



## **The Westaim Corporation Reports 2017 Fourth 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 – March 29, 2018 – The Westaim Corporation (“Westaim” or the “Company”) (TSXV: WED) today announced that it recorded a profit of \$6.8 million or \$0.05 per share for the three months ended December 31, 2017, compared to a net loss of \$0.9 million or \$0.01 per share for the three months ended December 31, 2016. For the year ended December 31, 2017, Westaim recorded a profit of \$5.5 million or \$0.04 per share, compared to a net loss of \$8.3 million or \$0.06 per share for the year ended December 31, 2016. Earnings per share for the year ended December 31, 2017 included a non-cash expense of \$0.04 per share relating to derivative warrants (nominal impact on earnings per share for the three months ended December 31, 2017).

Book value per share was \$2.33 (C\$2.92) at December 31, 2017, compared to \$2.21 (C\$2.97) at December 31, 2016.

Westaim’s principal investments consist of the Arena Group and HIIG, through the HIIG Partnership. Westaim recorded unrealized gains on investments of \$9.0 million (HIIG Partnership: \$7.7 million, Arena Group: \$1.1 million, and other: \$0.2 million) in the three months ended December 31, 2017 and \$19.8 million (HIIG Partnership: \$11.8 million, Arena Group: \$7.6 million, and other: \$0.4 million) in the year ended December 31, 2017. The Company recorded unrealized losses on investments of \$1.9 million (HIIG Partnership: loss of \$2.3 million and Arena Group: gain of \$0.4 million) in the three months ended December 31, 2016 and \$4.0 million (HIIG Partnership: \$0.7 million and Arena Group: \$3.3 million) in the year ended December 31, 2016.

At December 31, 2017, Westaim owned 100% of Arena Finance and Arena Origination; and an approximate 58.5% interest in the HIIG Partnership, which represented an approximate 43.9% indirect interest in HIIG. At December 31, 2017, the fair values of the Company’s investments in the HIIG Partnership, Arena Finance and Arena Origination were \$157.1 million, \$151.3 million and \$34.9 million, respectively.

At December 31, 2017, Westaim’s consolidated shareholders’ equity was \$326.0 million and the Company had 143,186,718 common shares outstanding.

“We are pleased with our fourth quarter and 2017 annual results at both HIIG and the Arena Group. Both businesses continue to execute their respective business plans and are well positioned in 2018 to profitably grow and create value for Westaim’s shareholders,” said J. Cameron MacDonald, President and Chief Executive Officer of Westaim.

“2017 was a significant year for HIIG. Under the leadership of Stephen Way and the HIIG management team, HIIG reported four quarters of income before income taxes. The global insurance industry in 2017 felt the severity of mother nature with Hurricanes Harvey, Irma, Jose and Maria along with wildfires in California, culminating in insured losses reaching an all-time high. We largely avoided these perils as HIIG was positioned to minimize catastrophe loss exposure through the use of significant reinsurance. HIIG had 286 full time employees at December 31, 2017 and its four divisions (Commercial, Specialty, MGU Partners and Accident & Health) collectively increased Gross Written Premiums by 8% in 2017 with the consolidated Net Loss and LAE Ratio improving to 70% in 2017 from 84% in the prior year. In addition to HIIG’s growth, operating improvements are being achieved across the organization, most notably in HIIG’s expanded claims department which is already starting to realize performance and cost improvements. Partly as a result of severe industry losses in 2017, HIIG is experiencing rate increases (they vary by business line) which, coupled with a growing economy, may provide the backdrop for HIIG to increase retention in the future.

HIIG’s investment portfolio achieved a solid performance in 2017, producing a 4.7% total return due to investment gains, increases in U.S. interest rates and gains from its investments managed by Arena. This was realized with a short duration on the fixed income portfolio, maintaining a 13% public and private equity exposure and a 14% allocation to Arena. Investments managed by Arena have proven to be a significant driver of returns for HIIG’s investment portfolio. Currently, HIIG’s investment portfolio is largely liquid and positioned to respond to opportunities.

In our IFRS consolidated financial statements, the fair value of HIIG was increased from 1.0x the adjusted book value at December 31, 2016 to 1.1x the adjusted book value at December 31, 2017. The increase in fair value reflected a general improvement in property and casualty insurance industry conditions, improved outlook for investment returns resulting partially from higher short term interest rates and a reduction in the U.S. corporate tax rate effective January 1, 2018 as a result of tax reform in the United States.

The insurance industry is experiencing significant consolidation with specialty property and casualty insurance considered an attractive platform to enter and grow in the U.S. and we are fortunate to be well positioned with strong partners and Stephen's leadership.

Arena consists of Arena Investors, Arena Finance and Arena Origination, and in 2017, Arena enjoyed a breakout year. The Arena business is currently carried on by a group of 46 professionals under the leadership of Dan Zwirn, originating and managing asset-backed credit investments within a global, multi-strategy mandate. Arena Investors is an asset management business that manages pools of fee-paying third party capital. Arena's highly diversified portfolio has consistently achieved attractive unlevered returns on Westaim's principal capital (held within Arena Finance and Arena Origination) and, as a result, Arena Investors is now receiving investor allocations and substantial interest from institutional and high net worth investors. Arena Investors' committed assets under management ("AUM") (including Arena Finance and Arena Origination) finished the year at \$760 million, up from \$380 million a year ago. We are confident that Arena Investors' AUM growth will continue in 2018.

Arena Finance and Arena Origination held 139 open investment positions as at December 31, 2017. To provide further insight into how Arena manages Westaim's capital, the characteristics of Arena Finance's loan and private asset positions as at December 31, 2017 were: loan-to-value of 52% (i.e. approximately 2x asset coverage), approximately 90% first lien, tight covenants, largely floating rate structures, 1.6 years remaining to maturity, and an average coupon of 13.2%. These attractive credit characteristics are a direct by-product of Arena Investors' origination (versus syndication) abilities – their true alpha. For example, Arena Investors' in-house teams, levered with the utilization of 45+ (and growing) hyper aligned joint venture partners, reviewed over 1,000 opportunities in 2017 and selectively closed on 53. Essentially, Arena Investors is executing a strategy similar to the mega global private credit firms while capturing the multitude of credit opportunities sized \$100 million and below, a space in which the larger firms, with \$50 billion to \$150 billion in credit AUM, do not focus.

Arena's compelling yield, coupled with the shorter duration provided by Arena portfolios, allows clients such as insurance companies to maintain a significant short term cash position without sacrificing yield, and provides them with added capital protection in an environment where equity and liquid bond markets appear to be trading at record valuation levels. Arena's contribution to HIIG's portfolio has not gone unnoticed by our insurance peers and, in particular, last June, Westaim welcomed a strategic investment from Fairfax Financial Holdings Limited with Arena being awarded a material investment allocation. Management believes that Arena is reaching an inflection point, and is firmly established to create value for Westaim's shareholders as we move into 2018.

Finally, the implementation of the tax reform in the U.S., which included a significant reduction in the U.S. corporate tax rate, is a clear positive for both of our businesses, and in turn for Westaim shareholders.

We look forward to reporting on our progress throughout 2018."

Westaim's Annual and Special Meeting of Shareholders will be held in Toronto on Thursday, May 17, 2018 at 10:00 A.M. EDT at Vantage Venues, 150 King Street West, S3/S4 Inverness Room, 27th Floor.

Westaim's audited consolidated financial statements for the years ended December 31, 2017 and 2016 and management's discussion and analysis for the three months and years ended December 31, 2017 and 2016 were filed on SEDAR at [www.sedar.com](http://www.sedar.com) and will be posted to Westaim's website at [www.westaim.com](http://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 audited consolidated financial statements for the years ended December 31, 2017 and 2016 (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 Finance, Arena Origination and Arena Investors are defined in the notes to Westaim's audited consolidated financial statements for the years ended December 31, 2017 and 2016 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 December 31		Year ended December 31	
	2017	2016	2017	2016
Revenue	\$ 1.2	\$ 0.7	\$ 3.7	\$ 2.7
Net results of investments	9.0	(1.9)	19.8	(4.0)
Net (expenses) recovery of expenses	(3.4)	0.3	(18.0)	(7.0)
Profit (loss) and comprehensive income (loss)	\$ 6.8	\$ (0.9)	\$ 5.5	\$ (8.3)
Earnings (loss) per share - basic and diluted	\$ 0.05	\$ (0.01)	\$ 0.04	\$ (0.06)
At December 31:				
Shareholders' equity	\$ 326.0	\$ 318.5	\$ 326.0	\$ 318.5
Number of common shares outstanding	143,186,718	143,186,718	143,186,718	143,186,718
Book value per share - in US\$ <sup>1</sup>	\$ 2.33	\$ 2.21	\$ 2.33	\$ 2.21
Book value per share - in C\$ <sup>1</sup>	\$ 2.92	\$ 2.97	\$ 2.92	\$ 2.97

<sup>1</sup> 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: 1.2539 at December 31, 2017 and 1.3427 at December 31, 2016.

	December 31, 2017	December 31, 2016
<b>Assets</b>		
Cash	\$ 7.8	\$ 3.0
Loans receivable	23.9	-
Other assets	3.1	4.4
Investments	351.3	321.8
	\$ 386.1	\$ 329.2
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 9.7	\$ 7.3
Preferred securities	39.9	-
Derivative warrant liability	6.7	-
Site restoration provision	3.8	3.4
	60.1	10.7
Shareholders' equity	326.0	318.5
Total liabilities and shareholders' equity	\$ 386.1	\$ 329.2