



The Westaim Corporation Reports 2020 First Quarter Results

Note: All dollar amounts in this press release are expressed in U.S. dollars, except as otherwise noted. The financial results are reported under International Financial Reporting Standards, except as otherwise noted.

Toronto, Canada – May 13, 2020 – The Westaim Corporation (“Westaim” or the “Company”) (TSXV: WED) today announced its financial results for the first quarter ended March 31, 2020. This press release should be read in conjunction with the Company’s unaudited interim financial statements, accompanying notes and Management Discussion and Analysis (“MD&A”) for the three months ended March 31, 2020 and with our annual Consolidated Financial Statements and MD&A for the year ended December 31, 2019, which can be found on SEDAR at www.sedar.com and on the Company’s website www.westaim.com.

Highlights for Q1 2020 Include:

- Book value per share was \$2.31 (C\$3.26) at March 31, 2020, compared to \$2.48 (C\$3.22) at December 31, 2019. Book value per share in Canadian dollars benefited from the weakening of the Canadian dollar relative to the US dollar in the three months ended March 31, 2020.
- Westaim recorded a net loss of \$20.5 million or (\$0.16) per share on a diluted basis for the three months ended March 31, 2020 compared to a net profit of \$10.1 million or \$0.07 per share on a diluted basis in the three months ended March 31, 2019.
- **HIIG:** The fair value of Westaim’s investment in HIIG as at March 31, 2020 was \$144.8 million compared to \$165.0 million as at December 31, 2019. The decline of \$20.2 million was the result of (i) a reduction in the valuation multiple applied to the adjusted book value of HIIG from 1.1x to 1.0x (\$14.9 million impact); and (ii) Westaim’s share of the total loss of HIIG for the three months ended March 31, 2020 (\$5.3 million impact). HIIG’s net loss was primarily the result of unrealized losses experienced on its public equities portfolio, which impacted Westaim’s valuation by approximately \$6.4 million in the quarter. From an underwriting perspective, HIIG produced a combined ratio of 97.5% for the three months ended March 31, 2020 compared to 99.5% in the first quarter of 2019.
- **Arena FINCOs:** For the three months ended March 31, 2020, the Arena FINCOs generated a net loss of \$3.4 million (-2.0% net return) compared to net profit of \$3.5 million (+2.4% net return) in the prior year. In addition, Westaim received a dividend of \$22.7 million and a return of capital of \$12.1 million in the quarter from the Arena FINCOs. This activity in the first quarter of 2020 resulted in a fair value of the Arena FINCOs as at March 31, 2020 of \$167.6 million compared to \$205.8 million as at December 31, 2019.
- **Arena Investors:** Revenue for the three months ended March 31, 2020 was \$5.2 million compared to \$7.2 million in the prior year. The net loss of \$1.5 million (Westaim’s share was \$0.8 million loss) for the quarter, compared to net profit of \$0.2 million (Westaim’s share was \$0.1 million profit) in the prior year. The decline in both revenue and net profit the quarter was primarily the result of lower incentive fees, which declined to \$0.2 million in the quarter from \$2.9 million in the prior year.
- Westaim’s cash balance was \$52.2 million as at March 31, 2020 compared to \$22.2 million as at December 31, 2019.
- Subsequent to the end of the quarter, HIIG completed a rights offering (“Rights Offering”) of convertible preferred shares that resulted in gross proceeds of \$100.0 million. HIIG expects to contribute the net proceeds of the Rights Offering from time to time to its insurance company subsidiaries to support their insurance businesses and for general corporate purposes. As part of the rights offering, Westaim purchased \$44.0 million of convertible preferred shares of HIIG. Following the completion of the Rights Offering, Westaim’s interest in Westaim HIIG Limited Partnership, combined with its direct ownership of convertible preferred shares, results in its 44.0% look through interest in HIIG being unchanged from March 31, 2020.

“Against the backdrop of the current macro-economic climate and COVID-19 related effects, HIIG’s and Arena’s operations are strong, well-capitalized and organized to succeed” said J. Cameron MacDonald, President and Chief Executive Officer of Westaim. *“We are fortunate to be partnered with two businesses that performed admirably given the economic challenges and importantly, we believe they are well positioned moving forward.”*

“HIIG produced a solid underwriting profit in the quarter excluding the impact of the previously disclosed loss portfolio transfer transaction. We are of the current view that HIIG’s COVID-19 claims exposure will not be material and the \$100 million rights offering, completed subsequent to the end of the quarter, significantly improves HIIG’s capital strength and puts the business in a position to grow profitably in a hardening US P&C insurance industry environment. While the equity market downturn in March had an impact on HIIG’s investment portfolio, HIIG entered the quarter

conservatively positioned with an allocation of approximately 9% to public equities and a large cash and short-term investment portfolio position.”

“The Arena FINCOs performance in the quarter was strong given the hostile market environment. Arena’s relentless discipline of underwriting a well-diversified, uncorrelated portfolio of secured asset-based investments performed as expected.”

“We view Arena Investors as a non-bank smart bank. Arena has been and remains well positioned to be highly compensated as a provider of liquidity in opportunities where they are assuming “process” risk not “value” risk with credits being well secured by assets or businesses that are highly free cash flow generative and can withstand significant turbulence. With a defined and proven investment process and a dedicated team of experienced professionals in place, Arena is responding to the expanded opportunity. We look forward to Arena’s ongoing success in its multi-strategy mandate.”

Westaim’s Annual and Special Meeting of Shareholders will be held on Tuesday May 19, 2020 at 9:00 am (Eastern Standard Time). This year, to deal with the impact of COVID-19, the Company will hold the Meeting in a virtual-only format and will follow a very basic agenda to satisfy our annual corporate requirements and deal with the voting items as noted in our proxy materials that were previously distributed.

Westaim will host its Annual Investor Day on Tuesday September 22, 2020 at 9:00 am (Eastern Standard Time) at Vantage Venues, 150 King St W, 27th floor, Toronto, Ontario. The agenda will include a business overview and discussion with management from Westaim, Arena, and HIIG followed by a question and answer session. As we approach our Annual Investor Day, more details will be provided and instructions on how to R.S.V.P. for the meeting.

Non-GAAP Financial Measures

Westaim uses both International Financial Reporting Standards (“IFRS”) and non-generally accepted accounting principles (“non-GAAP”) measures to assess performance. The Company cautions readers about non-GAAP measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. Book value per share is a non-GAAP measure. Readers are urged to review Section 15 *Non-GAAP Measures* in Westaim’s Management’s Discussion and Analysis in respect of its unaudited consolidated financial statements for the three months ended March 31, 2020 and 2019 (the “MD&A”) for additional disclosure regarding these measures. The financial information relating to the Arena Group and HIIG contained in the MD&A is unaudited and has been derived from the financial statements of the related entities. Readers are cautioned that the HIIG financial information and certain Arena Group financial information, including any non-GAAP measures contained therein, has not been reconciled to IFRS and so may not be comparable to the financial information of issuers that present their financial information in accordance with IFRS.

About Westaim

Westaim is a Canadian investment company specializing in providing long-term capital to businesses operating primarily within the global financial services industry. The Company 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 with a focus towards the financial services industry and grow shareholder value over the long term. Westaim’s investments include significant interests in HIIG and the Arena Group. HIIG, the HIIG Partnership, Arena, the Arena Group, Arena FINCOs and Arena Investors are defined in the notes to Westaim’s unaudited consolidated financial statements for the three months ended March 31, 2020 and 2019 and the MD&A. Westaim’s Common Shares are listed on the TSX Venture Exchange under the trading symbol WED.

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The Westaim Corporation**Financial Highlights**

(millions of U.S. dollars except share and per share data)

	Three months ended March 31	
	2020	2019
Revenue and net change in unrealized value of investments	\$ (23.8)	\$ 13.2
Net recovery of expenses (expenses)	3.3	(3.1)
Profit (loss) and comprehensive income (loss)	\$ (20.5)	\$ 10.1
Earnings per share - basic	\$ (0.14)	\$ 0.07
Earnings per share – diluted	\$ (0.16)	\$ 0.07

	March 31, 2020	December 31, 2019
Assets		
Cash	\$ 52.2	\$ 22.2
Income tax receivable	0.4	0.4
Other assets	2.0	2.3
Investments	326.6	385.8
	<u>\$ 381.2</u>	<u>\$ 410.7</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 6.5	\$ 10.7
Income tax payable	0.5	0.4
Preferred securities	35.5	38.5
Derivative warrant liability	0.1	1.9
Site restoration provision	3.9	4.1
Deferred tax liability	0.3	0.3
	<u>46.8</u>	<u>55.9</u>
Shareholders' equity	334.4	354.8
Total liabilities and shareholders' equity	<u>\$ 381.2</u>	<u>\$ 410.7</u>
Number of common shares outstanding ¹	143,186,718	143,186,718
Book value per share - in US\$ ²	\$ 2.31	\$ 2.48
Book value per share - in C\$ ²	\$ 3.26	\$ 3.22

¹ At March 31, 2020 and December 31, 2019, an aggregate of 3,034,261 RSUs, 10,428,337 stock options and 14,285,715 warrants were also outstanding. Details regarding these RSUs, stock options and warrants are disclosed in the Company's public filings including its quarterly and annual financial statements which are available under the Company's profile on SEDAR at www.sedar.com.

² Non-GAAP measure. See Section 15, *Non-GAAP Measures* of the MD&A for a reconciliation to the most comparable IFRS figures. Period end exchange rates: 1.40935 at March 31, 2020 and 1.29865 at December 31, 2019.

Except for statements of historical fact contained herein, information in this press release may constitute "forward-looking information" within the meaning of Canadian securities laws. Other than statements of historical fact, all statements that involve various known and unknown risks, uncertainties and other factors are "forward-looking statements". There can be no assurance that such statements will prove accurate. Results and future events could differ materially from those anticipated in such statements. Readers of this press release are cautioned not to place undue reliance on these "forward-looking statements". Except as otherwise required by applicable law, Westaim expressly disclaims any intention or obligation to update publicly any forward-looking information, whether as a result of new information, future events or otherwise. The information provided herein does not constitute an offer or solicitation regarding any investment products offered by Arena Group.

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.