



The Westaim Corporation Reports 2020 Third 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 – November 12, 2020 – The Westaim Corporation (“Westaim” or the “Company”) (TSXV: WED) today announced its financial results for the third quarter ended September 30, 2020. Westaim recorded a net profit of \$0.6 million (nil earnings per diluted share) and a net loss of \$20.0 million (\$0.14 loss per diluted share) for the three and nine months ended September 30, 2020, respectively, compared to a net profit of \$3.7 million (\$0.03 earnings per diluted share) and a net profit of \$21.6 million (\$0.15 earnings per diluted share) in the three and nine months ended September 30, 2019, respectively. Book value per share was \$2.33 (C\$3.10) at September 30, 2020, compared to \$2.48 (C\$3.22) at December 31, 2019.

Key Results for the three months ended September 30, 2020 (with comparisons to the same period in 2019) include:

- **HIIG:** The fair value of HIIG increased \$3.3 million in the quarter compared to \$2.7 million. The underwriting result has improved from the prior period resulting in a total combined ratio of 96.3% compared to 99.3%. Underwriting actions taken by new management contributed to the gross written premium decreasing 17.8% in the quarter as HIIG re-underwrote some existing businesses, and exited underperforming businesses including monoline workers’ compensation and lawyers and insurance agent professional liability, while accelerating growth in other segments of the business. HIIG’s growth strategy is focused on the remaining businesses and new opportunities where HIIG, with its intermediaries, have specialty expertise and/or key relationships with the target customer base.
- **Arena FINCOs:** The fair value of Arena FINCOs increased \$0.4 million (+0.2% net return) in the quarter compared to \$1.3 million (+0.9% net return). On September 29, 2020, Arena Finance II, LLC (“AFII”), one of the Arena FINCOs, secured a private placement of \$45 million of 6.75% senior secured notes to improve net returns by leveraging invested assets. The net proceeds received from these notes will be used by the Arena FINCOs in accordance with their investment objectives.
- **Arena Investors:** Westaim’s share of Arena Investors’ net loss in the quarter was \$0.3 million compared to a net loss of \$0.5 million. Arena Investors had an increase in revenue from higher incentive fees than the prior year by \$1.3 million (Westaim’s share of the increase of \$0.6 million). This increase in revenues was partially offset by higher expenses as the platform built was being completed.

“Our Q3 results underscore the “third inning” directional objectives shared with stakeholders in Westaim’s September 22nd, 2020 Investor Day. Within HIIG, Andrew Robinson’s laser focus on execution and achieving first quartile performance is starting to be reflected in our underwriting results.” said J. Cameron MacDonald, President and Chief Executive Officer of Westaim. “Industry conditions remain quite favourable for profitable growth with US composite insurance pricing up in excess of 10%, and as highlighted during the Investor Day, any business lines that do not achieve an acceptable return on invested capital will be corrected or culled. Importantly, Andrew continues to attract high quality professionals and pursue opportunities that collectively will contribute to our growth and results. We are excited about the trajectory of HIIG as we move into 2021.”

“Arena Investors achieved several key milestones in the third quarter. Firstly, we completed a \$45 million non-recourse note issue at AFII, one of the Arena FINCOs, which is expected to accelerate our ability to enhance returns on our proprietary capital on a prudent basis. Secondly, Arena Investors continues to excel in delivering solid performance throughout a volatile period allowing the firm to be a recipient of four industry performance awards in 2020, including the Bloomberg Hedgeweek Multi-strategy Fund of the Year announced on October 26th. It is worth noting that since Arena’s 2015 inception, over 200 credits have been executed by the Arena team delivering cumulative gross returns to date of approximately \$345 million. With four offices and a team of 61 around the globe, Arena is well positioned to provide investors diversified, non-correlated consistent returns. Lastly, as of November 1st, committed and invested assets under management has grown to \$1.7B. We expect the positive inflow of AUM to continue, and look forward to delivering operating leverage in the business moving forward.”

Key Results for the nine months ending September 30, 2020 (with comparisons to the same period in 2019) include:

- **HIIG:** Along with the purchase of \$44.0 million of HIIG convertible preferred shares, the Company recorded a fair value decrease in HIIG of \$14.7 million in the first nine months of 2020. This decrease included a reduction in the first quarter of \$14.9 million from the change in the HIIG valuation multiple from 1.1X to 1.0X adjusted book value. HIIG’s underwriting results produced a combined ratio excluding LPT of 97.5% compared to 99.0%.

- **Arena FINCOs:** The fair value of the Arena FINCOs decreased \$1.6 million (-0.9% net return) over the first nine months of 2020 compared to an increase of \$9.1 million (+5.6% net return). The net returns have been positive in the last two quarters after reporting a -2.0% net return in the first quarter of 2020.
- **Arena Investors:** Westaim's share of Arena Investors' net loss for the first nine months of 2020 was \$1.5 million compared to a net profit of \$0.2 million. Arena Investors had a decrease in revenue from lower incentive fees than the prior year by \$3.6 million (Westaim's share of the decrease of \$1.8 million).

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 and nine months ended September 30, 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.

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 and nine months ended September 30, 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, Arena Finance II, LLC, and Arena Investors are defined in the notes to Westaim's unaudited consolidated financial statements for the three and nine months ended September 30, 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)

Highlights (millions except share and per share data)	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Revenue and net change in unrealized value of investments	\$ 4.0	\$ 4.8	\$ (16.1)	\$ 29.3
Net expenses	(3.4)	(1.1)	(3.8)	(7.7)
Income tax expense	-	-	(0.1)	-
Profit (loss) and comprehensive income (loss)	\$ 0.6	\$ 3.7	\$ (20.0)	\$ 21.6
Earnings (loss) per share – basic	\$ -	\$ 0.03	\$ (0.14)	\$ 0.15
Earnings (loss) per share – diluted	\$ -	\$ 0.03	\$ (0.14)	\$ 0.15

	September 30, 2020	December 31, 2019
Assets		
Cash	\$ 8.3	\$ 22.2
Income tax receivable	0.5	0.4
Other assets	1.5	2.3
Investments	377.3	385.8
	<u>\$ 387.6</u>	<u>\$ 410.7</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 9.4	\$ 10.7
Income tax payable	0.3	0.4
Preferred securities	37.6	38.5
Derivative warrant liability	0.8	1.9
Site restoration provision	4.1	4.1
Deferred tax liability	0.4	0.3
	<u>52.6</u>	<u>55.9</u>
Shareholders' equity	335.0	354.8
Total liabilities and shareholders' equity	<u>\$ 387.6</u>	<u>\$ 410.7</u>
Number of common shares outstanding ¹	143,186,718	143,186,718
Book value per share - in US\$ ²	\$ 2.33	\$ 2.48
Book value per share - in C\$ ²	\$ 3.10	\$ 3.22

¹ At September 30, 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: 1.33125 at September 30, 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.

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