, a number of legal and regulatory measures as well as social initiatives have been introduced in an effort to reduce greenhouse gas and other carbon emissions, which may be chief contributors to global climate change. HIIG cannot predict the impact that changing climate conditions, if any, will have on its results of operations or financial condition. Moreover, HIIG cannot predict how legal, regulatory and social responses to concerns about global climate change will impact its business. To the extent climate change does increase the unpredictability, frequency or severity of natural disasters, HIIG may face increased claims, which could have a material adverse effect on its financial position, results of operations and cash flows.

HIIG's reliance on agents and brokers subjects it to risk.

In many cases, HIIG markets its insurance through insurance agents and brokers. Some of these agents and brokers provide a significant portion of HIIG's gross written premium for a particular line of business. As a result, some of these agents and brokers could demand higher payments that could put HIIG at a competitive disadvantage and affect the way it prices its products. The deterioration of HIIG's relationship with, or loss of all or a substantial portion of the business provided by, one or more agents or brokers could have a material adverse effect on HIIG's financial position, results of operations and cash flows. HIIG also relies on these agents and brokers to accurately represent the nature of the policies that HIIG places. HIIG may be responsible for any misstatements, misrepresentations or other inappropriate market conduct by such agents or brokers.

In accordance with industry practice, HIIG generally pays amounts owed on claims under its insurance and reinsurance contracts to agents and brokers, and these agents and brokers, in turn, pay these amounts to the clients that have purchased insurance or reinsurance from HIIG. Although the law is unsettled and depends upon the facts and circumstances of the particular case, in some jurisdictions, if an agent or broker fails to make such a payment, HIIG may remain liable to the insured or ceding insurer for the deficiency. Conversely, in certain jurisdictions, when the insured or ceding insurer pays premiums for these policies to agents and brokers, these premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to HIIG for those amounts, whether or not HIIG has actually received the premiums from the agent or broker. Consequently, HIIG assumes a degree of credit risk associated with agents and brokers with whom it transacts business. However, due to the unsettled and fact-specific nature of the law, HIIG is unable to quantify its exposure to this risk.

Consolidation in the insurance industry could adversely impact HIIG.

Insurance industry participants may seek to consolidate through mergers and acquisitions. Continued consolidation within the insurance industry will further enhance the already competitive underwriting environment as HIIG would likely experience more robust competition from larger competitors. These consolidated entities may use their enhanced market power and broader capital base to take business from HIIG or to drive down pricing, which could adversely affect the results of HIIG's operations.

Risks Relating to HIIG's Business

Inability to accurately assess underwriting risk could reduce HIIG's net earnings.

HIIG's underwriting success is dependent on its ability to accurately assess the risks associated with the business on which the risk is retained. HIIG relies on the experience of its underwriting staff in assessing these risks. If HIIG fails to accurately assess the risks it retains, HIIG may fail to establish appropriate premium rates and its reserves may be inadequate to cover its losses, which could reduce its net earnings. The underwriting process is further complicated by HIIG's exposure to unpredictable developments, including earthquakes, weather-related events and other natural catastrophes, as well as war and acts of terrorism and those that may result from volatility in the financial markets, the economic downturn and systemic risks.

Retentions in various lines of business expose HIIG to potential losses.

HIIG retains risk for its own account on business underwritten by its insurance companies. The determination to not purchase reinsurance, or to reduce the amount of reinsurance HIIG purchases, for a particular risk or line of business is based on a variety of factors including market conditions, pricing, availability of reinsurance, the level of HIIG's capital and its loss history. Such determinations have the effect of increasing HIIG's financial exposure to losses associated with such risks or in such lines of business and, in the event of significant losses associated with such risks or lines of business, could have a material adverse effect on HIIG's financial position, results of operations and cash flows.

If HIIG is unable to purchase adequate reinsurance protection for some of the risks it has underwritten, HIIG will be exposed to any resulting uninsured losses.

HIIG purchases reinsurance for a portion of the risks underwritten by its insurance companies, especially volatile and catastrophe-exposed risks. Market conditions beyond HIIG's control determine the availability and cost of the reinsurance protection it purchases. In addition, the historical results of reinsurance programs and the availability of capital also affect the availability of reinsurance. HIIG's reinsurance facilities are generally subject to annual renewal. HIIG cannot assure that it can maintain its current reinsurance facilities or that HIIG can obtain other reinsurance facilities in adequate amounts and at favourable rates. Further, HIIG cannot determine what effect catastrophic losses will have on the reinsurance market and on its ability to obtain adequate reinsurance at favourable rates. If HIIG is unable to renew or to obtain new reinsurance facilities on acceptable terms, either its net exposures would increase or, if HIIG was unwilling to bear such an increase in exposure, HIIG would have to reduce the level of its underwriting commitments, especially in catastrophe-exposed risks. Either of these potential developments could have a material adverse effect on HIIG's financial position, results of operations and cash flows.

HIIG relies on key personnel and may be unable to attract and retain qualified employees.

HIIG's success depends to a certain degree upon certain key members of management (including its CEO and certain senior executive officers). These individuals are a significant factor in HIIG's growth and success. The loss of the service of certain members of management and certain key employees for whatever reason could have a material adverse effect on HIIG.

HIIG also depends on its ability to attract, retain and provide for the succession of skilled and experienced underwriting talent and other key employees who are knowledgeable about HIIG's business. Certain of HIIG's senior underwriters and other key employees have employment agreements that are for definite terms, and there is no assurance HIIG will retain these employees beyond the current terms of their agreements. If the quality of HIIG's underwriting team and other key personnel decreases, HIIG may be unable to maintain its current competitive position in the specialized markets in which it operates and be unable to expand its operations into new markets, which could materially adversely affect HIIG's business.

HIIG's business is subject to risks related to litigation.

HIIG is a defendant in a number of claims relating to its insurance and other related business operations. HIIG may from time-to-time be subject to a variety of legal and regulatory actions relating to its current and past business operations, including, but not limited to:

- disputes over coverage or claims adjudication including “bad faith” claims;
- disputes with reinsurers regarding the payment of claims ceded through reinsurance;
- disputes regarding sales practices, disclosure, premium refunds, licensing, regulatory compliance and compensation arrangements;
- disputes with its agents, producers or network providers over compensation and termination of contracts and related claims;
- disputes relating to employees such as claims for wrongful dismissal or claims from competitors regarding non-competition obligations;
- disputes relating to customers regarding the ratio of premiums to benefits in its various business lines;
- disputes with taxing authorities regarding its tax liabilities; and
- disputes relating to certain businesses acquired or disposed of by it.

In addition, plaintiffs continue to bring new types of legal claims against insurance and related companies. Current and future court decisions and legislative activity may increase HIIG’s exposure to these types of claims. Multiparty or class action claims may present additional exposure to substantial economic, non-economic or punitive damage awards. The loss of even one of these claims, if it resulted in a significant damage award or a judicial ruling that was otherwise detrimental, could create a precedent in the insurance industry that could have a material adverse effect on HIIG’s results of operations and financial condition. This risk of potential liability may make reasonable settlements of claims more difficult to obtain. HIIG cannot determine with any certainty what new theories of recovery may evolve or what their impact may be on its business.

If a company that provides reinsurance to HIIG does not pay all of its claims, HIIG could incur severe losses.

HIIG purchases reinsurance by transferring, or ceding, all or part of the risk it has assumed as a direct insurer to a reinsurance company in exchange for all or part of the premium HIIG receives in connection with the risk. Through reinsurance, HIIG has the contractual right to collect the amount reinsured from its reinsurers. Although reinsurance makes the reinsurer liable to HIIG to the extent the risk is transferred or ceded to the reinsurer, it does not relieve HIIG of its full liability to its policyholders. Accordingly, HIIG bears credit risk with respect to its reinsurers.

HIIG cannot assure that its reinsurers will pay all of HIIG’s reinsurance claims, or that they will pay HIIG’s claims on a timely basis. Additionally, catastrophic losses from multiple direct insurers may accumulate within the more concentrated reinsurance market and result in claims that adversely impact the financial condition of such reinsurers and thus their ability to pay such claims. Further, additional adverse developments in the capital markets could affect HIIG’s reinsurers’ ability to meet their obligations to HIIG. If HIIG becomes liable for risks it has ceded to reinsurers or if HIIG’s reinsurers cease to meet their obligations to HIIG, because they are in a weakened financial position as a result of incurred losses or otherwise, HIIG’s financial position, results of operations and cash flows could be materially adversely affected.

HIIG may be unsuccessful in competing against larger or more well-established business rivals.

HIIG faces competition from other specialty insurance companies, standard insurance companies and underwriting agencies, as well as from diversified financial services companies that are larger than HIIG and that have greater financial, marketing and other resources than HIIG does. Some of these competitors also have longer experience and more market recognition than HIIG does in certain lines of business. In addition, it may be difficult or prohibitively expensive for HIIG to implement technology systems and processes that are competitive with the systems and processes of these larger companies. HIIG cannot assure that it will maintain its current competitive position in the markets in which it operates, or that it will be able to expand its operations into new markets. If HIIG fails to do so, its results of operations and cash flows could be materially adversely affected.

HIIG invests a significant amount of its assets in securities that have experienced market fluctuations, which may reduce the value of its investment portfolio, reduce investment income or generate realized investment losses.

A significant amount of HIIG's investment portfolio is invested in fixed maturity securities. The fair value of these fixed maturity securities and the related investment income fluctuate depending on general economic and market conditions, including volatility in the financial markets and the economy as a whole. For HIIG's fixed maturity securities, the fair value generally increases or decreases in an inverse relationship with fluctuations in interest rates and credit spreads, while net investment income realized by HIIG from future investments in fixed maturity securities will generally increase or decrease with interest rates. Mortgage-backed and asset-backed securities may have different net investment income and/or cash flows from those anticipated at the time of investment. These securities have prepayment risk because the timing of cash flows that result from the repayment of principal might occur earlier than anticipated, due to declining interest rates, or extension risk when cash flows may be received later than anticipated because of rising interest rates.

Although the vast majority of HIIG's fixed income portfolio is investment grade, all of HIIG's fixed maturity securities are subject to credit risk. For mortgage-backed securities, credit risk exists if mortgagors default on the underlying mortgages. During an economic downturn, HIIG's state, municipal and non-U.S. sovereign bond portfolios could be subject to a higher risk of default or impairments due to declining tax bases and revenue, notwithstanding the relatively low historical rates of default on these types of obligations. If any of the issuers of HIIG's fixed maturity securities suffer financial setbacks, the ratings on the fixed maturity securities could fall (with a concurrent fall in fair value) and, in a worst case scenario, the issuer could default on its financial obligations. If the issuer defaults, HIIG could realize losses associated with the impairment of the securities.

The impact of fluctuations in the market prices of securities affects HIIG's financial statements. Because all of HIIG's fixed maturity and equity securities are classified as available for sale, changes in the fair value of these securities are reflected in net unrealized investment gain or loss within HIIG's other comprehensive income. Similar treatment is not available for liabilities. Therefore, an increase in market interest rates could cause a decrease in HIIG's shareholders' equity and financial position.

Since 2008, the financial markets and the economy have been severely affected by various events. This has impacted interest rates and has caused large writedowns in other companies' financial instruments either due to the market fluctuations or the impact of the events on the debtors' financial condition. Turmoil in the financial markets and the economy, particularly related to potential future ratings downgrade and/or impairment of debt securities of sovereign issuers, could adversely affect the valuation of HIIG's investments and cause it to have to record other-than-temporary impairment credit losses on its investments, which could have a material adverse effect on HIIG's financial position and results of operations.

If rating agencies downgrade HIIG's financial strength ratings, HIIG's business and competitive position in the industry may suffer.

Ratings have become an increasingly important factor in establishing the competitive position of insurance companies. HIIG's insurance companies are rated by A.M. Best Company, Inc. (A.M. Best). The financial strength ratings reflect the rating agencies' opinions of an insurance company's and insurance holding company's financial strength, operating performance, strategic position and ability to meet its obligations to policyholders and are not evaluations directed to investors. In addition, some organizations have internal requirements mandating that they transact only with insurance companies that have a specified rating level or higher. HIIG's ratings are subject to periodic review by A.M. Best, and the continuation of those ratings at current levels cannot be assured. If HIIG's ratings are reduced from their current levels, it could affect HIIG's ability to compete for high quality business and, thus, its financial position and results of operations could be adversely affected.

HIIG may require additional capital or funds for liquidity in the future, which may not be available or may only be available on unfavourable terms.

HIIG's future capital and liquidity requirements depend on many factors, including its ability to write new business successfully, to establish premium rates and reserves at levels sufficient to cover losses, and to maintain its current line of credit. HIIG may need to raise additional funds through financings or curtail its growth and reduce its assets.

Any equity or debt financing, if available at all in periods of stress and volatility in the financial markets, may be on terms that are not favourable to HIIG. If HIIG cannot obtain adequate capital or funds for liquidity on favourable terms or at all, HIIG's business, results of operations and liquidity could be adversely affected. HIIG may also be pre-empted from making acquisitions.

A.M. Best rates HIIG's credit strength. If HIIG's credit ratings are reduced, it might significantly impede HIIG's ability to raise capital and borrow money, which could materially affect its business, results of operations and liquidity.

HIIG's strategy of acquiring other companies and underwriting teams for growth may not succeed.

HIIG's strategy for growth includes growing through acquisitions of insurance industry related companies. This strategy presents risks that could have a material adverse effect on HIIG's business and financial performance, including: (i) the diversion of management's attention, (ii) HIIG's ability to assimilate the operations and personnel of the acquired companies, (iii) the contingent and latent risks associated with the past operations of, and other unanticipated problems arising in, the acquired companies, (iv) the need to expand management, administration and operational systems and (v) increased competition for suitable acquisition opportunities and qualified employees.

HIIG cannot predict whether it will be able to find suitable acquisition targets, nor can it predict whether it would be able to acquire these additional companies on terms favourable to HIIG or if it will be able to successfully integrate the acquired operations into its business. HIIG does not know if it will realize any anticipated benefits of completed acquisitions or if there will be substantial unanticipated costs associated with new acquisitions. In addition, future acquisitions by HIIG may result in potentially dilutive issuances of its equity securities, the incurrence of additional debt, and/or the recognition of potential impairment of goodwill and other intangible assets. Each of these factors could materially adversely affect HIIG's financial position and results of operations.

More recently, HIIG's growth has come through hiring underwriting teams focused on new lines of business. While more limited, many of the same risks above apply. Most notably, the diversion of management attention, the assimilation of new personnel and the need to expand management, administration and operational systems are present. Also, because these are new lines of business for which HIIG may have limited experience, the results of these new lines could materially adversely affect HIIG's financial position and results of operations.

HIIG may be exposed to goodwill and intangible asset impairment risk as part of its business acquisition strategy.

HIIG has recorded goodwill and intangible assets in connection with the majority of its business acquisitions. HIIG is required to perform goodwill and intangible asset impairment tests at least annually and whenever events or circumstances indicate that the carrying value of HIIG's goodwill may not be recoverable from estimated future cash flows. As a result of annual and other periodic evaluations, HIIG may determine that a portion of its goodwill or intangible assets needs to be written down to fair value, which could materially adversely affect HIIG's financial position and results of operations.

HIIG is an insurance holding company and, therefore, may not be able to receive dividends in needed amounts from its insurance company subsidiaries.

In the past, HIIG has had sufficient cash flow from its non-insurance company subsidiaries to meet its corporate cash flow requirements for paying principal and interest on outstanding debt obligations, dividends to shareholders and corporate expenses. More recently, HIIG has relied on, and in the future it may rely on, dividends from HIIG's insurance companies to meet these requirements. The payment of dividends by HIIG's insurance companies is subject to regulatory restrictions and will depend on the surplus and future earnings of these subsidiaries, as well as the regulatory restrictions. As a result, should HIIG's other sources of funds prove to be inadequate, HIIG may not be able to receive dividends from its insurance companies at times and in amounts necessary to meet its obligations, which could materially adversely affect HIIG's financial position and liquidity.

HIIG's information technology systems or third-party systems that it utilizes or accesses may fail or suffer a loss of security, which could adversely affect HIIG's business.

HIIG's business is highly dependent upon the successful and uninterrupted functioning of its computer systems. HIIG relies on these systems to perform actuarial and other modeling functions necessary for writing business, to process premiums and policies, to process and make claims payments, to establish loss reserves, and to prepare management and external financial statements and information. The failure of these systems could interrupt HIIG's operations. In addition, in the event of a disaster such as a natural catastrophe, a blackout, a computer virus or hacking incident, a terrorist attack or war, HIIG's systems may be inaccessible for an extended period of time. These systems failures or disruptions could result in a material adverse effect on HIIG's business results. HIIG also utilizes and/or relies on computer systems developed and maintained by outsourcing relationships and key vendors. Their systems could experience the same risks, which could result in a material adverse effect on HIIG's business results.

A security breach of HIIG's computer systems could damage its reputation or result in liability. HIIG retains confidential information regarding its business dealings in its computer systems. HIIG may be required to spend significant capital and other resources to protect against security breaches or to alleviate problems caused by such breaches. Despite the implementation of security measures, the infrastructure supporting HIIG's computer systems may be vulnerable to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. In addition, HIIG could be subject to liability if hackers were able to penetrate its network security or otherwise misappropriate confidential information. Furthermore, certain of HIIG's businesses are subject to compliance with laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The compromise of personal, confidential or proprietary information could result in remediation costs, legal liability, regulatory action and reputational harm, which could have a material adverse effect on HIIG's results of operations or financial condition.

If HIIG experiences difficulties with outsourcing relationships, its ability to conduct its business might be negatively impacted.

HIIG outsources certain business and administrative functions to third parties and may do so increasingly in the future. If HIIG fails to develop and implement its outsourcing strategies or its third party providers fail to perform as anticipated, HIIG may experience operational difficulties, increased costs and a loss of business that may have a material adverse effect on its results of operations or financial position. In addition, HIIG may be responsible for the actions of such third parties particularly if they violate or are inconsistent with applicable regulatory requirements. By outsourcing certain business and administrative functions to third parties, HIIG may be exposed to enhanced risk of data security breaches. Any breach of data security could damage HIIG's reputation and/or result in monetary damages, which could have a material adverse effect on HIIG's results of operations or financial condition.

DESCRIPTION OF CAPITAL STRUCTURE

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

As of the date hereof, the Company had issued and outstanding 70,297,342 Common Shares. No Non-Voting Shares or other series of Class A preferred shares or Class B preferred shares are outstanding.

Common Shares

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

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

In view of the foregoing restrictions, the bylaws of Westaim contains the following provisions designed to enable the Company to enforce compliance with the Control Restrictions:

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

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

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

The restrictions on the ownership, transfer and voting of the common shares of the Company may have an effect on the marketability and liquidity of such securities.

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

Class A Preferred Shares

The Class A preferred shares of each series shall rank equally with the Class A preferred shares of every other series with respect to dividends and return of capital, and shall be entitled to preference over the Class B preferred shares

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

Non-Voting Shares

Any holder of Non-Voting Shares may convert any or all Non-Voting Shares held by such holder into Common Shares based on the then applicable exercise number which at the date hereof is one Common Share for each Non-Voting Share. The Non-Voting Shares: (i) rank equally with the Class A preferred shares of every other series with respect to dividends and return of capital; (ii) are entitled to such dividends as the directors may declare; provided, however, that no dividend on the Non-Voting Shares shall be declared unless the directors shall declare an equal dividend on the Common Shares; and (iii) are entitled to a preference as to \$0.0001 per Non-Voting Share over the Class B preferred shares and the Common Shares and over any other shares ranking junior to the Non-Voting Shares, following which the Non-Voting Shares shall rank equally with the Common Shares with respect to the distribution of assets in the event of the liquidation, dissolution or winding-up of Westaim, whether voluntary or involuntary, or any other distribution of the assets of Westaim for the purpose of winding up its affairs. Except as required by law, the holders of the Non-Voting Shares as a series shall not be entitled to receive notice of, attend or vote at any meeting of the shareholders of Westaim.

Class B Preferred Shares

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

MARKET FOR SECURITIES

Trading Price and Volume

The Common Shares are currently listed and posted for trading on the TSXV under the symbol "WED". Until January 9, 2013, the Common Shares were listed and posted for trading on the TSX under the symbol "WED". The following table sets forth the reported high and low prices and the aggregate volume of trading of the Common Shares on the TSX and the TSXV for the periods indicated:

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
2013	\$	\$	(000s)
January	1.50	1.25	94.3
February	1.50	1.00	129.1
March	1.50	1.25	73.4
April	1.50	1.25	101.2
May	1.75	1.25	51.6
June	1.75	1.25	90.3
July	1.75	1.25	67.5
August	1.75	1.50	80.4
September	2.25	1.50	833.8

Month	High	Low	Volume
October	2.39	1.65	333.8
November	2.25	1.82	140.4
December.....	2.20	1.85	174.75

Note: On October 1, 2013, the Company completed a 50:1 share consolidation of all of its outstanding Common Shares. The high and low prices and the aggregate volume of trading of the Common Shares in the table above for the periods prior to the consolidation have been adjusted to reflect this change.

DIVIDENDS

With the exception of the Cash Distribution in 2012 (described under the heading “*General Development of the Business*” above), the Company has not declared dividends or distributions for any of its three most recently completed fiscal years and does not expect to declare dividends or distributions in the foreseeable future. There are no restrictions preventing the Company from declaring dividends on its Common Shares, however, any future payment of dividends will be dependent upon the earnings and financial condition of the Company and other factors that the directors may deem appropriate at the time.

DIRECTORS AND OFFICERS

Name, Residency and Principal Occupation

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

Name and Residency	Principal Occupation at Present⁴	Position(s) with the Company	Period of Service as a Director
Stephen R. Cole ^{1, 2, 3} Ontario, Canada	President of Seeonee Inc. (<i>a financial advisory services company</i>)	Director and Chair of the Nominating and Corporate Governance Committee	November 2014 to date
Ian W. Delaney Ontario, Canada	Independent businessman and Chairman of the Company	Director and Chairman of the Board	May 1996 to date
John W. Gildner ^{1, 2, 3} Ontario, Canada	Independent businessman	Director and Chair of the Audit Committee	May 2009 to date
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer of the Company	Director, President and Chief Executive Officer	December 2008 to date
Daniel P. Owen ^{1, 2, 3} Ontario, Canada	Chairman and Chief Executive Officer of Molin Holdings Limited (<i>a capital investment management company</i>) and Chairman of Heli-Lynx Helicopter Services Inc. (<i>a helicopter conversion and enhancement company</i>)	Director and Chair of the HR and Compensation Committee	May 1996 to date
Peter H. Puccetti Ontario, Canada	Chairman, Chief Executive Officer and Chief Investment Officer of Goodwood Inc. (<i>an investment management company</i>)	Director	December 2008 to date

Notes:

- (1) Messrs. Cole, Gildner and Owen are members of the audit committee (the “**Audit Committee**”).
- (2) Messrs. Cole, Gildner and Owen are members of the HR and Compensation Committee.
- (3) Messrs. Cole, Gildner and Owen are members of the Nominating and Corporate Governance Committee.
- (4) Each of the directors has been engaged for more than 5 years in his present principal occupation except for Messrs. Cole and Delaney. Since May 2013, Mr. Cole has been President of Seeonee Inc. Prior to May 2013, Mr. Cole was Managing Director of Duff & Phelps Canada Limited (a financial advisory services company). Duff & Phelps Canada Limited acquired Cole & Partners (a financial advisory services company) on June 15, 2010. Mr. Cole was a partner at Cole & Partners for more than five years prior to the acquisition. Mr. Delaney served as Chairman of Sherritt International Corporation (a diversified natural resource company) from November 1995 to May 2004, Executive Chairman of Sherritt from May 2004 to December 2008, Chairman and Chief Executive Officer of Sherritt from January 2009 to December 2011 and Chairman of Sherritt from January 2012 to May 2013.

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

Name and Residency	Office with the Company	Principal Occupation During the Past Five Years
Ian W. Delaney Ontario, Canada	Chairman	Chairman of the Company; Independent Businessman; former Chairman of Sherritt International Corporation (<i>a diversified natural resource company</i>)
J. Cameron MacDonald Ontario, Canada	President and Chief Executive Officer	President and Chief Executive Officer of the Company since April 3, 2009. Prior thereto, President and Chief Executive Officer of Goodwood Inc. (<i>an investment management company</i>)
Robert T. Kittel Ontario, Canada	Chief Operating Officer and interim Chief Financial Officer of the Company	Chief Operating Officer of the Company since February 28, 2013. Prior thereto, Partner and Portfolio Manager at Goodwood Inc. (<i>an investment management company</i>)
Stephen L. Way Texas, U.S.A.	Chairman and Chief Executive Officer of HIIG	Chairman and Chief Executive Officer of HIIG
Peter W. Presperin Texas, U.S.A.	Executive Vice President and Chief Financial Officer of HIIG	Executive Vice President and Chief Financial Officer of HIIG since May 2014. Prior thereto, Chief Financial Officer of Catlin, Inc. (<i>a specialty insurance and reinsurance underwriter</i>)

Shareholdings of Directors and Executive Officers

As at the date hereof, the directors and executive officers of the Company as a group beneficially owned, directly or indirectly, or exercised control or direction over 11,190,169 Common Shares or approximately 15.9% of the number of issued and outstanding Common Shares. As at the date hereof, the directors and executive officers of the Company as a group beneficially owned, directly or indirectly, or exercised control or direction over 2,879,825 HIIG Shares or approximately 5.6% of the number of issued and outstanding HIIG Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

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

- (a) was the subject of a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemptions under Canadian securities legislation that was in effect for a period of more than 30 consecutive days (an “order”), that was issued while the director or executive officer was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer; or
- (b) was subject to an order that was issued after the director or executive officer ceased to be a director, Chief Executive Officer or Chief Financial Officer and which resulted from an event that occurred while that person was acting in the capacity as director, Chief Executive Officer or Chief Financial Officer.

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

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

- (b) has, within the ten years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.

Mr. Delaney was a director of OPTI Canada Inc. (“**OPTI**”) when it commenced proceedings for creditor protection under the *Companies’ Creditors Arrangement Act* (Canada) (“**CCAA**”) on July 13, 2011. Ernst & Young Inc. was appointed as monitor of OPTI. On November 28, 2011, OPTI announced that it had closed a transaction whereby a subsidiary of CNOOC Limited acquired all of the outstanding securities of OPTI pursuant to a plan of arrangement under the CCAA and the *Canada Business Corporations Act*.

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

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

Mr. Way founded HCC Insurance Holdings Inc. (“**HCC**”) in 1974 and served as a director, Chairman of the Board of Directors and Chief Executive Officer of HCC from its organization until November 2006. In November 2006, a Special Committee of HCC’s board of directors (the “**HCC Committee**”), formed at Mr. Way’s request and following an enquiry by the United States Securities and Exchange Commission (the “**SEC**”), concluded that HCC used incorrect measurement dates for certain stock option grants covering a significant number of employees during the period from 1995 through 2006. The HCC Committee also concluded that the mispriced option grants, which affected all levels of employees, resulted, together with certain other adjustments, in a cumulative net decrease in HCC’s shareholders’ equity at December 31, 2005 of US\$3.3 million or approximately 0.2% of HCC’s total shareholders’ equity. The HCC Committee further found that Mr. Way’s motivation to retroactively price options appeared to be the attraction and retention of talented employees and that he did not intend to falsify HCC’s consolidated financial statements. Mr. Way resigned as Chief Executive Officer of HCC on November 17, 2006 but remained as Chairman and as a director until February 2007.

In February 2008, HCC entered into a settlement agreement in connection with a class action against HCC and certain officers and directors (including Mr. Way) which alleged improper manipulation of option grant dates and violations of federal securities law. Under the settlement, which included no admission of liability or wrongdoing by HCC or Mr. Way, HCC agreed to pay (or cause its insurers to pay) US\$10 million into a settlement fund.

In July 2008, HCC and Mr. Way entered into a settlement agreement with the SEC in connection with a civil suit commenced by the SEC. Pursuant to the settlement agreement, HCC consented to a permanent injunction from violations of the issuer-reporting, books-and-records, and internal-controls provisions of the federal securities laws and Mr. Way agreed to pay a US\$200,000 fine and to receive a 5-year ban from acting as an officer or director of a public reporting company (which ban expired in 2013). In the settlement, HCC and Mr. Way neither admitted nor denied the allegations contained in the SEC’s complaint.

Conflicts of Interest

Certain of the Company’s directors and officers serve or may agree to serve as directors or officers of other companies or have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors and officers of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company’s directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. To the knowledge of the

Company, there are no existing or potential material conflicts of interest between Westaim or any of its subsidiaries and any director or officer of Westaim or any of its subsidiaries.

AUDIT COMMITTEE

The disclosure contained under the heading “Audit Committee” in the Company’s management information circular dated May 14, 2014 (the “**Information Circular**”) in respect of the annual and special meeting of shareholders held on June 19, 2014 is incorporated herein by reference.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

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

Regulatory Actions

During the financial year ended December 31, 2013, there were no: (a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority; (b) other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision; and (c) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Management of the Company is unaware of any material interest, direct or indirect, of any of the following persons or companies in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company:

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

TRANSFER AGENT AND REGISTRAR

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

MATERIAL CONTRACTS

The only material contracts entered into by the Company since the commencement of its most recently completed financial year, other than contracts entered into during the ordinary course of business, are the following agreements entered into in connection with the HIIG Acquisition and the Subscription Receipt Offering:

- (a) stock purchase agreement dated March 12, 2014 between the Partnership and certain shareholders of HIIG (the “**Stock Purchase Agreement**”);

- (b) subscription agreement dated March 12, 2014 between the Partnership and HIIG (the “**Subscription Agreement**”); and
- (c) subscription receipt indenture dated April 23, 2014 among the Company, GMP Securities L.P., TD Securities Inc. and Equity Financial Trust Company (the “**Indenture**”).

Each of the Stock Purchase Agreement and the Subscription Agreement was filed on SEDAR on March 17, 2014 and the Indenture was filed on SEDAR on April 25, 2014.

INTERESTS OF EXPERTS

The Company’s auditors are Deloitte LLP who have prepared the Auditors’ Report to Shareholders dated March 11, 2014. Deloitte LLP has confirmed that it is independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta. To the Company’s knowledge, Deloitte LLP has no registered or beneficial interest, direct or indirect, in any securities or other property of the Company.

ADDITIONAL INFORMATION

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

All of these documents as well as additional information relating to the Company are available on SEDAR at www.sedar.com.