



The Westaim Corporation Reports 2020 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 25, 2021 – The Westaim Corporation (“Westaim” or the “Company”) (TSXV: WED) today announced its audited financial results for the quarter ended December 31, 2020. Westaim recorded a net loss of \$14.5 million (\$0.10 loss per diluted share) and a net loss of \$34.5 million (\$0.24 loss per diluted share) for the quarter and year ended December 31, 2020, respectively, compared to a net loss of \$13.0 million (\$0.09 loss per diluted share) and a net profit of \$8.6 million (\$0.06 earnings per diluted share) in the quarter and year ended December 31, 2019, respectively.

Westaim’s adjusted earnings, excluding unusual items, was a net profit of \$4.9 million (\$0.03 earnings per diluted share) and a net profit of \$5.0 million (\$0.03 earnings per diluted share) for the quarter and year ended December 31, 2020, respectively, compared to a net profit of \$3.6 million (\$0.02 earnings per diluted share) and a net profit of \$25.2 million (\$0.18 earnings per diluted share) in the quarter and year ended December 31, 2019, respectively.

At December 31, 2020, Westaim’s consolidated shareholders’ equity was \$320.5 million and the Company had 143,186,718 common shares (“Common Shares”) outstanding. Book value per fully diluted share was \$2.24 (C\$2.85) at December 31, 2020, compared to \$2.48 (C\$3.22) at December 31, 2019.

Key Results for the three months ended December 31, 2020 include:

- **Skyward Specialty:** Westaim recorded a net loss from Skyward Specialty of \$13.5 million in the quarter compared to a loss of \$13.1 million in Q4 2019. Excluding unusual items, the net income from Skyward Specialty was \$5.9 million in the quarter compared to \$3.5 million in Q4 2019. Solid underwriting performance resulted in an adjusted combined ratio of 95.5% compared to 96.9% in Q4 2019 primarily due to the re-underwriting of the portfolio, improved mix of business, and price increases taken by Skyward Specialty. Skyward Specialty’s investment portfolio of \$765 million remains conservatively positioned and had a tax equivalent yield of approximately 2.7% at December 31, 2020. The unusual items included in Skyward Specialty’s GAAP results for the quarter impacted the income reported by Westaim related to goodwill impairment of \$19.4 million, net impact of the Loss Portfolio Transfer (“LPT”) of \$1.6 million offset by unusual net expense recoveries of \$1.6 million.
- **Arena FINCOs:** Net income from Arena FINCOs was \$1.5 million (+0.9% net return) in the quarter compared to \$2.7 million (+1.3% net return) in Q4 2019. During the quarter, the Arena FINCOs held large cash balances from the private placement of \$45 million of 6.75% senior secured notes issued on September 29, 2020. We believe this non-recourse financing will enhance returns in 2021.
- **Arena Investors:** Net income from Arena Investors’ was \$1.4 million in the quarter compared to a net loss of \$0.2 million in Q4 2019. The increase in income was primarily the result of a 38% increase in revenue supported by stronger incentive fees in the quarter compared to Q4 2019. Committed AUM at December 31, 2020 of \$2.0 billion (\$2.2 billion at January 1, 2021) was an increase from \$1.6 billion at September 30, 2020.

“2020 was a year of repositioning, growth and operating profitability for the Westaim Corporation. Both Skyward Specialty and Arena achieved material improvements and growth to their operating businesses that would not be reflected in the reported financials.” said Cameron MacDonald, President and Chief Executive Officer of Westaim. “To assist shareholders in their analysis, Westaim has included a new “Investor Presentation” with today’s Q4, 2020 earnings release to provide greater insight into Westaim and with a specific focus on Skyward Specialty and Arena Investors’ core operating performance, material accomplishments and strategic direction. From now on, we will update the Investor Presentation every quarter.

As we move into 2021, we do expect the positive business momentum being experienced at Skyward Specialty and Arena Investors to continue thereby, providing opportunities to enhance shareholder value.”

Key Results for the year ending December 31, 2020 include:

- **Skyward Specialty:** The fair value of Skyward Specialty at December 31, 2020 was \$180.8 compared to \$165.0 million at December 31, 2019. Westaim recorded a net loss from Skyward Specialty of \$28.2 million for the year compared to net income of \$2.9 million 2019. For the full year 2020, Westaim recorded adjusted net income from Skyward Specialty of \$11.3 million versus adjusted net income of \$19.5 million in Q4 2019. Skyward Specialty’s

underwriting combined ratio results improved for the full year to 96.2% (excluding the LPT) compared to 98.4%. Westaim's share of Skyward Specialty's unusual items of \$39.5 million primarily included the decrease in the valuation multiple (1.1x to 1.0x) (\$14.9 million), the net impact of the LPT (\$5.7 million), and a goodwill impairment (\$19.4 million). In addition, Westaim's fair value of Skyward Specialty increased by \$44.0 million relating to Westaim's cash investment in Skyward Specialty's \$100 million convertible preferred share rights offering in Q2 2020.

- **Arena FINCOs:** At December 31, 2020, the fair value of Arena FINCOs was \$163.0 million compared to \$205.8 million at December 31, 2019. The decrease was primarily due to \$42.7 million cash distributions to Westaim which was used to support the \$44.0 million investment in Skyward Specialty convertible preferred shares. This material distribution caused new credit positions to curtail and existing credit positions to become slightly larger, thereby increasing volatility. Additionally, Arena FINCOs strategically elected to participate in the launch of the Arena Special Opportunities Partners Fund I ("ASOP I") by seeding \$28 million of existing credit positions to ASOP I to allow the fund to immediately generate returns. ASOP I closed with \$519 million of new AUM. Finally, Arena FINCOs periodically held a significant cash balance during the year including the proceeds from a private placement of \$45 million of 6.75% senior secured notes due September 30, 2025. As a result, Arena FINCOs' net returns were lower than 2019.
- **Arena Investors:** Westaim's share of Arena Investors' net loss for the full year was \$0.1 million compared to a net loss of nil in 2019. With recurring revenue close to exceeding recurring expenses, Arena Investors is now reaching an inflection point as demonstrated in Q4. Arena Investors performance was recognized in 2020 by their peers resulting in four industry awards.

This press release should be read in conjunction with Westaim's audited consolidated financial statements for the years ended December 31, 2020 and 2019 and management's discussion and analysis for the three months and years ended December 31, 2020 and 2019 which were filed on SEDAR at www.sedar.com. These documents and the Company's Q4 2020 Investor Presentation can be found on the Company's website at 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, adjusted profit and comprehensive income excluding unusual items, and adjusted earnings per share – diluted are non-GAAP measures. 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, 2020 and 2019 (the "MD&A") for additional disclosure regarding these measures. The financial information relating to Skyward Specialty, Arena Investors and Arena FINCOs contained in the MD&A is unaudited and has been derived from the financial statements of the related entities. Readers are cautioned that the Skyward Specialty financial information and certain Arena Investors and Arena FINCO 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 Skyward Specialty, Arena Investors and Arena FINCOs. Skyward Specialty, the HIIG Partnership, Arena, Arena FINCOs, Arena Finance II, LLC, and Arena Investors are defined in the notes to Westaim's audited consolidated financial statements for the years ended December 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)

Highlights	Three months ended December 31		Years ended December 31	
	2020	2019	2020	2019
Revenue and net change in unrealized value of investments	\$ (9.9)	\$ (9.9)	\$ (26.0)	\$ 19.4
Net expenses	(4.6)	(2.2)	(8.4)	(9.9)
Income tax expense	-	(0.9)	(0.1)	(0.9)
GAAP profit (loss) and comprehensive income (loss)	\$ (14.5)	\$ (13.0)	\$ (34.5)	\$ 8.6
Adjusted profit and comprehensive income excluding unusual items ²	\$ 4.9	\$ 3.6	\$ 5.0	\$ 25.2
GAAP earnings (loss) per share – basic and diluted	\$ (0.10)	\$ (0.09)	\$ (0.24)	\$ 0.06
Adjusted earnings per share – diluted ²	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.18

	December 31, 2020	December 31, 2019
Assets		
Cash	\$ 8.7	\$ 22.2
Income tax receivable	0.1	0.4
Other assets	1.6	2.3
Investments	366.9	385.8
	<u>\$ 377.3</u>	<u>\$ 410.7</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 11.0	\$ 10.7
Income tax payable	0.3	0.4
Preferred securities	39.2	38.5
Derivative warrant liability	1.0	1.9
Site restoration provision	4.9	4.1
Deferred tax liability	0.4	0.3
	<u>56.8</u>	<u>55.9</u>
Shareholders' equity	320.5	354.8
Total liabilities and shareholders' equity	<u>\$ 377.3</u>	<u>\$ 410.7</u>
Number of common shares outstanding ¹	143,186,718	143,186,718
Book value per fully diluted share - in US\$ ²	\$ 2.24	\$ 2.48
Book value per fully diluted share - in C\$ ²	\$ 2.85	\$ 3.22

¹ At December 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 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: 1.27395 at December 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 Investors.

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.